

BMW (UK) Manufacturing Limited

Directors' report and financial statements

Registered number 3950868

31 December 2011

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Directors' report

The directors present their report and financial statements for the year ended 31 December 2011

Directors

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

Dr J Hedrich
 Dr J Lorenzen

Principal activities

The Company is engaged in the manufacture of motor vehicles

Business review

The Company is a production site within the BMW Group production network manufacturing the MINI brand vehicles. The Company currently has the following MINI derivatives in production – MINI, MINI Cabriolet and the MINI Clubman. The second generation of the MINI has been available in the markets since November 2006 and has continued momentum in 2010. A new derivative, the MINI Coupe was added in 2011 and in addition the a fifth derivative, the MINI Roadster will start production in 2012.

Company strategic objectives

The main corporate objectives are

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

Strategy

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

Production volume is one of the key performance indicators of the Company. All units are sold to BMW AG.

	2011	2010	2009	2008	2007
Production Volume (units)	191,475	216,301	213,670	235,018	237,700

Manufactured volume decreased over the course of the year, 11.5% lower than in the previous year, due to decreased market demand and the impact of supply chain interruptions.

Directors' report (continued)

Strategy (continued)

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 JD 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 within cost of sales are targeted to achieve annual efficiency gains through improved process efficiency and productivity.

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

Risk and uncertainties

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.

General economic environment

- Currency and interest rate risks, (due to all sales and the majority of cost of sales being in foreign currencies), 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, managed by BMW group.
- 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, has 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.

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 N₂O emissions, place high demands on engine and product development. Future strategies may lead into the development of alternative technologies. Field trials have been conducted in the USA and Europe with more than 600 MINI E vehicles providing an important insight into the requirements of future series of electrically powered vehicles. Further developments in this area are conducted on BMW Group level.

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 and an ongoing close contact to the suppliers.

Directors' report (*continued*)

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.
- The 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.

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 in line with legal requirements and 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 2012

A clear focus on premium vehicles and premium services for individual mobility remains the core of our business model. We will continue to refine this approach. We do so in light of changing customer demands, stringent regulations and the demands placed on automobile manufacturers by different industrial policies in different countries. We reviewed our strategy in 2011 for this reason. All of our assumptions were verified against current trends and developments. As part of this strategy, in 2012 an additional derivative, the MINI Roadster will be produced at BMW (UK) Manufacturing Ltd.

Financial

Revenue decreased by 4.4% with intra-group sales due to a decrease in production volume. Gross profit expressed as a percentage of sales increased from 4.2% in 2010 to 5.5% in 2011.

The profit for the year is shown on page 9.

Research and development

All research and development expenditure relating to the new MINI, including all design and production of prototypes, is borne by the Company's ultimate holding company BMW AG.

Directors' report *(continued)*

Proposed dividend

No dividends were paid in 2011 (2010 £nil) and none are proposed (2010 £nil)

Environmental issues

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

	2011	2010	2009	2008	2007
VOC emissions (kg/unit)	1.98	1.72	1.83	2.21	3.00
Energy consumption (kWh/unit)	1,641	1,760	1,729	1,637	1,847
CO ₂ emissions (kg/unit)	464	469	458	469	501
Water consumption (cubic metres/unit)	1.53	1.48	1.73	1.61	1.82

Emission Rights

The Company is a participant of the EU 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 can 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 II, which covers the period from 1 January 2008 to 31 December 2012. For the years 2008 – 2011 the site emitted significantly fewer emissions than issued Allowances and expect this to happen in 2012 also. The surplus is planned to be carried forward into Phase III to hedge our position as free issue Allowances are to be phased out during Phase III.

Employees

All employees are regularly informed of the company's sales performance 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 (2010 £nil). Donations to UK charities amounted to £17,281 (2010 £35,670).

