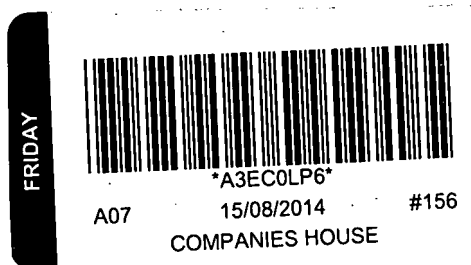


# **BMW (UK) Manufacturing Limited**

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

Registered number 3950868  
31 December 2013



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## Strategic report

### 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 MINI brand vehicles. The Company currently has five MINI derivatives in production – MINI, MINI Cabriolet, MINI Clubman, MINI Coupe and the MINI Roadster.

### 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
Quality	Adherence to engineering and product standards	Number of quality defects
Production Cost	Adherence to cost budget and investment framework	Cost per unit
Volume	Adherence to production programme	Number of units produced

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

	2013	2012	2011	2010	2009
Production Volume (units)	175,986	207,789	191,475	216,301	213,670

Manufactured volume decreased over the course of the year, 15% lower than in the previous year, due to planned changeover to the third generation of MINI vehicles.

## Strategic report *(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 developed as planned.

### **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.
- 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 CO<sub>2</sub> and N<sub>2</sub>O emissions, place high demands on engine and product development. Future strategies may lead into the development of alternative technologies. 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 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 through ongoing performance management of the suppliers.

## Strategic 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.

### Financial

- Revenue decreased by 9% due to a decrease in production volume. Gross profit expressed as a percentage of sales decreased from 6.8% in 2012 to 6.4% in 2013.
- The profit for the year is shown on page 8.

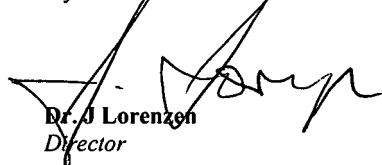
### Research and development

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.

### Outlook in 2014

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. As planned, investment took place in the last three years bringing new facilities into body production, paint shop and assembly. December 2013 marked the start of production of the next generation of MINI vehicle. The coming year will be dominated by ramping up production for this new vehicle and introducing new derivatives.

By order of the board

  
Dr. J. Lorenzen  
Director

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

15 July 2014

## Directors' report

The directors present their report and financial statements for the year ended 31 December 2013.

### Directors

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

F J Bachmann

Dr. J Lorenzen

### Proposed dividend

No dividends were paid in 2013 (2012: £nil) and none are proposed (2012: £nil).

### 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 (2012: £nil). Donations to UK charities amounted to £14,631 (2012: £10,722).

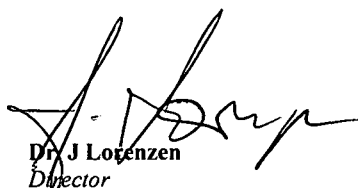
### Disclosure of information to auditors

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.

By order of the board



Dr J Lorenzen  
Director

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

15 July 2014

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

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 2013 set out on pages 8 to 29. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 Financial Reporting Council's website's web-site at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; 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 strategic report and 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.



**Matthew Buckingham (Senior Statutory auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

15 July 2014

*Chartered Accountants*  
One Snowhill  
Snowhill Queensway  
Birmingham  
B4 6GH

**Statement of Profit and Loss Account and Other Comprehensive Income**  
*for year ended 31 December 2013*

	Note	2013 £000	2012 £000
<b>Turnover</b>	1, 2	<b>2,184,779</b>	2,400,214
Cost of sales		(2,045,747)	(2,237,469)
<b>Gross profit</b>		<b>139,032</b>	162,745
Other operating income	3	29,364	36,166
Administrative expenses		(39,224)	(32,201)
Other operating expenses	4	(30,905)	(36,250)
<b>Operating profit</b>		<b>98,267</b>	130,460
Interest receivable and similar income	8	2,663	3,439
Interest payable and similar charges	9	(375)	(467)
<b>Profit on ordinary activities before taxation</b>		<b>100,555</b>	133,432
Tax on profit on ordinary activities	10	(17,572)	(40,040)
<b>Profit for the financial year</b>		<b>82,983</b>	93,392
<b>Total comprehensive income for the year</b>		<b>82,983</b>	93,392

The above results relate to continuing operations.

