

# **BMW (UK) Manufacturing Limited**

## **Directors' report and financial statements**

Registered number 3950868  
31 December 2006

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## Directors' report

The directors present their report and financial statements for the year ended 31 December 2006

### Directors

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

Mr T Moser

Dr A Heiss (resigned 31 December 2006)

Mr O Zipse (appointed 1 January 2007)

### Principal activities

The company is engaged in the manufacture of motor vehicles

### Business review

The company is the sole production site within the BMW Group production network for MINI brand vehicles. The company currently has the following models in production - MINI One, MINI One Diesel, MINI Cooper, MINI Cooper Diesel, MINI Cooper S and MINI Cabriolet. The second generation of the MINI has been available in the markets since November 2006. In addition to the existing models, the company will commence production of a new derivative later in 2007.

The main corporate objectives are

- to achieve targeted production volumes in support of BMW Group sales objectives
- to manufacture MINI brand vehicles to BMW Group quality standards
- to continuously implement operational efficiencies to reduce the cost of production

Management consider the following to be the main strategic target areas

Strategic Target Area	Performance indicator	Measure
Volume	Adherence to production programme	Number of units produced
Quality	Adherence to engineering and product standards	Number of quality defects
Production Cost	Adherence to cost budget and investment framework	Cost per unit

Management believe the principle key performance indicator of the company is production volume. All units are sold to BMW AG.

	2006	2005	2004	2003	2002
Production Volume (units)	186,674	200,119	189,492	174,366	160,038

Manufactured volume was restricted over the course of the year, 6.7% lower than in the previous year, due to planned investment at the plant, in the form of modernisation of the body construction, paint shop and vehicle assembly facilities. These measures were aimed at increasing production capacity from 200,000 units to 240,000 in preparation for the manufacture of the second generation MINI.

Quality standards are maintained to BMW Group requirements with targets being agreed on an annual basis to satisfy engineering and product standards. External customer feedback and evaluations from organisations such as J D Power, the MINI dealer network and other sources within the automotive segment are used to maintain the focus on quality of production.

Production costs as represented by labour and overheads are targeted to achieve annual efficiency gains through improved process efficiency and productivity in conjunction with the BMW Group production network. The production start for the new MINI also heralds the beginning of a new cooperation network of BMW Group production plants within the United Kingdom.

The trends in the key performance indicators are positive with all targets being achieved.

Directors' report (*continued*)

**Risk management**

The company participates in a comprehensive risk management system utilised by BMW Group to identify, evaluate and document the main categories of risk. As part of the long-term planning strategy and short-term forecasting procedures, the risks and opportunities attached to specific business activities are evaluated and used as the basis for setting targets and implementing appropriate risk-mitigation measures. At present, no risks have been identified which could threaten the existence of the company or which could have a materially adverse impact on the net assets, financial position or results of operations of the company.

In the course of its activities, the company is exposed to various categories of risk.

Risks relating to the general economic environment

- Currency and interest rate risks are managed throughout the BMW Group at both a strategic and an operating level, utilising hedging strategies and financial markets, co-ordinated through treasury operations in the UK, managed by BMW (UK) Capital plc.
- Changes in the international commodity markets for precious metal are closely monitored by BMW Group and hedging strategies implemented, from which the company benefits.
- Changes in the price of crude oil, which is an important basic material in the manufacture of components, have an indirect impact on production costs. As a manufacturing enterprise, the company is also affected by changes in energy prices, caused by both market factors and tax legislation.
- An escalation of political tensions, terrorist activities or possible pandemics could have a negative impact on the economic situation and hence the business development of the company.

Specific industry risks

- Changes in fuel prices, which may be either market induced or due to governmental tax policies, and increasingly stringent requirements to reduce fuel consumption as well as CO<sub>2</sub> and NO<sub>x</sub> emissions, place high demands on engine and product development.

Operating risks

- Risks arising from business interruption and loss of production are insured up to economically reasonable levels under group policies. The BMW Group's extremely flexible production network and working time models also help to reduce operating risks.
- Close co-operation between manufacturers and suppliers is usual in the automotive sector, and although this provides economic benefits, it also creates a degree of mutual dependence. Delivery delays, cancellations, strikes or poor quality can lead to production stoppages and thus have a negative impact on profitability. These risks are mitigated by careful supplier selection procedures which assess the technical competence and financial strength of potential suppliers.

Legal risks

- The company is not involved in any court or arbitration proceedings which could have a significant impact on the economic position of the company.
- The risks arising from warranty claims are mitigated by the high quality of products, ensured by regular quality audits and on-going improvement measures.

Personnel risks

- As an attractive employer, and as part of the BMW Group, the company has found itself in a favourable position in the intense competition for qualified technical and managerial staff. Employee satisfaction helps to minimise the risk of know-how drift.
- Demographic changes will give rise to risks and opportunities in the future and these are monitored for potential impacts on operations, focusing in particular on the creation of a working environment for the future, promotion and maintenance of the workforce's ability to perform with the appropriate set of skills, training, individual employee working life-time models and increasing employees' awareness of their responsibility to make provision for their future.

Directors' report *(continued)*

Information and IT risks

- As part of the BMW group, the company protects data, business secrets and innovative developments against unauthorised access, damage and misuse using security measures appropriate to the risk involved. These measures encompass manual, process design and IT controls. The protection of information and data is an integral component of business processes and is achieved by applying international security standards. The technical data protection procedures include process-specific security measures as well as standard activities such as virus scanners, firewall systems and access controls at operating and application level.

**Outlook in 2007**

Due to increased market demand, the production capacity for MINI has been increased to 240,000 units per annum. BMW Group believes that by introducing the new derivative, it can further increase its market share in the premium small car sector. Increasing trends in sales volumes and the benefit of on-going efficiency improvement measures will help profitability.

**Financial**

Revenue decreased slightly by 0.9% compared to the previous year. This was primarily due to a planned reduction in volume of 6.7%, but was mitigated by an improved sales mix. Cost of sales reduced by 1.7%, compared to the previous year, reflecting the reduction in volume, which was offset by the impact of increasing material costs and changes in product mix. Gross profit increased by 18.6%, compared to 2005 as a result of the above factors. The profit for the year is shown in the income statement on page 7.