Disclosure of information to auditors

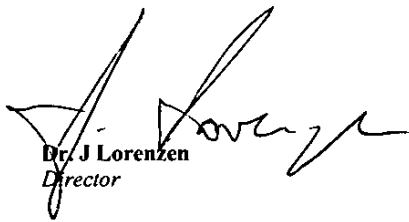
The directors who held office at the date of approval of this directors' report confirm that, in so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all steps that he ought to have taken as a director to make himself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

Auditors

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

Directors' report *(continued)*

By order of the board


Dr. J Lorenzen
Director

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

2nd August, 2012

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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

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

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

We have audited the financial statements of BMW (UK) Manufacturing Limited for the year ended 31 December 2011 set out on pages 9 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



**J D Leech (Senior Statutory auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
1 Snowhill
Snowhill Queensway
Birmingham
B4 6GH

2nd August, 2012

Statement of Comprehensive Income
for year ended 31 December 2011

	Note	2011 £000	2010 £000
Revenue	1, 2	2,252,439	2,356,588
Cost of sales		(2,128,447)	(2,257,094)
Gross profit		123,992	99,494
Other operating income	3	31,788	14,295
Administrative expenses		(27,967)	(29,003)
Other operating expenses	4	(22,539)	(19,455)
Results from operating activities		105,274	65,331
Finance income	8	4,189	4,703
Finance expenses	9	(1,810)	(5,294)
Net finance income		2,379	(591)
Profit before taxation		107,653	64,740
Income tax expense	10	(13,252)	(23,004)
Profit for the year		94,401	41,736
Other comprehensive income			
Net change in fair value of cash flow hedges		-	-
Income tax on other comprehensive income		-	-
Other comprehensive income for the year net of income tax		-	-
Total comprehensive income for the year		94,401	41,736

The above results relate to continuing operations

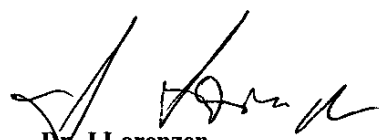
The notes on pages 13 to 39 are an integral part of these financial statements

Statement of Financial Position
at 31 December 2011

	Note	2011 £000	2010 £000
Non-current assets			
Property, plant and equipment	11	403,800	402,285
Intangible assets	12	280	36
Deferred tax assets	13	17,424	48,579
		<u>421,504</u>	<u>450,900</u>
Current assets			
Inventories	14	27,417	22,694
Interest bearing deposit with related party	15	693,022	515,766
Fair value of interest rate derivatives	23	146	3
Trade and other receivables	16	165,312	156,347
Cash and cash equivalents	17	5	4
		<u>885,902</u>	<u>694,814</u>
Total assets		<u>1,307,405</u>	<u>1,145,714</u>
Current liabilities			
Loans and other borrowings	18	(92,751)	(87,559)
Fair value of currency derivative with related party	23	(775)	-
Trade and other payables	19	(227,065)	(152,520)
Tax payable		(1,143)	(14,365)
		<u>(321,734)</u>	<u>(254,444)</u>
Non-current liabilities			
Financial liabilities	18	-	-
		<u>-</u>	<u>-</u>
Total liabilities		<u>(321,734)</u>	<u>(254,444)</u>
Net assets		<u>985,671</u>	<u>891,270</u>
Equity			
Share capital	21	40,000	40,000
Share premium		360,000	360,000
Retained earnings		585,671	491,270
Total equity attributable to equity holders of the company		<u>985,671</u>	<u>891,270</u>

The notes on pages 13 to 39 are an integral part of these financial statements

These financial statements were approved by the board of directors on August 2nd, 2012 and were signed on its behalf by


