

BMW (UK) Manufacturing Limited

Directors' report and financial statements

Registered number 3950868

31 December 2007

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Directors' report

The directors present their report and financial statements for the year ended 31 December 2007

Directors

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

Mr T Moser (resigned 9th November 2007)

Mr O Zipse (appointed 1 January 2007)

Mr M Schmauz (appointed 1st January 2008)

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 three MINI derivatives in production – MINI, MINI Cabriolet and the new MINI Clubman. The second generation of the MINI has been available in the markets since November 2006 and has created significant momentum in 2007. The new MINI Clubman was successfully launched in November in Cooper and Cooper S variants. In addition the new MINI One D and MINI Cooper D variants were launched as the most fuel-efficient MINI's ever built.

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.

	2007	2006	2005	2004	2003
Production Volume (units)	237,700	186,674	200,119	189,492	174,366

Manufactured volume increase over the course of the year, 27.3% higher than in the previous year, due to continued momentum of the second generation MINI and the introduction of the MINI Clubman third derivative.

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 CO₂ and NO_x 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 2008

Due to increased market demand, the BMW Group has announced that annual production capacity for MINI will be increased in the medium term to 260,000 units per annum without additional capital expenditure.

Financial

Revenue increased by 31% compared to the previous year. This was primarily due to the planned increase in volume of 27.3%. Cost of sales increased by 30.8%, compared to the previous year, reflecting the increase in volume and the impact of increasing material costs. Gross profit increased by 26.3%, compared to 2006 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 £nil (2006 £1.1m) 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. In order to limit its exposure on future cash flows due to interest rate risk, the company has entered into 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 2007 (2006 £nil) and none are proposed (2006 £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.

	2007	2006	2005	2004	2003
VOC emissions (kg/unit)	3.00	2.63	2.62	3.26	3.6
Energy consumption (kWh/unit)	1,847	2,180	2,090	2,200	2,410
CO2 emissions (kg/unit)	501	619	588	612	657
Water consumption (cubic metres/unit)	1.82	2.06	1.91	1.93	2.08
Waste to landfill (kg/unit)	14.4	15.9	11.4	20.3	16.7

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 CO₂ gases. The scheme sets limits for the amount of CO₂ 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 CO₂ 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 ran from 1 January 2005 to 31 December 2007. No further transactions took place in 2007. Phase I of the EU ETS was completed at the end of 2007, the company finished this phase with surplus units.

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 contributions during the year (2006 £nil). Donations to UK charities amounted to £6,009 (2006 £37,000).

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



Michael Schmauz
Director

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

4th August 2008

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 and applicable laws.

The financial statements are required by law to present fairly the financial position and the performance of the company. 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 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement 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 2007 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

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

4th August 2008

Income statement
for year ended 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Revenue	<i>1, 2</i>	2,412,130	1,841,834
Cost of sales	<i>3</i>	(2,298,780)	(1,757,164)
Gross profit		113,350	84,670
Administrative expenses		(33,167)	(31,148)
Other operating income	<i>4</i>	9,620	6,287
Other operating expenses	<i>5</i>	(13,290)	(12,953)
Results from operating activities		76,513	46,856
Finance income	<i>7</i>	35,229	30,394
Finance expenses	<i>8</i>	(9,640)	(10,617)
Net finance income		25,589	19,777
Profit before taxation	<i>6</i>	102,102	66,633
Income tax (expense)	<i>11</i>	(12,663)	(16,664)
Profit for the year attributable to equity holders of the company		89,439	49,969