**Research and development**

The amount of £1.1m (2005 £2.6m) for research and development expenditure relating to the new MINI, including all design and production of prototypes, was recharged to the Company's ultimate holding company BMW AG.

**Financial instruments**

The company manufactures motor vehicles for the BMW Group. As part of financing the assets required for production the company has entered into two finance leases. During the year the company settled all the future rental payments of one of these leases. A deposit fund was utilised for this purpose. In order to limit its exposure on future cash flows due to interest rate risk, the company has entered into several interest rate swaps with BMW (UK) Capital plc. The company manages its foreign currency risk by entering into short term foreign currency contracts with BMW (UK) Capital plc.

**Proposed dividend**

No dividends were paid in 2006 (2005 £nil) and none are proposed (2005 £nil). A reconciliation of the movements in shareholders' funds is given in the statement of changes in equity.

**Environmental issues**

Management consider the following items to be the company's environmental performance indicators and they are measured per unit manufactured:

	2006	2005	2004	2003	2002
VOC emissions (kg/unit)	2.63	2.62	3.26	3.6	3.23
Energy consumption (kWh/unit)	2,180	2,090	2,200	2,410	2,620
CO2 emissions (kg/unit)	619	588	612	657	724
Water consumption (cubic metres/unit)	2.06	1.91	1.93	2.08	2.91
Waste to landfill (kg/unit)	15.9	11.4	20.3	16.7	18.7

Due to the planned decrease in production volume for the year, there has been a slight deterioration in all of the abovementioned indicators, in comparison to the previous year.

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

### Emission rights

The company is a participant of the E U Emission Trading Scheme. The scheme is mandatory for certain specified processes to reduce the emission of CO<sub>2</sub> gases. The scheme sets limits for the amount of CO<sub>2</sub> that be released through a National Allocation Plan. Each participant is issued with a pre-determined quantity of allowances and each year the participant must surrender sufficient allowances to cover the quantity of CO<sub>2</sub> released. Surplus allowances may be sold and if a participant has a shortfall, additional allowances have to be purchased to cover these emissions. The scheme is currently in Phase 1, which runs from 1 January 2005 to 31 December 2007. At the balance sheet date the company had surplus allowances and expects this to continue throughout Phase 1.

During the year the company sold 12,000 Phase 1 allowances to Swindon Pressings Limited, at a market value of £1 per tonne of allowance.

### **Employees**

All employees are regularly informed of the company's sales performance against targets and other topics of general interest. Employees are encouraged to formulate ideas that will improve the efficiency of the company.

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

### **Political and charitable contributions**

The company made no political or charitable contributions during the year (2005 *£nil*). Donations to UK charities amounted to £37,000 (2005 *£nil*).

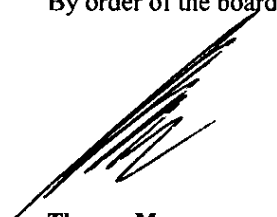
### **Disclosure of information to auditors**

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

### **Auditors**

The company previously passed an elective resolution to dispense with the obligation to appoint the auditors, KPMG LLP, annually.

By order of the board



**Thomas Moser**  
Director

Ellesfield Avenue, Bracknell, Berkshire, RG12 8TA, England

26<sup>th</sup> June 2007

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

The directors are responsible for preparing 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 the directors have elected to prepare financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Company and the performance for that period. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the Company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## **Independent auditors' report to the members of BMW (UK) Manufacturing Limited**

We have audited the financial statements of BMW (UK) Manufacturing Ltd for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

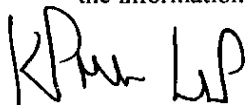
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*  
2 Cornwall Street  
Birmingham  
B3 2DL

26<sup>th</sup> June 2007



**Income statement**  
*for year ended 31 December 2006*

	<i>Note</i>	<b>2006</b> <b>£000</b>	<b>2005</b> <b>£000</b>
<b>Revenue</b>	<i>1, 2</i>	<b>1,841,834</b>	<b>1,859,189</b>
Cost of sales	<i>3</i>	<b>(1,757,164)</b>	<b>(1,787,805)</b>
<b>Gross profit</b>		<b>84,670</b>	<b>71,384</b>
Administrative expenses		<b>(31,148)</b>	<b>(24,288)</b>
Other operating income	<i>4</i>	<b>6,287</b>	<b>8,213</b>
Other operating expenses	<i>5, 24</i>	<b>(12,953)</b>	<b>(12,590)</b>
<b>Results from operating activities</b>		<b>46,856</b>	<b>42,719</b>
Finance income	<i>7</i>	<b>30,394</b>	<b>34,129</b>
Finance expenses	<i>8</i>	<b>(10,617)</b>	<b>(11,494)</b>
<b>Net finance income</b>		<b>19,777</b>	<b>22,635</b>
<b>Profit before income tax</b>	<i>6</i>	<b>66,633</b>	<b>65,354</b>
Income tax (charge)/credit	<i>11</i>	<b>(16,664)</b>	<b>78,378</b>
<b>Profit for the year attributable to equity holders of the company</b>		<b>49,969</b>	<b>143,732</b>

The above results relate to continuing operations

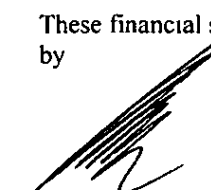
The notes on pages 11 to 34 are an integral part of these financial statements