The notes on pages 11 to 29 are an integral part of these financial statements.

**Balance Sheet**  
*at 31 December 2013*

	Note	2013 £000	2012 £000
<b>Fixed Assets</b>			
Intangible assets	11	72	165
Tangible fixed assets	12	830,881	505,233
		<u>830,953</u>	<u>505,398</u>
<b>Current assets</b>			
Stocks	14	33,746	14,263
Debtors	15	639,594	889,975
Cash and cash equivalents		5	7
		<u>673,345</u>	<u>904,245</u>
<b>Creditors: amounts falling due within one year</b>	17	(342,252)	(330,580)
<b>Net current assets</b>		<u>331,093</u>	<u>573,665</u>
<b>Total assets less current liabilities</b>		<u>1,162,046</u>	<u>1,079,063</u>
<b>Net assets</b>		<u>1,162,046</u>	<u>1,079,063</u>
<b>Capital and Reserves</b>			
Share capital	18	40,000	40,000
Share premium		360,000	360,000
Profit and loss account		762,046	679,063
<b>Shareholders' Funds</b>		<u>1,162,046</u>	<u>1,079,063</u>

The notes on pages 11 to 29 are an integral part of these financial statements.

These financial statements were approved by the board of directors on 15 July 2014 and were signed on its behalf by:



**Dr J Lorenzen**  
Director  
Registered No. 3950868

**Statement of changes in Equity**  
*for year ended 31 December 2013*

**Reconciliation of movement in capital and reserves**

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
Balance at 1 January 2012	40,000	360,000	585,671	985,671
<b>Total comprehensive income for the period</b>				
Profit for the year	-	-	93,392	93,392
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	-	93,392	93,392
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2012</b>	<b>40,000</b>	<b>360,000</b>	<b>679,063</b>	<b>1,079,063</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 January 2013	40,000	360,000	679,063	1,079,063
<b>Total comprehensive income for the period</b>				
Profit for the year	-	-	82,983	82,983
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	-	82,983	82,983
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2013</b>	<b>40,000</b>	<b>360,000</b>	<b>762,046</b>	<b>1,162,046</b>
	<hr/>	<hr/>	<hr/>	<hr/>

## 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.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Bayerische Motoren Werke Aktiengesellschaft (BMW AG) includes the Company in its consolidated financial statements. The consolidated financial statements of BMW AG are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Petuelring 130, D-80809 Munich, Germany.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of BMW AG include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets; and
- The disclosures required by IFRS 7 Financial Instrument Disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

### *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 23.

## Notes (continued)

### 1. Accounting policies (continued)

#### *Going concern*

The company has significant net assets, it is historically profitable and its order pipeline is healthy. 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 profit and loss account. 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 a the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

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 profit and loss account 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 profit and loss account immediately.

## Notes (continued)

### 1. Accounting policies (continued)

#### *Tangible fixed assets*

All tangible fixed assets 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 tangible fixed assets reflects the pattern of their usage and is generally computed using the straight-line method. Components of items of tangible fixed assets with different useful lives are depreciated separately.

A tangible fixed asset which is being constructed or developed is held within tangible fixed assets at cost without depreciation, until construction or development is complete. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight line basis over the estimated useful lives of each part of an item of tangible fixed assets. 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 profit and loss account 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.

#### *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 stocks and deferred taxes)*

The recoverability of the carrying amount of the company's assets, other than stocks 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.

## **Notes (continued)**

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

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.

#### *Stocks*

Stocks 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 stocks 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 stocks 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 debtors*

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

#### *Turnover*

Turnover 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 profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account 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 of interest receivable on funds invested and any gains and losses on hedging instruments that are recognised in the profit and loss account.

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



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

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

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

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account, 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.