The above results relate to continuing operations

The notes on pages 11 to 37 are an integral part of these financial statements

Balance sheet
at 31 December 2007

	Note	2007 £000	2006 £000
Non-current assets			
Property, plant and equipment	12	571,331	553,190
Intangible assets	13	352	517
Deferred tax assets	14	94,993	97,087
Fair value of interest rate derivative with related party	23	-	316
		666,676	651,110
Current assets			
Inventories	15	45,695	37,346
Interest bearing loan with related party	16,23	584,384	554,443
Fair value of interest rate derivatives	23	198	395
Trade and other receivables	17	161,277	119,255
Cash and cash equivalents	18	2	8
		791,556	711,447
Total assets		1,458,232	1,362,557
Current liabilities			
Loan from related party	19	346,167	356,167
Financial liabilities	19	58,747	50,740
Fair value of currency derivative with related party	23	240	65
Trade and other payables	20	208,425	179,114
Tax payable		20,193	10,510
Provision	21	45	257
		633,817	596,853
Non-current liabilities			
Financial liabilities	19	124,174	154,409
Deferred tax liabilities	14	59	194
		124,233	154,603
Total liabilities		758,050	751,456
Net assets		700,182	611,101
Equity attributable to equity holders of the parent			
Share capital	22	40,000	40,000
Share premium		360,000	360,000
Retained earnings		300,043	210,604
Hedging reserve		139	497
Total equity		700,182	611,101

The notes on pages 11 to 37 are an integral part of these financial statements

These financial statements were approved by the board of directors on 4th August 2008 and were signed on its behalf by


Michael Schmauz
Director

Cash flow statement
for year ended 31 December 2007

	<i>Note</i>	2007	2006
		£000	£000
Cash flows from operating activities			
Profit for the period		89,439	49,969
Adjustments for			
Loss on disposal of fixed assets		273	5,391
Depreciation		144,724	107,331
Finance income		(35,229)	(30,394)
Finance expense		9,640	10,617
Income tax expense/(income)		12,663	16,664
		221,510	159,578
Decrease / (increase) in trade and other receivables		(42,064)	24,412
(Decrease) / increase in trade and other payables		36,210	30,428
(Increase) / decrease in inventories		(8,349)	(3,673)
		207,307	210,745
Interest paid		(9,640)	(10,617)
Tax paid		(2,979)	(6,975)
Net cash from operating activities		194,688	193,153
Cash flows from investing activities			
Purchase of intangible assets		(171)	(42)
Purchase of property, plant and equipment		(164,629)	(222,057)
Proceeds from disposals		1,773	6
Interest received		35,271	30,629
Net cash used in investing activities		(127,756)	(191,464)
Cash flows from financing activities			
Decrease / (increase) in deposit with related party		(29,941)	32,609
Payment on finance lease		(26,997)	(58,626)
Increase / decrease in loan from related party		(10,000)	(25,560)
Net cash used in financing activities		(66,938)	(457)
Net increase in cash and cash equivalents		(6)	1,232
Cash and cash equivalents at 1 January		8	(1,224)
Cash and cash equivalents at 31 December	<i>18</i>	2	8

The notes on pages 11 to 37 are an integral part of these financial statements

Statement of changes in equity

For year ended 31 December 2007

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 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
Balance at 31 December 2006	40,000	360,000	210,604	497	611,101
Balance at 1 January 2007	40,000	360,000	210,604	497	611,101
Profit for the year	-	-	89,439	-	89,439
Movement on the hedging reserve (net of deferred tax)	-	-	-	(358)	(358)
Balance at 31 December 2007	40,000	360,000	300,043	139	700,182

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 adopted IFRS

New endorsed standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007 and have not been applied in preparing these financial statements

IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's board of directors in order to assess each segment's performance and to allocate resources to them Under the management approach, it is not expected that the Company segment information will change materially

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* require a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained IFRIC 11 will become mandatory for the Company's 2008 financial statements, with retrospective application required It is not expected to have any impact on the consolidated financial statements

IFRIC 14 *IAS 19 – The Limit on a Defined Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be required as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets It also addresses when a MFR might give rise to a liability IFRIC 14 will be mandatory for the Group's 2008 financial statements with retrospective application required The Company has not yet determined the potential effect of the interpretation

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 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

Notes (continued)

1. Accounting policies (continued)

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:

Factory and office buildings and distribution facilities	10 to 50 years
Plant and machinery	5 to 10 years
Special tool, dies and jigs	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

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.

Notes (continued)

1. Accounting policies (continued)

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.