**Balance sheet**  
**at 31 December 2006**

	<i>Note</i>	<b>2006</b> <b>£000</b>	<b>2005</b> <b>£000</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	553,190	443,818
Intangible assets	13	517	217
Deferred tax assets	14	97,087	111,611
Fair value of interest rate derivative with related party	23,27	316	-
		<b>651,110</b>	<b>555,646</b>
<b>Current assets</b>			
Inventories	15	37,346	33,673
Interest bearing loan with related party	16,23,27	554,443	587,051
Financial assets	16	109	34,238
Fair value of interest rate derivatives	23,27	395	-
Trade and other receivables	17,27	119,146	109,667
Cash and cash equivalents	18	8	1
		<b>711,447</b>	<b>764,630</b>
<b>Total assets</b>		<b>1,362,557</b>	<b>1,320,276</b>
<b>Current liabilities</b>			
Bank overdraft	18	-	1,225
Loan from related party	19	356,167	330,607
Financial liabilities	19,23,27	50,740	49,809
Fair value of interest rate derivatives with related party	23,27	-	5
Fair value of currency derivative with related party	23,27	65	58
Trade and other payables	20,27	179,114	151,081
Tax payable		10,510	15,231
Provision	21	257	93
		<b>596,853</b>	<b>548,109</b>
<b>Non-current liabilities</b>			
Financial liabilities	19	154,409	211,442
Fair value of interest rate derivatives with related party	23,27	-	312
Deferred tax liabilities	14	194	-
		<b>154,603</b>	<b>211,754</b>
<b>Total liabilities</b>		<b>751,456</b>	<b>759,863</b>
<b>Net assets</b>		<b>611,101</b>	<b>560,413</b>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	22	40,000	40,000
Share premium		360,000	360,000
Retained earnings		210,604	160,635
Hedging reserve		497	(222)
<b>Total equity</b>		<b>611,101</b>	<b>560,413</b>

The notes on pages 11 to 34 are an integral part of these financial statements

These financial statements were approved by the board of directors on 26<sup>th</sup> June 2007 and were signed on its behalf by

  
**Thomas Moser**  
Director

**Cash flow statement**  
*for year ended 31 December 2006*

	<i>Note</i>	<b>2006</b> <b>£000</b>	<b>2005</b> <b>£000</b>
<b>Cash flows from operating activities</b>			
Profit for the period		<b>49,969</b>	143,732
Adjustments for			
Loss on disposal of fixed assets		<b>5,391</b>	-
Depreciation		<b>107,331</b>	96,632
Finance income		<b>(30,394)</b>	(34,129)
Finance expense		<b>10,617</b>	11,494
Income tax expense/(income)		<b>16,664</b>	(78,378)
		<b>159,578</b>	139,351
Decrease / (increase) in trade and other receivables		<b>24,412</b>	17,266
(Decrease) / increase in trade and other payables		<b>30,428</b>	(11,728)
(Increase) / decrease in inventories		<b>(3,673)</b>	10,430
		<b>210,745</b>	155,319
Interest paid		<b>(10,617)</b>	(11,494)
Tax paid		<b>(6,975)</b>	(5,055)
<b>Net cash from operating activities</b>		<b>193,153</b>	138,770
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		<b>(42)</b>	(124)
Purchase of property, plant and equipment		<b>(222,057)</b>	(85,821)
Proceeds from disposals		<b>6</b>	1,117
Interest received		<b>30,629</b>	33,631
<b>Net cash used in investing activities</b>		<b>(191,464)</b>	(51,197)
<b>Cash flows from financing activities</b>			
Decrease / (increase) in deposit with related party		<b>32,609</b>	(20,708)
Payment on finance lease		<b>(58,626)</b>	(25,624)
Increase / (decrease) in loan from related party		<b>25,560</b>	(42,505)
<b>Net cash used in financing activities</b>		<b>(457)</b>	(88,837)
Net increase in cash and cash equivalents		<b>1,232</b>	(1,264)
Cash and cash equivalents at 1 January		<b>(1,224)</b>	40
<b>Cash and cash equivalents at 31 December</b>	<i>18</i>	<b>8</b>	(1,224)

The notes on pages 11 to 34 are an integral part of these financial statements

## Statement of changes in equity

*For year ended 31 December 2006*

### Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Retained earnings £000	Hedging reserve £000	Total £000
Balance at 1 January 2005	40,000	360,000	16,903	375	417,278
Profit for the year	-	-	143,732	-	143,732
Movement on the hedging reserve (net of deferred tax)	-	-	-	(597)	(597)
<b>Balance at 31 December 2005</b>	<b>40,000</b>	<b>360,000</b>	<b>160,635</b>	<b>(222)</b>	<b>560,413</b>
Balance at 1 January 2006	40,000	360,000	160,635	(222)	560,413
Profit for the year	-	-	49,969	-	49,969
Movement on the hedging reserve (net of deferred tax)	-	-	-	719	719
<b>Balance at 31 December 2006</b>	<b>40,000</b>	<b>360,000</b>	<b>210,604</b>	<b>497</b>	<b>611,101</b>

### *Hedging reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred

## **Notes**

*(forming part of the financial statements)*

### **1 Accounting policies**

BMW (UK) Manufacturing Ltd (the "Company") is a company incorporated and domiciled in the UK

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")

#### ***Statement of compliance***

The Company is preparing its financial statements in accordance with IFRS as adopted for use in the EU

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006 and have not been applied in preparing these financial statements

IFRS 7 Financial instruments Disclosures and the Amendment to IAS 1 Presentation of Financial statements Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks IFRS 7 and the amended IAS 1, which become mandatory for the company's 2007 financial statements, will require extensive additional disclosures with respect to the company's financial instruments and share capital

The directors have also considered the following new standards, amendments to standards and interpretations IFRIC 7 Applying the Restatement Approach under IAS 29 Financial reporting in hyperinflationary economies, IFRIC 8 Scope of IFRS 2 Share-based Payment, IFRIC 9 Reassessment of Embedded Derivatives, and IFRIC 10 Interim financial reporting and impairment The directors consider these standards to have no impact on these financial statements

#### ***Basis of preparation***

The financial statements are presented in sterling and rounded to the nearest thousand They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value derivative financial instruments and financial instruments classified as fair value through the income statement

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

#### ***Revenue***

Revenues from the sale of vehicles are recognised at the point when the risks and rewards of ownership of the goods are transferred to the buyer, the sales price is agreed or determinable and receipt of payment can be reasonably expected The directors consider this to have occurred when the goods are despatched

#### ***Inventories***

Inventories are stated at the lower of cost and net realisable value Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses

The cost of other inventories 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 In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity

#### ***Property, plant and equipment***

All items of property, plant and equipment are considered to have finite useful lives They are stated at acquisition or manufacturing cost less systematic depreciation based on the estimated useful lives of the assets Depreciation on property, plant and equipment reflects the pattern of their usage and is generally computed using the straight-line method Components of items of property, plant and equipment with different useful lives are depreciated separately

Property, plant and equipment which is being constructed or developed is held within property, plant and equipment at cost without depreciation, until construction or development is complete Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment

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 The estimated useful lives are as follows

## **Notes** *(continued)*

### **1. Accounting policies (continued)**

In years

Factory and office buildings and distribution facilities	10 to 50 years
Plant and machinery	5 to 10 years
Other equipment, factory and office equipment	3 to 10 years

#### ***Leases***

Non-current assets also include assets relating to leases. IAS 17 (Leases) contains rules for determining, on the basis of risks and rewards, the economic owner of the assets. In the case of finance leases the assets are attributed to the lessee and in the case of operating leases the assets are attributed to the lessor. In accordance with IAS 17, assets leased under finance leases are measured at their fair value at the inception of the lease or at the present value of the lease payments, if lower. The assets are depreciated using the straight-line method over their estimated useful lives or over the lease period, if shorter. The obligations for future lease instalments are recognised as other financial liabilities. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

#### ***Intangible assets and goodwill***

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

#### ***Impairment***

The recoverability of the carrying amount of the company's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date for impairment in accordance with IAS 36 (Impairment of Assets). An impairment loss is recognised when the recoverable amount (defined as the higher of the asset's net selling price and its value in use) is lower than the carrying amount.

#### ***Reversals of impairment***

An impairment loss is reversed if 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 or amortisation, if no impairment loss has been recognised.

#### ***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 translated 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.

## **Notes** *(continued)*

### **1. Accounting policies (continued)**

#### ***Derivative financial instruments and hedging***

##### *Derivative financial instruments*

The company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational and financing activities. In accordance with its treasury policy, the company does not hold or issue derivative instruments for trading purposes. Any derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

The fair value of interest rate swaps is the estimated amount that the company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current credit worthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

##### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss remains in the hedging reserve and is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when a non-financial asset is depreciated.

If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

## **Notes** *(continued)*

### **1. Accounting policies (continued)**

#### ***Research and development***

All research and development expenditure relating to the new MINI, including the design and production of prototypes, is recharged to the Company's ultimate holding company BMW AG. All expenditure in respect of patents and trade marks is written off as incurred.

#### ***Trade and other receivables***

Trade and other receivables are stated at cost less impairment losses.

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Cash held on deposit over which the company has no call, is included in note 16.

#### ***Net financing income***

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and any gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

#### ***Income tax***

Income tax on the profit or loss for the year comprises current and deferred tax. Income 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The 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.



## Notes (continued)

### 1. Accounting policies (continued)

#### Pensions

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 arrangement is the BMW (UK) Operations Pension Scheme of which the latest actuarial valuation was carried out by independent qualified actuaries using the projected unit method as at 5 April 2005.

The sponsoring company is BMW (UK) Holdings Ltd. In accordance with IAS 19 (Revised) the company recognises its annual contributions on a defined contribution basis as no contractual obligation exists over the company's share of the defined benefit cost. Details of the scheme are described in note 28.

### 2 Revenue

Revenue represents the value of vehicles and options, excluding VAT sold to another group company. All revenue originates in the UK and is destined for the European Union.

### 3 Cost of sales

Cost of sales is attributable to manufacturing costs.

### 4 Other operating income

Included in the income statement are the following

	2006 £000	2005 £000
Income from disposals of tangible assets	108	302
Rental and leasing income	169	138
Income from non-operating activities	25	63
Foreign exchange gains	3,648	5,541
Income from release of provisions	2,040	28
Other operating income	239	2,141
Fair value gain on foreign currency derivative	58	-
	<u>6,287</u>	<u>8,213</u>

### 5 Other operating expenses

Included in the income statement are the following

	2006 £000	2005 £000
Loss on disposal of tangible assets	4,166	1,897
Impairment against trade receivable	3	7
Foreign exchange losses	6,698	4,762
Bridging pensions	445	2,743
Early retirement	1,211	2,726
Other operating expenses	365	398
Fair value loss on foreign currency derivative	65	57
	<u>12,953</u>	<u>12,590</u>

## Notes (continued)

### 6 Profit before tax

*Profit before tax is stated after charging*

	2006 £000	2005 £000
Operating lease costs	1,351	1,112
Audit fees in connection with the audit of the company	80	85
Redundancy and early retirement costs	1,656	5,469

### 7 Finance income

	2006 £'000	2005 £'000
Interest from external deposits	3,828	4,611
Interest receivable from related parties	26,566	29,518
	<u>30,394</u>	<u>34,129</u>

The company's policy for income recognition is set out in note 1 above

### 8 Finance expenses

	2006 £000	2005 £000
Interest payable in respect of finance leases	9,655	10,526
Interest payable to related parties	962	968
	<u>10,617</u>	<u>11,494</u>

## Notes (continued)

### 9 Personnel expenses

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

	Number of employees	
	2006	2005
Average number of employees during the year	3,374	3,298
Number of employees at the end of the year	3,415	3,315
Number of temporary employees	1,507	1,507

*The aggregate payroll costs of these persons were as follows*

	2006 £000	2005 £000
Wages and salaries	105,447	100,916
Social security costs	8,438	8,463
Pension recharges	14,037	13,468
	<u>127,922</u>	<u>122,847</u>
Costs of temporary employees	<u>38,612</u>	<u>39,022</u>

### 10 Directors' emoluments

	2006 £000	2005 £000
Aggregate emoluments	<u>647</u>	<u>565</u>
The aggregate emoluments of the highest paid director were	<u>475</u>	<u>402</u>

None of the directors are members of the defined benefit scheme

**Notes (continued)**

**11 Income tax expense/(income) in the income statement**

**Recognised in the income statement**

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
<i>Current tax expense/(income)</i>		
Current tax on income for the period	<b>3,234</b>	6,598
Adjustment in respect of prior years	<b>(999)</b>	(10,588)
<b>Total current tax</b>	<b>2,235</b>	(3,990)
<i>Deferred tax expense/(income)</i>		
Origination and reversal of timing differences	<b>16,846</b>	13,098
Recognition of tax losses	-	(42,440)
Adjustment in respect of prior years	<b>(2,417)</b>	(45,046)
<b>Total deferred tax</b>	<b>14,429</b>	(74,388)
<b>Total income tax expense/(income)</b>	<b>16,664</b>	(78,378)