Dr. J Lorenzen
Director
Registered No 3950868

Statement of cash flows
for year ended 31 December 2011

	<i>Note</i>	2011 £000	2010 £000
Cash flows from operating activities			
Profit for the period		94,401	41,736
Adjustments for			
Net loss on disposal of fixed assets		-	67
Depreciation and amortisation		94,793	93,035
Finance income		(4,189)	(4,703)
Finance expense		1,810	5,294
Income tax expense		13,252	23,004
		200,067	158,433
Operating Cash flow before changes in Working Capital			
(Increase)/decrease in trade and other receivables		(9,111)	37,225
Increase/(decrease) in trade and other payables		78,151	(37,598)
(Increase)/decrease in inventories		(4,723)	8,699
		264,384	166,759
Interest paid		(1,810)	(5,294)
Tax paid		4,681	(9,480)
Net cash from operating activities		267,255	151,985
Cash flows from investing activities			
Purchase of intangible assets		(325)	(38)
Purchase of property, plant and equipment		(98,627)	(58,219)
Proceeds from disposals		2,401	380
Net cash used in investing activities		(96,551)	(57,877)
Cash flows from financing activities			
Increase in deposits with related party		(177,256)	(61,795)
Payment on finance lease		(53,212)	(37,014)
Decrease in loan from related party		55,573	-
Interest received		4,190	4,703
Net cash used in financing activities		(170,705)	(94,106)
Net increase in cash and cash equivalents		1	2
Cash and cash equivalents at 1 January		4	2
Cash and cash equivalents at 31 December	<i>17</i>	5	4

The notes on pages 13 to 39 are an integral part of these financial statements

Statement of changes in Equity
for year ended 31 December 2011

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 2010	40,000	360,000	449,534	-	849,534
Total comprehensive income for the period					
Profit for the year	-	-	41,736	-	41,736
Other comprehensive income					
Net change in fair value of cash flow hedges	-	-	-	-	-
Income tax on other comprehensive income	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	41,736	-	41,736
Balance at 31 December 2010	40,000	360,000	491,270	-	891,270
Balance at 1 January 2011	40,000	360,000	491,270	-	891,270
Total comprehensive income for the period					
Profit for the year	-	-	94,401	-	94,401
Other comprehensive income					
Net change in fair value of cash flow hedges	-	-	-	-	-
Income tax on other comprehensive income	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	94,401	-	94,401
Balance at 31 December 2011	40,000	360,000	585,671	-	985,671

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 and net of deferred tax

Notes

(forming part of the financial statements)

1 Accounting policies

BMW (UK) Manufacturing Limited (the "Company") is a company incorporated and domiciled in the UK. The address of the Company's registered office is Ellesfield Avenue, Bracknell, Berkshire, RG12 8TA, England. The Company is engaged in the manufacture of motor vehicles.

The financial statements were authorised for issue by the Board of Directors on 2nd August 2012.

Statement of compliance

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

Measurement convention

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

Going concern

The company has significant net assets, it is historically profitable and its order pipeline is forecast to increase. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

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.

Notes (continued)

1. Accounting policies (continued)

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 a 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.

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.

Notes (continued)

1. Accounting policies (continued)

Intangible assets

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

Emission rights

Allowances granted by the Government 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.

Impairment (excluding inventories and deferred taxes)

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.

Calculation of recoverable amount

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

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

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

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.

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.

Research and development

All research and development expenditure, including the design and production of prototypes, is borne by 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.

Notes (continued)

1 Accounting policies (continued)

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.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and expenses

Finance expenses comprise interest payable on borrowings and finance leases calculated using the effective interest rate method. Finance income comprises 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.

Employee benefits

The Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is BMW (UK) Holdings Limited. The Company then recognises a cost equal to its contribution payable for the period.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle an obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Notes (continued)

1. Accounting policies (continued)

New standards and interpretations not adopted

Amendments to a number of standards under the annual improvements project to IFRS, which are mandatory for the year ending 31 December 2011, have been adopted in 2011. None of these amendments have had a material impact on the company's financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements.

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 Other operating income

Included in the income statement are the following

	2011 £000	2010 £000
Income from disposals of tangible assets	3,438	649
Rental and leasing income	155	152
Income from non-operating activities	451	57
Foreign exchange gains	27,559	13,156
Income from release of provisions	136	-
Other operating income	49	281
	<u>31,788</u>	<u>14,295</u>

4 Other operating expenses

Included in the income statement are the following

	2011 £000	2010 £000
Loss on disposal of tangible assets	3,426	716
Foreign exchange losses	13,828	8,840
Bridging pensions	388	2,841
Early retirement	1,912	6,365
Other operating expenses	2,511	693
Impairment against trade receivable	474	-
	<u>22,539</u>	<u>19,455</u>

Notes (continued)