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 re-measurement 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, including the design and production of prototypes, is recharged to the Company's ultimate holding company BMW AG

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

	2007 £000	2006 £000
Income from disposals of tangible assets	275	108
Rental and leasing income	142	169
Income from non-operating activities	11	25
Foreign exchange gains	8,856	3,648
Income from release of provisions	336	2,040
Other operating income	-	239
Fair value gain on foreign currency derivative	-	58
	9,620	6,287

5 Other operating expenses

Included in the income statement are the following

	2007 £000	2006 £000
Loss on disposal of tangible assets	1,908	4,166
Impairment against trade receivable	18	3
Foreign exchange losses	8,986	6,698
Bridging pensions	228	445
Early retirement	1,025	1,211
Other operating expenses	950	365
Fair value loss on foreign currency derivative	175	65
	13,290	12,953

Notes (continued)

6 Profit before tax

Profit before tax is stated after charging

	2007 £000	2006 £000
Operating lease costs	1,300	1,351
Audit fees in connection with the audit of the company	76	80
Redundancy and early retirement costs	1,253	1,656

7 Finance income

	2007 £'000	2006 £'000
Interest income from bank deposits	3,059	3,828
Interest receivable from related parties	32,170	26,566
	<u>35,229</u>	<u>30,394</u>

Finance income recognised directly in equity net of tax in respect of changes in the fair value of cash flow hedges was £719,000 (2006 £nil)

8 Finance expenses

	2007 £000	2006 £000
Interest payable in respect of finance leases	8,972	9,655
Interest payable to related parties	668	962
	<u>9,640</u>	<u>10,617</u>

Finance expenses recognised directly in equity net of tax in respect of changes in the fair value of cash flow hedges was £358,000 (2006 £nil)

Notes (continued)

9 Personnel expenses

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

	Number of employees	
	2007	2006
Average number of employees during the year	3,468	3,374
Number of employees at the end of the year	3,413	3,415
Number of temporary employees	1,840	1,507

The aggregate payroll costs of these persons were as follows

	2007	2006
	£000	£000
Wages and salaries	112,454	105,447
Social security costs	8,545	8,438
Pension recharges	14,918	14,037
	135,917	127,922
Costs of temporary employees	50,839	38,612

10 Directors' emoluments

	2007	2006
	£000	£000
Aggregate emoluments	543	647
The aggregate emoluments of the highest paid director were	386	475

None of the directors are members of the defined benefit scheme

Notes (continued)

11 Income tax expense in the income statement

Recognised in the income statement

	2007 £000	2006 £000
<i>Current tax expense</i>		
Current tax on income for the period	10,569	3,234
Adjustment in respect of prior years	-	(999)
Total current tax	10,569	2,235
<i>Deferred tax expense</i>		
Origination and reversal of timing differences	20,152	16,846
Adjustment in respect of prior years	(24,843)	(2,417)
Adjustment in respect of tax rate	6,785	-
Total deferred tax	2,094	14,429
Total income tax expense	12,663	16,664

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

	2007 £000	2006 £000
Profit before tax	102,102	66,633
Tax using the UK corporation tax rate of 30% (2006 30%)	30,631	19,990
Effects of		
Non-deductible expenses	90	90
Adjustment in respect of prior years	(24,843)	(3,416)
Adjustment in respect of tax rate	6,785	-
Total tax charge in income statement	12,663	16,664

Factors affecting future tax charges

The Finance Act 2007 substantively enacted a change in the standard rate of UK corporation tax from 30% to 28% with effect from 1 April 2008. The deferred tax asset has been calculated at 28% as it is expected that it will reverse after 1 April 2008. Also in 2007, the UK government announced the gradual phasing out of Industrial Buildings Allowance ("IBAs") over the period from 2008 to 2010. No adjustment has been made to the deferred tax asset as at 31 December 2007 as the change was not substantively enacted at that date. The effect of IBAs on the tax expense in the year ended 31 December 2007 was £2,240,000 and is expected to be £1,729,000 in 2008.