**Reconciliation of tax charge to standard rate of corporation tax in the UK**

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Profit before tax	<b>66,633</b>	<b>65,354</b>
Tax using the UK corporation tax rate of 30% (2004 30%)	<b>19,990</b>	<b>19,606</b>
Effects of		
Non-deductible expenses	<b>90</b>	<b>90</b>
Recognition of tax losses	-	(42,440)
Over provided in prior years	<b>(3,416)</b>	(55,634)
<b>Total tax (credit) / charge in income statement</b>	<b>16,664</b>	(78,378)

**Notes (continued)**

**12 Property, plant and equipment**

	Land and buildings		Plant and machinery		Special tool dies and jigs		Total
	Owned £000	Leased £000	Owned £000	Leased £000	Owned £000	Leased £000	£000
<b>Cost</b>							
Balance at 1 January 2005	203,257	1,006	143,856	54,652	136,766	248,100	787,637
Additions	20,791	-	35,903	-	29,127	-	85,821
Disposals	(633)	-	(4,569)	(190)	(1,326)	(2,192)	(8,910)
Re-classification	(1,017)	4,625	592	(4,200)	-	-	-
<b>Balance at 31 December 2005</b>	<b>222,398</b>	<b>5,631</b>	<b>175,782</b>	<b>50,262</b>	<b>164,567</b>	<b>245,908</b>	<b>864,548</b>
Balance at 1 January 2006	222,398	5,631	175,782	50,262	164,567	245,908	864,548
Additions	19,073	-	78,017	-	124,967	-	222,057
Disposals	(3,696)	-	(11,621)	(6,041)	(1,385)	(7,389)	(30,132)
Re-classification	123	-	(123)	-	-	-	-
<b>Balance at 31 December 2006</b>	<b>237,898</b>	<b>5,631</b>	<b>242,055</b>	<b>44,221</b>	<b>288,149</b>	<b>238,519</b>	<b>1,056,473</b>
<b>Depreciation and impairment</b>							
Balance at 1 January 2005	(50,989)	(448)	(81,095)	(31,818)	(36,075)	(129,870)	(330,295)
Depreciation charge for the year	(9,666)	(592)	(18,892)	(6,677)	(25,071)	(35,734)	(96,632)
Disposals	314	-	3,767	142	530	1,444	6,197
Re-classification	450	(2,348)	(222)	2,120	-	-	-
<b>Balance at 31 December 2005</b>	<b>(59,891)</b>	<b>(3,388)</b>	<b>(96,442)</b>	<b>(36,233)</b>	<b>(60,616)</b>	<b>(164,160)</b>	<b>(420,730)</b>
Balance at 1 January 2006	(59,891)	(3,388)	(96,442)	(36,233)	(60,616)	(164,160)	(420,730)
Depreciation charge for the year	(11,946)	(636)	(21,053)	(6,131)	(40,285)	(27,237)	(107,288)
Disposals	3,327	-	10,187	5,005	248	5,968	24,735
Re-classification	(85)	-	85	-	-	-	-
<b>Balance at 31 December 2006</b>	<b>(68,595)</b>	<b>(4,024)</b>	<b>(107,223)</b>	<b>(37,359)</b>	<b>(100,653)</b>	<b>(185,429)</b>	<b>(503,283)</b>
<b>Net book value</b>							
At 1 January 2005	152,268	558	62,761	22,834	100,691	118,230	457,342
At 31 December 2005 and 1 January 2006	162,507	2,243	79,340	14,029	103,951	81,748	443,818
<b>At 31 December 2006</b>	<b>169,303</b>	<b>1,607</b>	<b>134,832</b>	<b>6,862</b>	<b>187,496</b>	<b>53,090</b>	<b>553,190</b>

Included in additions is £34,248,000 (2005 £66,282,000) relating to assets in the course of construction

During the year ended 31 December 2006, the company entered into contracts to purchase property, plant and equipment for £67,142,000 (2005 £95,040,000). These commitments are expected to be settled in the following financial year.

## Notes (continued)

### 13 Intangible assets

	Licences, patents, trademarks £000	Emission rights £000	Total £000
<b>Cost</b>			
Balance at 31 December 2005 and 1 January 2006	124	93	217
Additions	42	357	399
Surrendered	-	(56)	(56)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2006	166	394	560
	<hr/>	<hr/>	<hr/>
<b>Depreciation and impairment</b>			
Balance at 31 December 2005 and 1 January 2006	-	-	-
Depreciation for the year	(43)	-	(43)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2006	(43)	-	(43)
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 December 2005 and 1 January 2006	124	93	217
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2006</b>	<b>123</b>	<b>394</b>	<b>517</b>
	<hr/>	<hr/>	<hr/>

### Emission Rights

The company is a participant of the E U Emission Trading Scheme. The scheme is mandatory for certain specified processes to reduce the emission of CO<sub>2</sub> gasses. The scheme sets limits for the amount of CO<sub>2</sub> that be released through a National Allocation Plan. Each participant is issued with a pre-determined quantity of allowances and each year the participant must surrender sufficient allowances to cover the quantity of CO<sub>2</sub> released. Surplus allowances may be sold and if a participant has a shortfall, additional allowances have to be purchased to cover their emissions. The scheme is currently in Phase 1, which runs from 1 January 2005 to 31 December 2007. At the balance sheet date the company had surplus allowances and expects this to continue throughout Phase 1.

Allowances are initially booked at fair value as Intangible assets and where allowances are received for less than their fair value, the difference is booked as deferred income and subsequently recognised as income over the period for which the allowances were allocated. As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions. The liability is measured at the best estimate of the expenditure required to settle the obligation and the Directors consider this to be the book value of the available allowances. If additional allowances are required to satisfy the obligation, the provision will be increased by the fair value of the additional allowances.

Surplus allowances can be sold or carried forward during phases but cannot be transferred between phases. As we are still in Phase 1, the Directors do not consider any impairments currently necessary.

Future requirements are based on planned production volume and then flexed to take account of any actual variances.