### **2 Turnover**

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

## Notes (continued)

### 3 Other operating income

Included in the profit and loss account are the following:

	2013 £000	2012 £000
Income from disposals of tangible assets	43	1,420
Rental and leasing income	153	153
Income from non-operating activities	145	32
Foreign exchange gains	28,909	28,850
Other operating income	114	5,711
	<u>29,364</u>	<u>36,166</u>

### 4 Other operating expenses

Included in the profit and loss account are the following:

	2013 £000	2012 £000
Loss on disposal of tangible assets	725	7,210
Foreign exchange losses	21,410	26,478
Bridging pensions	262	134
Early retirement	1,741	2,114
Other operating expenses	5,280	183
Impairment against trade debtors	1,487	131
	<u>30,905</u>	<u>36,250</u>

### 5 Expenses and auditors' remuneration

Included in the profit and loss account are the following amounts:

	2013 £000	2012 £000
Operating lease costs	2,362	1,132
Audit fees in connection with the audit of these financial statements	77	76
Redundancy and early retirement costs	2,003	2,248
Depreciation	110,334	99,447
Amortisation	124	124
	<u></u>	<u></u>

## Notes (continued)

### 6 Staff numbers and costs

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

	Number of employees	
	2013	2012
Manufacturing	2,706	2,667
Administration	613	610
	<u>3,319</u>	<u>3,277</u>

The aggregate payroll costs of these persons were as follows:

	2013 £000	2012 £000
Wages and salaries	114,428	110,803
Social security costs	8,635	8,626
Pension recharges	24,352	21,862
	<u>147,415</u>	<u>141,291</u>
Costs of temporary employees	<u>42,361</u>	<u>33,381</u>

### 7 Directors' emoluments

	2013 £000	2012 £000
Aggregate emoluments	<u>872</u>	<u>1,020</u>
The aggregate emoluments of the highest paid director were	<u>393</u>	<u>456</u>

None of the directors are members of the defined benefit scheme.

### 8 Interest receivable and similar income

	2013 £000	2012 £000
Interest receivable from related parties	<u>2,663</u>	<u>3,439</u>
	<u>2,663</u>	<u>3,439</u>

## Notes (continued)

### 9 Interest payable and similar charges

	2013 £000	2012 £000
Interest payable in respect of finance leases	-	32
Interest payable to related parties	375	435
	<u>375</u>	<u>467</u>

### 10 Tax on profit on ordinary activities

#### Recognised in the profit and loss account

	2013 £000	2012 £000
<i>UK Corporation tax</i>		
Current tax on income for the period	18,854	35,637
Prior year adjustment	(11,464)	42
Total current tax	<u>7,390</u>	<u>35,679</u>
<i>Deferred tax expense</i>		
Origination and reversal of timing differences	11,059	4,100
Adjustment for prior years	(877)	261
Total deferred tax	<u>10,182</u>	<u>4,361</u>
Tax on profit on ordinary activities	<u>17,572</u>	<u>40,040</u>

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

	2013 £000	2012 £000
Profit before tax	<u>100,555</u>	<u>133,432</u>
Tax using the UK corporation tax rate of 23.25% (2012: 24.5%)	23,379	32,691
Effects of:		
Non-deductible expenses	2,779	2,235
Adjustment in respect of prior years	(12,341)	303
Adjustment in respect of tax rate	3,755	4,811
Total tax charge in profit and loss account	<u>17,572</u>	<u>40,040</u>

## Notes (continued)

### 10 Tax on profit on ordinary activities (cont.)

#### Factors affecting future tax charges

A reduction in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. A further reduction to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012. A further reduction to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. The current tax rate has therefore been calculated at a blended rate of 23.25%.