5 Expenses and auditors' remuneration

Included in the income statement are the following amounts

	2011 £000	2010 £000
Operating lease costs	1,171	1,185
Audit fees in connection with the audit of these financial statements	78	80
Redundancy and early retirement costs	2,300	9,206
Depreciation	94,711	92,766
Amortisation	82	269

6 Staff numbers and costs

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

	Number of employees	
	2011	2010
Manufacturing	2,941	3,254
Administration	507	541
	<u>3,448</u>	<u>3,795</u>

The aggregate payroll costs of these persons were as follows

	2011 £000	2010 £000
Wages and salaries	106,485	109,267
Social security costs	7,906	8,000
Pension recharges	19,087	18,325
	<u>133,478</u>	<u>135,592</u>
Costs of temporary employees	<u>16,747</u>	<u>20,206</u>

7 Directors' emoluments

	2011 £000	2010 £000
Aggregate emoluments	<u>1,071</u>	<u>705</u>
The aggregate emoluments of the highest paid director were	<u>646</u>	<u>434</u>

None of the directors are members of the defined benefit scheme

Notes (continued)

8 Finance income

	2011 £000	2010 £000
Interest income from bank deposits	1,167	2,918
Interest receivable from related parties	3,022	1,785
	<u>4,189</u>	<u>4,703</u>

Finance income recognised directly in equity net of tax in respect of changes in the fair value of cash flow hedges was nil (2010 £57,000)

9 Finance costs

	2011 £000	2010 £000
Interest payable in respect of finance leases	1,557	5,114
Interest payable to related parties	253	180
	<u>1,810</u>	<u>5,294</u>

All of the finance cost was recognised in profit or loss not at fair value

10 Income tax expense in the income statement

Recognised in the income statement

	2011 £000	2010 £000
Current tax expense		
Current tax on income for the period	1,109	1,317
Prior year adjustment	(19,013)	-
Total current tax	<u>(17,904)</u>	<u>1,317</u>
Deferred tax expense		
Origination and reversal of timing differences	31,988	21,332
Adjustment for prior years	(832)	355
Total deferred tax	<u>31,156</u>	<u>21,687</u>
Total income tax expense	<u>13,252</u>	<u>23,004</u>

Notes (continued)

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

	2011 £000	2010 £000
Profit before tax	107,653	64,740
Tax using the UK corporation tax rate of 26.5% (2010: 28%)	28,528	18,127
Effects of		
Non-deductible expenses	2,608	2,695
Adjustment in respect of prior years	(19,845)	355
Adjustment in respect of tax rate	1,961	1,827
Total tax charge in income statement	13,252	23,004

Factors affecting future tax charges

On 23 March 2011 the Chancellor announced a reduction in the main rate of UK corporation tax from 28% to 26% with effect from 1 April 2011. This change became substantively enacted on 29 March 2011 and therefore the effect of this change is that profits arising in 2011 are taxable at a rate of approximately 26.5%.

The Chancellor also proposed changes to further reduce the main rate of UK corporation tax by one per cent per annum to 23 per cent by 1 April 2014. The reduction in the main rate of UK corporation tax to 25% to apply from 1 April 2012 was substantively enacted on 5 July 2011 and has therefore been reflected in the above figures.

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012.

This will reduce the company's future current tax charge accordingly and further reduce the deferred tax asset at 31 December 2011 (which has been calculated based on the rate of 25% substantively enacted at the balance sheet date) by £697,000.

Notes (continued)