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
Cost							
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)	-	-	-	-
Balance at 31 December 2006	237,898	5,631	242,055	44,221	288,149	238,519	1,056,473
Balance at 1 January 2007	237,898	5,631	242,055	44,221	288,149	238,519	1,056,473
Additions	6,763	-	53,480	-	104,386	-	164,629
Disposals	(502)	-	(4,557)	(78)	(1,035)	(8,955)	(15,127)
Re-classification	1,350	(196)	(12,058)	-	10,797	-	(107)
Balance at 31 December 2007	245,509	5,435	278,920	44,143	402,297	229,564	1,205,868
Depreciation and impairment							
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	-	-	-	-
Balance at 31 December 2006	(68,595)	(4,024)	(107,223)	(37,359)	(100,653)	(185,429)	(503,283)
Balance at 1 January 2007	(68,595)	(4,024)	(107,233)	(37,359)	(100,653)	(185,429)	(503,283)
Depreciation charge for the year	(13,146)	(616)	((35,797))	(4,146)	(63,234)	(26,047)	(142,986)
Disposals	259	-	3,328	79	421	7,634	11,721
Re-classification	(448)	111	5,127	-	(4,441)	(338)	11
Balance at 31 December 2007	(81,930)	(4,529)	(134,565)	(41,426)	(167,907)	(204,180)	(634,537)
Net book value							
At 1 January 2006	162,507	2,243	79,340	14,029	103,951	81,748	443,818
At 31 December 2006 and 1 January 2007	169,303	1,607	134,832	6,862	187,496	53,090	553,190
At 31 December 2007	163,579	906	144,355	2,717	234,390	25,384	571,331

Included in additions is £16,839,000 (2006 £34,248,000) relating to assets in the course of construction

During the year ended 31 December 2007, the company entered into contracts to purchase property, plant and equipment for £54,905,000 (2006 £67,142,000). 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
Cost			
Balance at 31 December 2006 and 1 January 2007	166	394	560
Additions	204	11	215
Disposals / Surrendered	(33)	(338)	(371)
Transfers	107	-	107
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2007	444	67	511
	<hr/>	<hr/>	<hr/>
Depreciation and impairment			
Balance at 31 December 2006 and 1 January 2007	(43)	-	(43)
Depreciation for the year	(105)	-	(105)
Transfers	(11)	-	(11)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2007	(159)	-	(159)
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2006 and 1 January 2007	123	394	517
	<hr/>	<hr/>	<hr/>
At 31 December 2007	285	67	352
	<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 CO₂ gasses. The scheme sets limits for the amount of CO₂ 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 CO₂ released. Surplus allowances may be sold and if a participant has a shortfall, additional allowances have to be purchased to cover their emissions. Phase I, which ran from 1 January 2005, completed on the 31 December 2007. At the balance sheet date the company finished the phase with surplus units.

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.

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	
	2007	2006	2007	2006	2007	2006
	£'000	£'000	£'000	£'000	£'000	£'000
Property, plant and equipment	1,657	7,087	-	-	1,657	7,087
Tax losses	93,336	90,000	-	-	93,336	90,000
Derivatives	-	-	(59)	(194)	(59)	(194)
Tax asset / (liabilities)	94,993	97,087	(59)	(194)	94,934	96,893

Movement in temporary differences during the year

	Property, plant and equipment £'000	Tax losses £'000	Derivatives £'000	Total £'000
Balance at 1 January 2006	21,516	90,000	95	111,611
Recognised in income	(14,429)	-	-	(14,429)
Recognised in equity	-	-	(289)	(289)
Balance at 31 December 2006	7,087	90,000	(194)	96,893
Balance at 1 January 2007	7,087	90,000	(194)	96,893
Recognised in income	(5,430)	3,336	-	(2,094)
Recognised in equity	-	-	135	135
Balance at 31 December 2007	1,657	93,336	(59)	94,934

Notes (continued)

15 Inventories

	2007 £000	2006 £000
Raw materials and consumables	39,993	28,191
Work in progress	5,702	9,155
	<u>45,695</u>	<u>37,346</u>

In 2007, raw materials & consumables recognised in cost of sales amount to £1,852,619,000 (2006 £1,490,825,000)