## Notes (continued)

### 14 Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		(Liabilities)		Net	
	2006	2005	2006	2005	2006	2005
	£'000	£'000	£'000	£'000	£'000	£'000
Property, plant and equipment	7,087	21,516	-	-	7,087	21,516
Tax losses	90,000	90,000	-	-	90,000	90,000
Derivatives	-	95	(194)	-	(194)	95
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Tax asset / liabilities	<b>97,087</b>	111,611	<b>(194)</b>	-	<b>96,893</b>	111,611
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

#### Movement in temporary differences during the year

	Property, plant and equipment	Tax losses	Derivatives	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2005	(10,432)	47,560	(162)	36,966
Recognised in income	31,948	42,440	-	74,388
Recognised in equity	-	-	257	257
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Balance at 31 December 2005</b>	<b>21,516</b>	<b>90,000</b>	<b>95</b>	<b>111,611</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at 1 January 2006	21,516	90,000	95	111,611
Recognised in income	(14,429)	-	-	(14,429)
Recognised in equity	-	-	(289)	(289)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Balance at 31 December 2006</b>	<b>7,087</b>	<b>90,000</b>	<b>(194)</b>	<b>96,893</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

#### Unrecognised tax losses

	Unrecognised tax losses
	£'000
Balance at 1 January 2005	42,440
Recognised during the year as a deferred tax asset	(42,440)
	<u>          </u>
<b>Balance at 31 December 2005</b>	-
	<u>          </u>
Balance at 1 January 2006	-
Recognised during the year as a deferred tax asset	-
	<u>          </u>
<b>Balance at 31 December 2006</b>	-
	<u>          </u>

## Notes (continued)

### 15 Inventories

	2006 £000	2005 £000
Raw materials and consumables	28,191	25,186
Work in progress	9,155	8,487
	<u>37,346</u>	<u>33,673</u>

In 2006, raw materials, consumables and work in progress recognised in cost of sales amount to £1,490,825,000 (2004 £1,358,843,000)

#### Inventory provision

	2006 £000	2005 £'000
Balance as at 1 January	8,555	15,950
Provision released during the year	(8,555)	(15,950)
Provision made during the year	3,654	8,555
	<u>3,654</u>	<u>8,555</u>
Balance at 31 December	<u>3,654</u>	<u>8,555</u>

Provisions for goods in transit are included in the inventory total

### 16 Financial assets

	2006 £000	2005 £000
<b>Current</b>		
Deposit fund	-	33,631
Prepayments	56	326
Other	53	281
	<u>109</u>	<u>34,238</u>

The deposit fund was used to pay outstanding rental payments on a finance lease during the year. Further details are given in note 19.

#### Interest bearing loan with related party

The Company had a short term interest bearing deposit with BMW (UK) Capital plc at 31 December 2006.

The following details apply

Interest	Volume in relevant currency	Weighted average maturity period (in months)	Weighted average effective interest rate (in %)
Fixed	GBP 554,442,703	1	5.06



**Notes** *(continued)*

**17 Trade and other receivables**

	<b>2006</b>	2005
	<b>£000</b>	£000
Trade receivables	<b>509</b>	267
Trade receivables from related parties	<b>118,374</b>	108,844
Receivables from employees	-	58
Interest receivable	<b>263</b>	498
	<hr/>	<hr/>
	<b>119,146</b>	109,667
	<hr/>	<hr/>

**18 Cash and cash equivalents**

	<b>2006</b>	2005
	<b>£000</b>	£000
Cash and cash equivalents per balance sheet	<b>8</b>	1
Bank overdraft	-	(1,225)
	<hr/>	<hr/>
Cash and cash equivalents per cash flow statement	<b>8</b>	(1,224)
	<hr/>	<hr/>

## Notes (continued)

### 19 Financial liabilities

	2006 £000	2005 £000
<b>Non-current</b>		
Finance Leases	154,409	211,442
<b>Current</b>		
Finance leases	27,113	28,706
VAT due	23,627	21,103
	50,740	49,809

Financial liabilities due to related parties are disclosed in note 27

Finance Leases	Not later than one year	Later than one year and not later than five years	Later than five years	Not later than one year	Later than one year and not later than five years	Later than five years
	2006 £000	2006 £000	2006 £000	2005 £000	2005 £000	2005 £000
Total minimum lease payments at the balance sheet date	36,289	174,893	-	40,492	240,836	5,931
Discount factor of the minimum lease payments	9,176	20,484	-	11,786	34,462	863
The present value of the minimum lease payments	27,113	154,409	-	28,706	206,374	5,068

On 1 October 2006, Societe General (the Lessor of one of the Company's finance leases), exercised its right to accelerate the lease rental payments. The deposit fund balance, as shown in note 16, was used by the Company to settle the future lease payments.

#### Loan from a related party

The Company had a short term interest free loan of £356,167,000 (2005 £330,607,000) as at the balance sheet date, from a fellow group company.

#### Interest and currency derivatives with a related party:

The Company has entered into several interest rate swap derivative contracts with BMW (UK) Capital plc, in order to manage future cash flows and interest rate risk exposure with its finance leases.

The Company has entered into one foreign exchange derivative contract with BMW (UK) Capital plc, over the year end, to manage its foreign currency risk exposure.

## Notes (continued)

### 20 Trade and other payables

	2006 £000	2005 £000
Trade payables	139,255	131,145
Trade payables to related parties	27,246	8,513
Non-trade payables	1,605	208
Accrued expenses	11,008	11,215
	<u>179,114</u>	<u>151,081</u>

Trade payables due to related parties are disclosed in note 27

### 21 Provision – emission rights

	2006 £000	2005 £'000
Balance as at 1 January	93	-
Provision made during the year	220	93
Provision consumed during the year	(56)	-
	<u>257</u>	<u>93</u>

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions. The liability is measured at the best estimate of the expenditure required to settle the obligation and the Directors consider this to be the book value of the available allowances. If additional allowances are required to satisfy the obligation, the provision will be increased by the fair value of the additional allowances.

Surplus allowances can be sold or carried forward during phases but cannot be transferred between phases. As we are still in Phase 1, the Directors do not consider any impairments currently necessary.

### 22 Share capital

	Ordinary shares of £1 each	
	2006 £	2005 £
<i>Authorised</i>		
100,000,000 Ordinary shares of £1 each at 31 December	<u>100,000,000</u>	<u>100,000,000</u>
<i>Allotted, called up and fully paid</i>		
40,000,001 Ordinary shares of £1 each at 31 December	<u>40,000,001</u>	<u>40,000,001</u>

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. All shares rank equally.