### 11 Intangible assets

	Licences, patents and trademarks £000	Total £000
<b>Cost</b>		
At beginning of year	1,174	1,174
Additions	31	31
	<hr/>	<hr/>
<b>At end of year</b>	<b>1,205</b>	<b>1,205</b>
	<hr/>	<hr/>
<b>Amortisation and impairment</b>		
At beginning of year	(1,009)	(1,009)
Charge for the year	(124)	(124)
	<hr/>	<hr/>
<b>At end of year</b>	<b>(1,133)</b>	<b>(1,133)</b>
	<hr/>	<hr/>
<b>Net book value</b>		
<b>At 31 December 2013</b>	<b>72</b>	<b>72</b>
	<hr/>	<hr/>
At 31 December 2012	165	165
	<hr/>	<hr/>

Notes (continued)

12 Tangible fixed assets

	Land and buildings		Plant and machinery		Special tool dies and jigs		Total
	Owned	Leased	Owned	Leased	Owned	Leased	
	£000	£000	£000	£000	£000	£000	£000
<b>Cost</b>							
At beginning of year	295,689	5,435	445,204	38,810	562,355	187,132	1,534,625
Additions	17,720	-	158,461	-	260,492	-	436,673
Disposals	(701)	-	(3,734)	-	(8,848)	-	(13,283)
<b>At end of year</b>	<b>312,708</b>	<b>5,435</b>	<b>599,931</b>	<b>38,810</b>	<b>813,999</b>	<b>187,132</b>	<b>1,958,015</b>
<b>Depreciation and impairment</b>							
At beginning of year	(131,494)	(5,320)	(238,586)	(38,810)	(429,432)	(185,750)	(1,029,392)
Charge for the year	(11,791)	(11)	(29,770)	-	(67,380)	(1,382)	(110,334)
Disposals	541	-	3,215	-	8,836	-	12,592
<b>At end of year</b>	<b>(142,744)</b>	<b>(5,331)</b>	<b>(265,141)</b>	<b>(38,810)</b>	<b>(487,976)</b>	<b>(187,132)</b>	<b>(1,127,134)</b>
<b>Net book value</b>							
<b>At 31 December 2013</b>	<b>169,964</b>	<b>104</b>	<b>334,790</b>	<b>-</b>	<b>326,023</b>	<b>-</b>	<b>830,881</b>
At 31 December 2012	164,195	115	206,618	-	132,923	1,382	505,233

Included in additions and brought forward balances is £242,594,146 (2012: £223,407,716) relating to assets in the course of construction.

## Notes (continued)

### 13 Deferred tax assets and liabilities

There are no deferred tax liabilities.

Deferred tax assets are attributable to the following:

	2013 £'000	2012 £'000
Tangible fixed assets	2,881	13,063
Tax asset (see note 15)	2,881	13,063

Movement in temporary differences during the year

	Tangible fixed assets £'000	Tax losses £'000	Total £'000
Balance at 1 January 2012	16,885	539	17,424
Recognised in income	(3,822)	(539)	(4,361)
Balance at 31 December 2012	13,063	-	13,063
Balance at 1 January 2013	13,063	-	13,063
Recognised in income	(10,182)	-	(10,182)
Balance at 31 December 2013	2,881	-	2,881

## Notes (continued)

### 14 Stocks

	2013 £000	2012 £000
Raw materials and consumables	22,886	12,270
Work in progress	10,860	1,993
	<u>33,746</u>	<u>14,263</u>

### 15 Debtors

	2013 £000	2012 £000
Trade debtors	2,817	1,731
Amounts due from group undertakings	97,688	203,735
Deferred tax assets (see note 13)	2,881	13,063
Other financial assets (see note 16)	534,021	671,039
Prepayments	95	407
Tax Receivable	2,092	-
	<u>639,594</u>	<u>889,975</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 £93,483,539 of the trade receivables carrying amount at 31 December 2013 (2012: £201,508,424).



**Notes (continued)**

**16 Financial assets**

***Interest bearing deposit with related party:***

The Company had a short term interest bearing deposit with BMW Finance NV (Netherlands) at 31 December 2013 of £534,020,833 (2012: £670,020,155)

*The following details apply:*

Interest	Volume in relevant currency	Weighted average maturity period (months)	Weighted average effective interest rate (%)
2013 Fixed	GBP 534,020,833	1	0.356%
2012 Fixed	GBP 670,020,155	1	0.560%

***Derivative financial instruments***

***Fair Value***

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

	Carrying amount 2013 £000	Fair value 2013 £000	Carrying amount 2012 £000	Fair value 2012 £000
<b>Financial assets held for trading (including all derivatives) (note 15)</b>				
Forward exchange contracts	-	-	1,019	1,019

## Notes (continued)

### 17 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Trade creditors	281,434	188,577
Amounts due to group undertakings	36,466	58,177
Non-trade payables	9,409	4,750
Accrued expenses	14,943	11,444
Tax payable	-	67,632
	<u>342,252</u>	<u>330,580</u>

### 18 Share capital

	2013 £000	2012 £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.