Inventory provision

	2007 £000	2006 £'000
Balance as at 1 January	3,654	8,555
Provision released during the year	(3,654)	(8,555)
Provision made during the year	-	3,654
	<u>-</u>	<u>3,654</u>
Balance at 31 December	-	3,654

16 Financial assets

Interest bearing loan with related party

The Company had a short term interest bearing deposit with BMW (UK) Capital plc at 31 December 2007

The following details apply

Interest	Volume in relevant currency	Weighted average maturity period (in months)	Weighted average effective interest rate (in %)
Fixed	GBP 584,383,678	1	5.58

Notes (continued)

17 Trade and other receivables

	2007 £000	2006 £000
Trade receivables	100	509
Trade receivables from related parties	160,895	118,374
Interest receivable	221	263
Prepayments	61	56
Other	-	53
	<u>161,277</u>	<u>119,255</u>

Credit risk

Exposure to credit risk

The trade receivables from related parties are concentrated in Germany with the ultimate parent company. Due to the nature of trading past due receivables do not occur which does not give rise to an allowance for impairment.

The company's most significant customer is its ultimate parent company, an international automotive business, which accounts for £150,646,732 of the trade receivables carrying amount at 31 December 2007 (2006 £117,615,914).

18 Cash and cash equivalents

	2007 £000	2006 £000
Cash and cash equivalents per balance sheet	2	8
Cash and cash equivalents per cash flow statement	2	8

Notes (continued)

19 Financial liabilities

	2007 £000	2006 £000
Non-current		
Finance Leases	124,174	154,409
Current		
Finance leases	30,351	27,113
VAT due	28,396	23,627
	58,747	50,740

Financial liabilities due to related parties are disclosed in note 27

Finance lease liabilities are payable as follows

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
	2007 £000	2007 £000	2007 £000	2006 £000	2006 £000	2006 £000
Total minimum lease payments at the balance sheet date	38,104	136,788	-	36,289	174,893	-
Discount factor of the minimum lease payments	(7,753)	(12,614)	-	(9,176)	(20,484)	-
The present value of the minimum lease payments	30,351	124,174	-	27,113	154,409	-

Notes (continued)

19 Financial liabilities (continued)

Loan from a related party

The Company had a short term interest free loan of £346,167,000 (2006 £356,167,000) 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

Liquidity risk

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

31 December 2007							
	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000	£000
Non-derivative financial liabilities							
Loans from group undertaking	346,167	346,167	346,167	-	-	-	-
Trade and other payables	208,425	208,425	208,425	-	-	-	-
Finance leases	154,525	174,892	38,104	-	40,009	96,779	-
Derivative financial liabilities							
Forward Exchange Contracts	240	240	240	-	-	-	-

31 December 2006							
	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000	£000
Non-derivative financial liabilities							
Loans from group undertaking	356,167	356,167	356,167	-	-	-	-
Trade and other payables	179,114	179,114	179,114	-	-	-	-
Finance leases	181,522	211,182	36,290	-	38,104	136,788	-
Derivative financial liabilities							
Forward Exchange contracts	65	65	65	-	-	-	-

Notes *(continued)*

20 Trade and other payables

	2007 £000	2006 £000
Trade payables	151,117	139,255
Trade payables to related parties	40,791	27,246
Non-trade payables	5,388	1,605
Accrued expenses	11,129	11,008
	<u>208,425</u>	<u>179,114</u>

21 Provision – emission rights

	2007 £000	2006 £'000
Balance as at 1 January	257	93
Provision made during the year	8	220
Provision consumed during the year	(220)	(56)
	<u>45</u>	<u>257</u>
Balance at 31 December		

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.

22 Share capital

	Ordinary shares of £1 each	
	2007 £	2006 £
<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.

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.

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.

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established by the Company's parent company to identify and analyse the risks faced by the Company to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in activities. In conjunction with these policies, the Company offers training and development to instil a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BMW AG Group's internal audit function carries out regular reviews of the operational and financial management of the Company. The results are ultimately reported to the BMW AG Board of Directors.

Credit risk

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

Trade, other receivables and amounts due from fellow group undertakings

The Company's exposure to credit risk 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.