No shares were issued for consideration during the year.

## Notes (continued)

### 23 Financial instruments

The company manufactures motor vehicles for the BMW Group. As part of financing the assets required for production the company has a finance lease. In order to limit its exposure on future cash flows due to interest rate risk, the company has entered into several interest rate swaps with BMW (UK) Capital plc.

The company manages its foreign currency risk by entering into short term foreign currency contracts with BMW (UK) Capital plc.

#### *Credit risk*

The credit risk faced by the company is deemed low because the material receivable balances are with related parties and as such are guaranteed by the ultimate parent company. At the balance sheet date there are no significant concentrations of credit risk. The maximum exposure is represented by the carrying amount of each financial asset in the balance sheet.

#### *Interest rate risk*

The interest rate risk of the company is managed by BMW (UK) Capital plc primarily through utilising interest rate swaps. The calculation of the fair values of interest rate swaps is described below.

#### *Foreign currency risk*

The currency risk of the company is managed by BMW (UK) Capital plc primarily through utilising forward contracts and foreign exchange swaps.

#### *Calculation of fair values*

Fair values of financial instruments (derivatives and non-derivative instruments) are determined by using BMW (UK) Capital plc'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.

The carrying amounts and fair values of loans to and loans from group undertakings are shown in the table below.

	2006		2005	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Interest bearing loans to related party	554,443	554,336	587,051	586,905
Interest free loans from related party	356,167	356,167	(330,607)	(330,607)
Trade and other receivables	119,146	119,146	109,667	109,667
Cash and cash	8	8	1	1
Interest rate swaps	711	711	(317)	(317)
Forward contracts	(65)	(65)	(58)	(58)
Finance lease liabilities	181,522	181,522	(240,148)	(240,148)
Trade and other payables	179,114	179,114	(151,081)	(151,081)
Bank overdraft	-	-	(1,225)	(1,225)

**Notes (continued)**

**23 Financial instruments (continued)**

The nominal amounts, fair values and maturities of financial derivative instruments, which the company expects to be settled in cash, shown in the balance sheet are as follows

31 December 2006	Nominal amount	Fair values			
		Total	Due within one year	Due between one and five years	Due later than five years
	Currency'000	£000	£000	£000	£000
<b>Assets</b>					
Interest rate contracts	GBP110,000	711	395	316	-
<b>Liabilities</b>					
Interest rate contracts	-	-	-	-	-
Currency hedge contracts	EUR 13,999	65	65	-	-
<b>Net derivative assets</b>		646	330	316	-
31 December 2005	Nominal amount	Fair values			
		Total	Due within one year	Due between one and five years	Due later than five years
	Currency'000	£000	£000	£000	£000
<b>Liabilities</b>					
Interest rate contracts	GBP 140,000	317	5	312	-
Currency hedge contracts	EUR 15,363	58	58	-	-
		375	63	312	-

**Notes** *(continued)*

**24 Operating leases**

Non-cancellable operating lease rentals are payable and receivable as follows

	<b>2006</b>	2005
	<b>£000</b>	£000
Less than one year	<b>1,276</b>	1,168
Between two and five years	<b>1,444</b>	1,617
More than 5 years	<b>227</b>	283
	<hr/>	<hr/>
<b>Lease rental payments</b>	<b>2,947</b>	3,068
Less than one year	<b>(131)</b>	(131)
Between two and five years	<b>-</b>	(131)
	<hr/>	<hr/>
<b>Sub lease rental income</b>	<b>(131)</b>	(262)
	<hr/>	<hr/>
	<b>2,816</b>	2,806
	<hr/>	<hr/>

The company leases equipment under operating leases which typically run for five years. Lease rentals are typically increased every five years to reflect market rentals. None of the leases include contingent rentals.

During the year ended 31 December 2006, £1,351,000 was recognised as an expense in the income statement in respect of operating leases (2005 £1,112,000). £131,250 was recognised as income in the income statement in respect of subleases (2005 £131,250).

## **Notes** *(continued)*

### **25 Capital commitments**

During the year ended 31 December 2006, the Company entered into contracts to purchase property, plant and equipment for £67,142,000 (2005 £95,040,000 ) These commitments are expected to be settled in the following financial year

### **26 End of life vehicle directive**

In September 2000, the European Parliament passed Directive 2000/53/EC on end-of-life vehicles. As part of this directive, vehicle manufacturers and professional vehicle importers will be responsible for a significant part of the end of life costs of collecting, disposing and recycling new cars put on the road from 1 July 2002 and from 1 January 2007, new cars put on the road before 2002.

The company has sold 555,712 cars since 1 July 2002 for which they may be legally obligated to pay towards their collection, disposal and recycling at the end of their lives. In addition the company estimates that approximately 74,000 cars sold prior to 1 July 2002 in the UK will still be on the road after 1 January 2007 and therefore, the company may be legally obligated to pay towards their collection, disposal and recycling at the end of their lives.

There are a number of uncertainties surrounding the exact form and implementation of the legislation in the UK.

Provisions for these costs have not been recognised as it is not possible to quantify the extent of the liability and the directors have received confirmation from the ultimate parent company that any liability will be indemnified by the ultimate parent company.

## **Notes** *(continued)*

### **27 Related parties**

*The related parties with which the company traded during the year or with whom there were outstanding assets or liabilities (including financial derivatives) at the year end were*

Directors and key management

BMW AG

BMW (UK) Holdings Ltd

BMW (UK) Ltd

BMW Hams Hall Motoren GmbH

BMW Fahrzeugtechnik GmbH

Softlab Ltd

Rolls-Royce Motor Cars Ltd

BMW France SA

BMW (UK) Capital plc

Alphabet (GB) Ltd

BMW Motoren GmbH, Steyr

BMW North America LLC

BMW Manufacturing Corporation

BMW (South Africa) (Pty) Ltd

BMW Services Ltd

BMW Italia S p A

Swindon Pressings Ltd

BMW Japan Corporation

BMW Leasing (GB) Ltd

BMW Financial Services (GB) Ltd

Midland Gears Ltd

BMW Pensions Services Ltd

The Company is the sole manufacturer of MINI branded vehicles and sells all manufactured vehicles to BMW AG at an agreed transfer price