11 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 2010	246,952	5,435	277,331	39,871	457,744	198,640	1,225,973
Additions	3,940	-	22,655	-	31,624	-	58,219
Disposals	(146)	-	(1,032)	-	(6,493)	(11,473)	(19,144)
Re-classification	-	-	-	-	35	(35)	-
Balance at 31 December 2010	250,746	5,435	298,954	39,871	482,910	187,132	1,265,048
Balance at 1 January 2011	250,746	5,435	298,954	39,871	482,910	187,132	1,265,048
Additions	20,768	-	32,861	-	46,282	-	99,911
Disposals	(4,916)	-	(12,043)	-	(2,733)	-	(19,692)
Re-classification	127	-	934	(1,061)	-	-	-
Balance at 31 December 2011	266,725	5,435	320,706	38,810	526,459	187,132	1,345,267
Depreciation and impairment							
Balance at 1 January 2010	(104,952)	(5,289)	(189,149)	(39,499)	(260,134)	(189,671)	(788,694)
Depreciation charge for the year	(11,492)	(11)	(25,046)	(372)	(53,339)	(2,506)	(92,766)
Disposals	130	-	972	-	6,413	11,182	18,697
Re-classification	-	-	-	-	(35)	35	-
Balance at 31 December 2010	(116,314)	(5,300)	(213,223)	(39,871)	(307,095)	(180,960)	(862,763)
Balance at 1 January 2011	(116,314)	(5,300)	(213,223)	(39,871)	(307,095)	(180,960)	(862,763)
Depreciation charge for the year	(9,626)	(10)	(22,271)	-	(60,409)	(2,395)	(94,711)
Disposals	4,326	-	10,664	-	1,017	-	16,007
Re-classification	(117)	-	(944)	1,061	-	-	-
Balance at 31 December 2011	(121,730)	(5,310)	(225,774)	(38,810)	(366,487)	(183,355)	(941,467)
Net book value							
At 1 January 2010	142,000	146	88,182	372	197,610	8,969	437,279
At 31 December 2010 and 1 January 2011	134,432	135	85,731	-	175,815	6,172	402,285
At 31 December 2011	144,994	125	94,932	-	159,972	3,777	403,800

Included in additions is £50,020,220 (2010 £28,454,571) relating to assets in the course of construction

The leased assets are pledged as security against the finance lease liability (see note 18)

Notes (continued)

12 Intangible assets

	Licences, patents and trademarks £000	Total £000
Cost		
Balance at 1 January 2010	941	941
Additions	38	38
Disposals	-	-
	<hr/>	<hr/>
Balance at 31 December 2010	979	979
	<hr/>	<hr/>
Balance at 1 January 2011	979	941
Additions	326	325
Disposals	(140)	(140)
	<hr/>	<hr/>
Balance at 31 December 2011	1,165	1,165
	<hr/>	<hr/>
Depreciation and impairment		
Balance at 1 January 2010	(674)	(674)
Depreciation for the year	(269)	(269)
	<hr/>	<hr/>
Balance at 31 December 2010	(943)	(943)
	<hr/>	<hr/>
Balance at 1 January 2011	(943)	(943)
Depreciation for the year	(82)	(82)
Disposals	140	140
	<hr/>	<hr/>
Balance at 31 December 2011	(885)	(885)
	<hr/>	<hr/>
Net book value		
At 1 January 2010	267	267
	<hr/>	<hr/>
At 31 December 2010 and 1 January 2011	36	36
	<hr/>	<hr/>
At 31 December 2011	280	280
	<hr/>	<hr/>

Notes (continued)

13 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		(Liabilities)		Net	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Property, plant and equipment	16,885	9,836	-	-	16,885	9,836
Tax value of loss carry-forwards	539	38,743	-	-	539	38,743
Tax asset / (liabilities)	17,424	48,579	-	-	17,424	48,579

Movement in temporary differences during the year

	Property, plant and equipment £'000	Tax losses £'000	Derivatives £'000	Total £'000
Balance at 1 January 2010	9,134	61,132	-	70,266
Recognised in income	702	(22,389)	-	(21,687)
Recognised in equity	-	-	-	-
Balance at 31 December 2010	9,836	38,743	-	48,579
Balance at 1 January 2011	9,836	38,743	-	48,579
Recognised in income	7,049	(38,204)	-	(31,155)
Recognised in equity	-	-	-	-
Balance at 31 December 2011	16,885	539	-	17,424

Notes (continued)

14 Inventories

	2011 £000	2010 £000
Raw materials and consumables	22,509	17,979
Work in progress	4,908	4,715
	<u>27,417</u>	<u>22,694</u>

In 2011, raw materials and consumables recognised in cost of sales amount to £1,785,440,865 (2010 £1,892,583,068)

Inventories are shown net of provisions for loss and obsolescence. The movement in the inventory provision is shown below