Liquidity risk

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

The company regularly reviews its cash flow requirements and ensures sufficient funds are available to meet its liabilities as they fall due. The Company is part of a Group cash pooling arrangement along with certain fellow UK group undertakings. Under this arrangement, cash receipts are swept from the Company's bank account on a daily basis and required funds are advanced as required. The interest bearing loan to related party of £584,384,000 (2006 £554,443,000) represents the net cash position.

Market risk

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

Notes *(continued)*

23 Financial Instruments *(continued)*

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than its functional currency of GBP. The currencies in which these transactions primarily are denominated are Euro, US Dollars and Japanese Yen.

The principal sales and purchase transactions are denominated in Euro's which provides a natural cash flow hedge.

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

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.

Other market price risk

The Company does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements, such contracts are not settled net.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain the future development of the business. The Board of Directors monitor the return on capital which is defined as total shareholders' equity, excluding non-redeemable preference shares and the level of dividends to ordinary shareholders.

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes (continued)

24 Financial Instruments (continued)

Currency risk

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows, based on notional amounts

	31 December 2007			31 December 2006		
	euro	JPY	USD	euro	JPY	USD
	000	000	000	000	000	000
Trade receivables	267,574	-	100	214,753	-	71
Trade payables	(244,998)	(681,309)	(523)	(144,266)	(309,553)	(5,505)
Gross balance sheet exposure	22,576	(681,309)	(423)	70,487	(309,553)	(5,434)
Estimated forecast sales	3,470,713	-	-	2,537,036	-	-
Estimated forecast purchases	(2,534,838)	(4,695,652)	(57,501)	(1,330,639)	(3,313,357)	(178,975)
Gross exposure	935,875	(4,695,652)	(57,501)	1,206,397	(3,313,357)	(178,975)
Forward exchange contracts	(71,942)	-	-	-	-	-
Net exposure	886,509	(5,376,961)	(57,924)	1,276,884	(3,622,910)	(184,409)

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

The following significant exchange rates applied during the year

GBP	Average rate		Reporting date mid-spot rate	
	2007	2006	2007	2006
Euro 1	1 46056	1 55821	1 36433	1 48677
USD 1	2 00141	1 84324	1 99845	1 95935
JPY 1	235 65249	214 32538	223 43670	233 24000

Notes (Continued)

23 Financial Instruments (continued)

Sensitivity analysis

A 10% strengthening of GBP against the following currencies at 31 December 2007 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

GBP	2007		2006	
	Equity	Profit or loss	Equity	Profit or loss
	£000	£000	£000	£000
Euro	1,546	1,546	4,523	4,523
USD	21	21	303	303
JPY	289	289	144	144

A 10% weakening of GBP against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant.

Interest rate risk

Profile

At the balance sheet date and the comparative balance sheet date the interest rate profile of the company's interest-bearing financial instruments was limited to the interest-bearing loan with group undertakings.

A change of 100 basis points in interest rates at the balance sheet date would have increased/(decreased) equity and profit or loss by £ 2,382,166 (2006 £1,982,756).

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.

	2007		2006	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Interest bearing loans to related party	584,384	584,280	554,443	554,336
Interest free loans from related party	346,167	346,167	356,167	356,167
Trade and other receivables	161,216	161,216	119,146	119,146
Cash and cash	2	2	8	8
Interest rate swaps	198	198	711	711
Forward contracts	(240)	(240)	(65)	(65)
Finance lease liabilities	154,525	154,525	181,522	181,522
Trade and other payables	208,425	208,425	179,114	179,114

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 2007	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
Assets					
Interest rate contracts	GBP 20,000	198	198	-	-
Liabilities					
Currency hedge contracts	EUR 19,439	240	240	-	-
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
Assets					
Interest rate contracts	GBP 110,000	711	395	316	-
Liabilities					
Currency hedge contracts	EUR 13,999	65	65	-	-

Notes *(continued)*

25 Operating leases

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

	2007	2006
	£000	£000
Payments		
Less than one year	1,002	1,276
Between two and five years	789	1,444
More than 5 years	170	227
	<hr/>	<hr/>
Lease rental payments	1,961	2,947
Income		
Less than one year	(131)	(131)
	<hr/>	<hr/>
Sub lease rental income	(131)	(131)
	<hr/>	<hr/>
	1,830	2,816
	<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 2007, £1,300,000 was recognised as an expense in the income statement in respect of operating leases (2006 £1,351,000). £131,250 was recognised as income in the income statement in respect of subleases (2006 £131,250).