### 19 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2013 £000	2012 £000
Less than one year	5,086	1,827
Between two and five years	18,568	16,119
More than 5 years	11,890	15,495
	<u>35,544</u>	<u>33,441</u>
<b>Lease rental payments</b>	<u>35,544</u>	<u>33,441</u>

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 2013, £2,362,331 was recognised as an expense in the profit and loss account in respect of operating leases (2012: £1,132,472).

## Notes (continued)

### 20 Capital commitments

During the year ended 31 December 2013, the Company entered into contracts to purchase property, plant and equipment for £145,382,674 (2012: £246,085,144). These commitments are expected to be settled in the following financial year.

### 21 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 31 December 2011.

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 19R 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 £31.8m (2012: £28.1m) and there were no contributions outstanding at the year end. Normal contributions of £0.3m (2012: £2.2m) were also paid to the Scheme in respect of the cost of early retirements and bridging pensions. The 2014 contribution is expected to be £28.5m.

The schemes are final salary pension plans which provide benefits to members primarily in the form of a guaranteed level of pension payable for life. Surviving dependents' pensions and certain death benefits are also provided. The level of benefits earned is determined by reference to a member's length of service and their salary in the final years leading up to retirement. Once in payment, pensions are generally updated in line with the Retail Prices Index.

The BMW (UK) Operations Pension Scheme was closed to new entrants with effect from 1 January 2014.

BMW (UK) Trustees Limited acted as Trustee of the BMW (UK) Operations Pension Scheme for the year ended 31 December 2013. The full Board of the Trustee Company is made up of 14 Directors nominated in equal numbers by the Principal Employer and the membership.

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

The principal functions of the Trustee are:

to administer the Scheme in accordance with the Trust Deed and Rules, and

to invest the Scheme's assets with an appropriate degree of security to provide income and capital appreciation such that the Scheme is able to meet pension and other benefit liabilities, both now and in the future.

The schemes expose BMW (UK) Holdings Limited to a number of actuarial risks, including:

- *Investment risk*: the risk of the actual return from assets differing to that assumed for actuarial and funding purposes.
- *Interest rate & inflation risk*: decreases/increases in the financial assumptions used will increase/decrease the defined benefit obligation. Some of the pension obligations are linked to inflation. Higher inflation will lead to higher liabilities although, in most cases, there are caps in place on the level of inflationary increases to protect the Schemes against extreme inflation.
- *Longevity risk*: the majority of the scheme obligations are to provide benefits for the life of the member. Increases in life expectancy will result in an increase in the scheme liabilities.
- *Salary risk*: increases in future salaries increase the gross defined benefit obligation.

The Trustees reduce exposure to these risks by careful structuring of the funding and investment management arrangements including asset liability matching and through contracts with the schemes' investment managers. The Trustees also closely monitor these risks and receive formal quarterly reports on funding, risk, investment managers (including performance) and diversification.

The following information is presented for the schemes as a whole and has been updated to 31 December 2013 in accordance with IAS 19R.

## Notes (continued)

### 21 Pensions (continued)

#### Recognised liability for defined benefit obligations

	2013 £000	2012 £000
Defined benefit obligation	5,943,778	5,603,324
Fair value of plan assets	4,865,397	4,517,981
<b>Total employee benefits</b>	<b>1,078,381</b>	<b>1,085,343</b>