	2011 £000	2010 £000
Balance as at 1 January and 31 December	-	-

15 Financial assets

Interest bearing deposit with related party

The Company had a short term interest bearing deposit with BMW (UK) Capital plc at 31 December 2011 £693,022,290 (2010 £515,766,310)

The following details apply

Interest	Volume in relevant currency	Weighted average maturity period (months)	Weighted average effective interest rate (%)
2011 Fixed	GBP 693,022,290	1	0.5870%
2010 Fixed	GBP 515,766,310	1	0.4550%

Notes *(continued)*

16 Trade and other receivables

	2011	2010
	£000	£000
Trade receivables	405	494
Trade receivables from related parties	163,122	153,726
Prepayments	1,785	2,127
	<u>165,312</u>	<u>156,347</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 £163,122,418 of the trade receivables carrying amount at 31 December 2011 (2010 £152,312,041).

17 Cash and cash equivalents

	2011	2010
	£000	£000
Cash and cash equivalents per balance sheet	5	4
Cash and cash equivalents per cash flow statement	5	4

Notes (continued)

18 Financial liabilities

	2011 £000	2010 £000
Non-current		
Finance Leases	-	-
Current		
Finance leases	-	53,212
Current accounts held with BMW AG	55,573	53,212
VAT due	37,178	34,347
	92,751	87,559

Financial liabilities due to related parties are disclosed in note 26

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
	2011 £000	2011 £000	2011 £000	2010 £000	2010 £000	2010 £000
Total minimum lease payments at the balance sheet date	-	-	-	54,769	-	-
Discount factor of the minimum lease payments	-	-	-	(1,557)	-	-
The present value of the minimum lease payments	-	-	-	53,212	-	-

Notes (continued)

18 Financial liabilities (continued)

Currency derivatives with a related party:

The Company has entered into two foreign exchange derivative contracts with BMW AG, 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 2011						
	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
	£000	£000	£000	£000	£000	£000
Non-derivative financial liabilities						
Loans from group undertaking	-	-	-	-	-	-
Trade and other payables	227,065	227,065	227,065	-	-	-
Finance leases	-	-	-	-	-	-
Derivative financial liabilities						
Forward Exchange Contracts	629	629	629	-	-	-
31 December 2010						
	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
	£000	£000	£000	£000	£000	£000
Non-derivative financial liabilities						
Loans from group undertaking	-	-	-	-	-	-
Trade and other payables	152,520	152,520	152,520	-	-	-
Finance leases	53,212	54,769	54,769	-	-	-
Derivative financial liabilities						
Forward Exchange contracts	(3)	(3)	(3)	-	-	-

Notes (continued)

19 Trade and other payables

	2011 £000	2010 £000
Trade payables	191,815	126,546
Trade payables to related parties	20,845	10,822
Non-trade payables	7,532	6,216
Accrued expenses	6,873	8,936
	<u>227,065</u>	<u>152,520</u>

20 Provision – emission rights

	2011 £000	2010 £'000
Balance as at 1 January	-	-
Provision made during the year	-	-
Provision consumed during the year	-	-
	<u>-</u>	<u>-</u>
Balance at 31 December	-	-

The emission rights provision represents the fair value of the cost to settle the obligation to deliver emission rights against plant emissions

Emission Rights

The Company is a participant of the EU 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 can 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 II, which covers the period from 1 January 2008 to 31 December 2012. For the years 2008 – 2011 the site emitted significantly fewer emissions than issued Allowances and expect this to happen in 2012 also. The surplus is planned to be carried forward into Phase III to hedge our position as free issue Allowances are to be phased out during Phase III. No asset is recognized as the recoverability of the surplus free allowance is uncertain.

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

21 Share capital

	2011 £000	2010 £000
Allotted, called up and fully paid 40,000,001 Ordinary shares of £1 each at 31 December	<u>40,000</u>	<u>40,000</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)

22 Operating leases

Non-cancellable operating lease rentals are payable as follows

	2011	2010
	£000	£000
Less than one year	981	1,171
Between two and five years	2,189	2,340
More than 5 years	597	1,125
	<hr/>	<hr/>
Lease rental payments	3,767	4,636
	<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 2011, £1,171,206 was recognised as an expense in the income statement in respect of operating leases (2010: £1,185,000).