Notes *(continued)*

26 Capital commitments

During the year ended 31 December 2007, the Company entered into contracts to purchase property, plant and equipment for £54,905,000 (2006 £67,142,000). These commitments are expected to be settled in the following financial year

27 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 704,963 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 2008 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)

28 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

Rolls-Royce Motor Cars Ltd

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

Swindon Pressings Ltd

BMW Japan Corporation

BMW Leasing (GB) Ltd

BMW Financial Services (GB) 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 £2,395,498,797 (2006 £1,863,188,943)

Purchases of goods and services from related parties were £526,656,370 (2006 £162,730,452)

Notes *(continued)*

27 Related parties (continued)

Transactions with key management personnel

	2007	2006
	£'000	£'000
Salaries	943	900
Bonuses	899	891
	1,842	1,791

Interest

Interest receivable and payable can be analysed as follows

	2007	2006
	£'000	£'000
Interest receivable from related parties	32,170	26,566
Interest receivable from non-related parties	3,059	3,828
	35,229	30,394
Interest payable to related parties	668	961
Interest payable to non-related parties	8,972	9,656
	9,640	10,617

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

	2007	2006
	Currency'000	Currency'000
BMW (UK) Capital plc	GBP 578,393	GBP 551,273
BMW (UK) Capital plc	EUR 8,173	EUR 4,712

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

	2007	2006
	£'000	£'000
BMW (UK) Holdings Ltd	346,167	356,167

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

	2007	2006
	£'000	£'000
BMW (UK) Capital plc	(42)	646

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 £15.2m (2006 £14.5m) and there were no contributions outstanding at the year end. Normal contributions of £0.6m (2006 £1.7m) were also paid to the scheme in respect of the cost of early retirements and bridging pensions. The 2007 contribution is expected to be £24.0m.

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 2005 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 and has been updated to 31 December 2007 in accordance with IAS 19 (Revised).

	2007 £000	2006 £000
Present value of funded defined benefit obligations	4,497,212	4,273,438
Fair value of plan assets	(4,026,584)	(3,992,586)
Net obligations	470,628	280,852
Unrecognised actuarial gains	4,057	1,741
Recognised liability for defined benefit obligation	474,685	282,593

Movements in fair value of plan assets

	2007 £000	2006 £000
At 1 January	3,992,586	3,853,640
Employer contributions	27,912	56,998
Expected return on plan assets	221,841	197,136
Actuarial (losses)/gains	(26,717)	67,087
Benefits paid	(197,746)	(190,275)
Contributions by members	8,708	8,000
At 31 December	4,026,584	3,992,586

Notes (continued)

28 Pensions (continued)

Movements in present value of defined benefit obligation

	2007 £000	2006 £000
At 1 January	4,273,438	4,303,256
Interest cost	215,170	201,863
Current service cost	38,353	38,111
Actuarial losses / (gains)	159,289	(87,517)
Contributions by members	8,708	8,000
Benefits paid	(197,746)	(190,275)
At 31 December	4,497,212	4,273,438

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

	2007 Fair Value £000	2006 Fair Value £000
Equities	849,703	1,195,888
Corporate bonds	487,962	555,509
Gilts	1,746,242	1,631,098
Property	357,539	446,667
Other	585,138	163,424
	4,026,584	3,992,586
Actual return on plan assets	195,124	264,223

Principal actuarial assumptions (expressed as weighted averages)

	2007 %	2006 %	2005 %
Discount rate	5.5	5.1	4.7
Expected rate of return on plan assets	5.7	5.2	5.4
Future salary increases	4.4	4.1	3.9
Retail price inflation	3.4	3.1	2.9

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.