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

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
<b>Balance at 1 January</b>	<b>5,603,324</b>	5,253,358	<b>(4,517,981)</b>	(4,331,831)	<b>1,085,343</b>	921,527
Current service cost	46,786	40,565	-	-	46,786	40,565
Past service cost	777	581	-	-	777	581
Interest cost/(income)	232,840	244,165	(190,371)	(203,164)	42,469	41,001
Administrative expenses	-	-	5,927	8,226	5,927	8,226
<b>Included in profit or loss</b>	<b>280,403</b>	285,311	<b>(184,444)</b>	(194,938)	<b>95,959</b>	90,373
Remeasurements loss/(gain):						
Actuarial loss (gain) arising from						
- Changes in demographic assumptions	4,868	106,188	-	-	4,868	106,188
- Changes in financial assumptions	221,845	379,378	-	-	221,845	379,378
- Experience adjustment	37,348	(219,183)	-	-	37,348	(219,183)
Return on plan assets (excluding interest income)	-	-	(257,958)	(123,582)	(257,958)	(123,582)
<b>Included in other comprehensive income</b>	<b>264,061</b>	266,383	<b>(257,958)</b>	(123,582)	<b>6,103</b>	142,801
Employer contributions	-	-	(109,024)	(69,358)	(109,024)	(69,358)
Employees contributions	13,731	12,916	(13,731)	(12,916)	-	-
Benefits paid	(217,741)	(214,644)	217,741	214,644	-	-
<b>Other movements</b>	<b>(204,010)</b>	(201,728)	<b>94,986</b>	132,370	<b>(109,024)</b>	(69,358)
<b>Balance at 31 December</b>	<b>5,943,778</b>	5,603,324	<b>(4,865,397)</b>	(4,517,981)	<b>1,078,381</b>	1,085,343

## Notes (continued)

### 21 Pensions (continued)

Represented by:

BMW (UK) Operations Pension Scheme	1,062,814
BMW (UK) Operations Supplementary Pension Scheme	<u>15,567</u>
	1,078,381

#### Plan assets

	2013 £'000	2012 £'000
Equity instruments		
- quoted	841,555	848,076
- unquoted	-	-
	<u>841,555</u>	<u>848,076</u>
Debt instruments		
- quoted	2,624,878	2,358,249
- unquoted	<u>258,110</u>	<u>344,020</u>
	2,882,988	2,702,269
Property (unquoted)	474,370	447,440
Cash and cash equivalents		
- quoted	91,412	152,204
- unquoted	<u>(1,604)</u>	<u>2,587</u>
	89,808	154,791
Absolute return funds		
- quoted	-	318
- unquoted	<u>378,396</u>	<u>300,050</u>
	378,396	300,368
Other investment funds		
- quoted	16,840	9,587
- unquoted	<u>181,440</u>	<u>55,450</u>
	<u>198,280</u>	<u>65,037</u>
	<u>4,865,397</u>	<u>4,517,981</u>

## Notes (continued)

### 21 Pensions (continued)

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

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

	2013	2012
	%	%
Discount rate	4.40	4.24
Future salary increases	4.00	3.50
Retail price inflation	3.50	3.00
Rate of pension increases	3.36	2.94
Interest rate for calculating interest income on plan assets	4.24	4.75

The mortality assumptions, based on actuarial advice in accordance with published statistics and the recent actual mortality experience of the members within the schemes, allow for future mortality improvements. The assumptions are that:

An active member currently aged 45 retiring at age 65 will live on average for a further 25.8 years after retirement if they are male and for a further 27.9 years after retirement if they are female.

A current pensioner aged 70 will live on average for a further 18.2 years if male and 19.6 years if female.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 18.1 years (2012: 18.2 years).

### *Sensitivity analysis*

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions:

	Change	Defined benefit obligation	
		Increase	Decrease
		£'000	£'000
Discount rate	(+ / - 0.75%)	(806,332)	1,002,527
Future salary increases	(+ / - 0.25%)	38,253	(37,082)
Retail price inflation	(+ / - 0.75%)	490,884	(474,359)
Rate of pension increases	(+ / - 0.25%)	227,156	(215,882)

As permitted in IAS19.173(b), disclosures for the comparative period are not provided.

In valuing the liabilities of the pension fund at 31 December 2013, mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2013 would have increased by £239,798,000 before deferred tax.

## **Notes (continued)**

### **21 Pensions (continued)**

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 December 2011 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

### **22 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.

### **23 Accounting estimates and judgements**

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

#### *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.