Notes (continued)

23 Financial instruments

Overview

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

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 implementation and oversight of the Company's risk management framework which is established by the Company's parent company. The framework is used to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks against those 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 and financial instrument counterparties 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.

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 deposit to related party of £693,022,290 (2010: £515,766,310) 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 Company 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 AG primarily through utilising forward contracts and foreign exchange swaps.

Exposure to currency risk

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

	31 December 2011			31 December 2010		
	Euro	JPY	USD	Euro	JPY	USD
	000	000	000	000	000	000
Trade receivables	201,902	-	39	183,302	-	111
Trade payables	(162,935)	(906,502)	(776)	(97,967)	(740,144)	(288)
Gross balance sheet exposure	38,967	(906,502)	(737)	85,335	(740,144)	(177)
Estimated forecast sales	2,941,509	-	-	3,088,265	-	-
Estimated forecast purchases	(1,998,215)	(6,216,393)	(9,599)	(2,204,342)	(8,562,582)	(13,048)
Gross exposure	943,294	(6,216,393)	(9,599)	883,923	(8,562,582)	(13,048)
Forward exchange contracts	629	-	-	(80,433)	-	-
Net exposure	982,890	(7,122,895)	(10,336)	969,258	(9,302,726)	(13,225)

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 Germany, managed by BMW AG.

The following significant exchange rates applied during the year:

GBP	Average rate		Reporting date mid-spot rate	
	2011	2010	2011	2010
	GBP	GBP	GBP	GBP
EURO	1 1521	1 16473	1 19710	1 16202
USD	1 39242	1 55140	1 29750	1 55240
JPY	111 002	125 45642	100 15403	126 21012

Notes (Continued)

23 Financial Instruments (continued)

Sensitivity analysis

A 10% strengthening of GBP against the following currencies at 31 December 2011 would have increased 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 2010.

	2011		2010	
	Equity	Profit or loss	Equity	Profit or loss
	£000	£000	£000	£000
Euro	3,382	3,382	8,533	8,533
USD	53	53	9	9
JPY	817	817	314	314

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.

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)

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.

	2011		2010	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Interest bearing deposit to related party	693,022	693,022	515,766	515,782
Trade and other receivables	165,312	165,312	156,347	156,347
Cash and cash equivalents	5	5	4	4
Currency hedge contracts	629	629	3	3
Finance lease liabilities	-	-	53,212	53,212
Trade and other payables	227,065	227,065	152,520	152,250

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 2011		Fair values			
	Nominal amount Currency'000	Total £000	Due within one year £000	Due between one and five years £000	Due later than five years £000
Assets					
Currency hedge contracts	EUR	146	146	-	-
Liabilities					
Currency hedge contracts	EUR	775	775	-	-
31 December 2010		Fair values			
	Nominal amount Currency'000	Total £000	Due within one year £000	Due between one and five years £000	Due later than five years £000
Assets					
Currency rate contracts	EUR	3	3	-	-
Liabilities					
		-	-	-	-

Notes *(continued)*

24 Capital commitments

During the year ended 31 December 2011, the Company entered into contracts to purchase property, plant and equipment for £30,667,730 (2010 £44,861,000). These commitments are expected to be settled in the following financial year.

25 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 1,870,286 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 no more than 74,000 cars were sold prior to 1 July 2002 in the UK and 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.

Provisions for these costs have not been recognised as the directors have received confirmation from the ultimate parent company that any liability will be indemnified by the ultimate parent company.