The finance leases of the Company are guaranteed by BMW AG

The Company takes short term interest free loans from BMW (UK) Holdings Ltd and places them on interest bearing deposits with BMW (UK) Capital plc

Sales of goods and services to related parties were £1,863,188,943 (2005 £1,897,624,186)

Purchases of goods and services from related parties were £162,730,452 (2005 £103,693,675)



**Notes** *(continued)*

**27 Related parties (continued)**

*Transactions with key management personnel*

	2006 £'000	2005 £'000
Salaries	900,484	991,856
Bonuses	891,070	568,175
	<u>1,791,554</u>	<u>1,560,031</u>

*Interest*

Interest receivable and payable can be analysed as follows

	2006 £'000	2005 £'000
Interest receivable from related parties	26,566	29,518
Interest receivable from non-related parties	3,828	4,611
	<u>30,394</u>	<u>34,129</u>
Interest payable to related parties	961	968
Interest payable to non-related parties	9,656	10,526
	<u>10,617</u>	<u>11,494</u>

*Financial receivables and payables*

Financial receivables from related parties at the year end, which the company expects to be settled in cash, were as follows

	2006 Currency'000	2005 Currency'000
BMW (UK) Capital plc	GBP 551,273	GBP 588,100
BMW (UK) Capital plc	EUR 4,712	EUR -

Financial payables to related parties at the year end, which the company expects to be settled in cash, were as follows

	2006 £'000	2005 £'000
BMW (UK) Holdings Ltd	GBP 356,167	GBP 330,607
BMW (UK) Capital plc	-	GBP 1,049

Financial receivables from and (payables) to related parties also include derivative contracts, entered into with these parties in order to manage financial risks. The fair values of those derivatives disclosed in note 23 transacted with related parties may be analysed as follows

	2006 £'000	2005 £'000
BMW (UK) Capital plc	646	(375)

## Notes (continued)

### 28 Pensions

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 arrangement is the BMW (UK) Operations Pension Scheme of which the latest actuarial valuation was carried out by independent qualified actuaries using the projected unit method as at 5 April 2005.

BMW (UK) Holdings Limited is the holding company of this Company and the 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.

BMW (UK) Manufacturing Limited has accounted for the scheme on the basis of contributions payable in the year. The normal monthly contributions payable for the year due to the pension arrangements were £14.5m (2005: £13.5m) and there were no contributions outstanding at the year end. Normal contributions of £1.7m (2005: £5.5m) were also paid to the scheme in respect of the cost of early retirements and bridging pensions. The minimum 2007 contribution is expected to be £14.5m, as employees have been given the option to contribute into a higher tier.

#### Latest actuarial valuations

The actuarial assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investment and the rates of increases in salaries and pensions in payment. In the 2003 actuarial valuation it was assumed that the discount rate for pre-retirement liabilities would be 2% above fixed interest gilt yields and that the discount rate for post retirement liabilities would be in line with fixed interest gilt yields.

The assumed rate of salary increase was 1.0% per annum above the rate of inflation and the assumed rate at which pensions increase was between 0.05% per annum below and 0.55% per annum above the rate of inflation. The market value of the scheme assets at that date was £3,347 million. This represented 88.8% of the benefits which had been accrued to members, after allowing for future assumed increases in earnings.

The following information is presented for the schemes as a whole (as included in the BMW (UK) Holdings Limited's statutory accounts) and has been updated to 31 December 2006 in accordance with IAS 19 (Revised).

	2006 £000	2005 £000
Present value of funded defined benefit obligations	4,273,438	4,303,256
Fair value of plan assets	(3,992,586)	(3,853,640)
Net obligations	280,852	449,616
Unrecognised actuarial gains and losses	1,741	(438,665)
Recognised liability for defined benefit obligations	282,593	10,951

#### Movements in fair value of plan assets

	2006 £000	2005 £000
At 1 January	3,853,640	3,509,839
Employer contributions	56,998	55,663
Expected return on plan assets	197,136	179,116
Curtailment gain	-	-
Actuarial gains/(losses)	67,087	279,503
Benefits paid	(190,275)	(177,692)
Contributions by members	8,000	7,211
At 31 December	3,992,586	3,853,640

## Notes (continued)

### 28 Pensions (continued)

#### Movements in present value of defined benefit obligation

	2006 £000	2005 £000
At 1 January	4,303,256	3,964,816
Interest cost	201,863	204,815
Current service cost	38,111	30,107
Actuarial gains/(losses)	(87,517)	273,999
Contributions by members	8,000	7,211
Benefits paid	(190,275)	(177,692)
	<hr/>	<hr/>
At 31 December	4,273,438	4,303,256
	<hr/>	<hr/>

#### The fair value of the plan assets and the return on those assets were as follows

	2006 Fair value £000	2005 Fair value £000
Equities	1,195,888	928,828
Corporate bonds	2,186,607	2,340,893
Property	446,667	426,190
Other	163,424	157,729
	<hr/>	<hr/>
	3,992,586	3,853,640
	<hr/>	<hr/>
Actual return on plan assets	264,223	458,619
	<hr/>	<hr/>

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

	2006 %	2005 %
Discount rate	5.1	4.7
Expected rate of return on plan assets	5.2	5.4
Future salary increases	4.1	3.9
Retail price inflation	3.1	2.9
	<hr/>	<hr/>

## **Notes** *(continued)*

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

The company is a wholly owned subsidiary undertaking of BMW (UK) Holdings Limited which is incorporated in England and Wales

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

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

### **30 Accounting estimates and judgements**

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

#### *Estimation of fair values*

The assumptions used in the estimation of fair values are disclosed in note 23

#### *Deferred tax*

The recognition of the deferred tax asset is based upon the directors' current estimation of future taxable profits, against which the tax asset can be offset. In forming this opinion the directors have considered the current profitability and future trading agreements with the ultimate parent company. The directors do not consider that the future taxable profits will be insufficient to offset the asset recognised.

#### *Impairments*

The company currently has surplus emission rights (allowances) and the directors will consider selling the surplus allowances towards the end of Phase 1. An impairment review has not been deemed necessary by the Directors as the company is currently participating in Phase 1. If no market exists when allowances are put up for sale, the allowances will be impaired accordingly.