Notes *(continued)*

26 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 yearend 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 Services Ltd

Swindon Pressings Ltd

BMW Japan Corporation

BMW Leasing (GB) Ltd

BMW Financial Services (GB) Ltd

BMW Pensions Services Ltd

BMW Italia SPA

BMW Belgium Luxembourg SA NV

BMW Sverige AB

BMW India Private Limited

BMW Malta Finance Ltd

BMW Automotive (Ireland) Ltd

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

Sales of goods and services to related parties were £2,266,676,100 (2010 £2,330,821,472)

Purchases of goods and services from related parties were £702,669,562 (2010 £695,419,658)

Notes *(continued)*

26 Related parties (continued)

Transactions with key management personnel are as follows

	2011 £'000	2010 £'000
Salaries	757	699
Bonuses	1,129	763
	<u>1,886</u>	<u>1,462</u>

Interest

Interest receivable and payable can be analysed as follows

	2011 £'000	2010 £'000
Interest receivable from related parties	1,785	1,785
Interest receivable from non-related parties	2,918	2,918
	<u>4,703</u>	<u>4,703</u>
Interest payable to related parties	253	180
Interest payable to non-related parties	1,557	5,114
	<u>1,810</u>	<u>5,294</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

	2011 Currency'000	2010 Currency'000
BMW (UK) Capital plc	GBP 693,022	GBP 513,327
BMW (UK) Capital plc	EUR -	EUR -
BMW (UK) Capital plc	USD -	USD 8
BMW (UK) Capital plc	JPY -	JPY 446

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

	2011 Currency'000	2010 Currency'000
BMW (UK) Capital plc	EUR -	EUR 19
BMW AG	GBP 55,573	EUR -

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

	2011 £'000	2010 £'000
BMW (UK) Capital plc	-	(3)

Notes (continued)

27 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 2009.

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 £25.4m (2010 £18.2m) and there were no contributions outstanding at the year end. Normal contributions of £2.3m (2010 £2.8m) were also paid to the scheme in respect of the cost of early retirements and bridging pensions. The 2012 contribution is expected to be £22.3m.

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 2010 actuarial valuation the discount rate was dependent on when the future cash flow is paid (i.e. "term-dependent") and was based upon the yield available on AA rated corporate bonds.

The assumed rate of salary increase was 1.0% per annum above the rate of inflation. Assumptions for inflation and pension increases were also term dependent. The market value of the scheme assets at that date was £3,406 million. This represented 84% 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 2011 in accordance with IAS 19 (Revised).

	2011 £000	2010 £000
Present value of funded defined benefit obligations	(5,395,993)	(4,999,908)
Fair value of plan assets	4,331,187	3,999,799
Unrecognised actuarial gains and (losses)	-	(109)
	<u> </u>	<u> </u>
Net obligations	(1,064,806)	(1,000,218)
	<u> </u>	<u> </u>

Movements in fair value of plan assets

	2011 £000	2010 £000
At 1 January	3,999,799	3,854,725
Employer contributions	81,171	91,753
Expected return on plan assets	209,185	204,077
Actuarial gains/(losses)	276,808	78,947
Benefits paid	(235,862)	(229,776)
Contributions by members	86	73
	<u> </u>	<u> </u>
At 31 December	4,331,187	3,999,799
	<u> </u>	<u> </u>

Notes (continued)

27 Pensions (continued)

Movements in present value of defined benefit obligation

	2011 £000	2010 £000
At 1 January	4,999,908	4,935,788
Interest cost	260,434	261,230
Current service cost	50,182	44,756
Past service cost	1,776	7,808
Actuarial (gains)/losses	319,469	(19,971)
Contributions by members	86	73
Benefits paid	(235,862)	(229,776)
	<u>5,395,993</u>	<u>4,999,908</u>
At 31 December	5,395,993	4,999,908

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

	2011 Fair Value £000	2010 Fair Value £000
Equities	795,302	846,801
Corporate bonds	1,499,248	1,683,898
Gilts	872,844	706,485
Property	420,202	369,695
Other	743,591	392,920
	<u>4,331,187</u>	<u>3,999,799</u>
	<u>485,993</u>	<u>283,024</u>
Actual return on plan assets	485,993	283,024

Principal actuarial assumptions (expressed as weighted averages)

	2011 %	2010 %
Discount rate	4.75	5.3
Expected rate of return on plan assets (note this is as at year end i.e. for coming year)	5.30	5.3
Future salary increases	3.65	4.1
Retail price inflation	3.15	3.6

Notes (continued)

28 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.

29 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.