

BMW (UK) Capital plc
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
31 DECEMBER 2002

Registered in England and Wales

No 3114356



BMW (UK) Capital plc

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 December 2002.

Activities

The principal activity of the company is to raise funds in the financial markets for use by BMW Group Companies. The company also enters into derivatives on behalf of UK BMW Group Companies. Following the restructuring of the group, as set out in the accounts for an earlier year, the Company continued to be a party in respect of certain financial instruments with MG Rover Group Ltd. These financial instruments matured during 2002.

Financial

The profit for the year and appropriations are shown in the profit and loss account on page 4.

No dividends were paid in 2002 and none are proposed (2001 - £nil). A reconciliation of the movements in shareholders' funds is given in note 13.

Directors

The directors who served during the whole year were as follows:

Dr. W. Stofer (Chairman)

Neil C Wharton

Michael C Kreeft (Resigned 10/01/2003)

Gerald Rona (Appointed 10/01/2003)

No director held any beneficial interest in the share capital of group companies during the year.

Policy on payment of creditors

The company agrees terms and conditions for business transactions with all its suppliers. Payment is made on these terms provided the supplier meets its obligations. The company does not follow any code or standard on payment practice.

Auditors

In accordance with S385 of the Companies Act 1985 a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General meeting. During the year, the Company's auditors transferred their business to a limited liability partnership, KPMG LLP. Accordingly on the resignation of KPMG, the directors appointed KPMG LLP to fill the vacancy arising.

By order of the Board



Gillian Woolley
Secretary
11th April 2003

BMW (UK) Capital plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as is reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

BMW (UK) Capital plc

Independent auditors' report to the members of BMW (UK) Capital plc

We have audited the financial statements on pages 4 to 18.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditors
Reading

30-04-03

BMW (UK) Capital plc**PROFIT AND LOSS ACCOUNT****For the year ended 31 December 2002**

	<u>Notes</u>	<u>Year ended</u> <u>31 December 2002</u>		<u>Year ended</u> <u>31 December 2001</u>	
		£'000	£'000	£'000	£'000
				As restated	
Interest receivable	1		106,434		162,880
Interest payable	2		<u>(100,652)</u>		<u>(157,040)</u>
Gross profit			5,782		5,840
Administrative expenses		(580)		(572)	
Other operating income		7,379		20,513	
Other operating expenses		<u>(7,222)</u>		<u>(20,158)</u>	
			<u>(423)</u>		<u>(217)</u>
Operating profit and profit on ordinary activities before taxation	3-6		5,359		5,623
Tax on profit on ordinary activities	7		<u>0</u>		<u>38</u>
Profit for the financial year	13		<u><u>5,359</u></u>		<u><u>5,661</u></u>

There are no gains or losses other than those shown in the above profit and loss account. All gains and losses derive from continuing operations.

There is no difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

BMW (UK) Capital plc

BALANCE SHEET

As at 31 December 2002

	Notes	2002 £'000	2001 £'000
CURRENT ASSETS			
Debtors	8	1,587,804	1,778,177
Cash and short term deposits	9	74,574	284,793
		<u>1,662,378</u>	<u>2,062,970</u>
CREDITORS: Amounts falling due within one year			
	10	<u>(624,407)</u>	<u>(912,517)</u>
NET CURRENT ASSETS:			
Due within one year		801,471	1,047,445
Debtors due after one year	8	<u>236,500</u>	<u>103,008</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,037,971	1,150,453
CREDITORS: Amounts falling due after more than one year			
	10	<u>(953,043)</u>	<u>(1,070,884)</u>
NET ASSETS			
		<u>84,928</u>	<u>79,569</u>
CAPITAL AND RESERVES			
Called up share capital	12	281	281
Share premium account	13	57,568	57,568
Profit and loss account	13	27,079	21,720
SHAREHOLDERS' FUNDS - EQUITY			
	13	<u>84,928</u>	<u>79,569</u>

The financial statements were approved by the Board of directors on 11th April 2003 and were signed on their behalf by:

Dr W Stofer - Director (Chairman)



BMW (UK) Capital plc

ACCOUNTING POLICIES

For the year ended 31 December 2002

Accounting policies have been consistently applied, except for gains on Foreign Exchange Contracts which are now presented within interest receivable (see note 1), interest payable on other loans is now separately identified (see note 2) and the introduction of FRS19 (see note 7). The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash flow statement

Under Financial Reporting Standard 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking and the ultimate parent undertaking includes the company's cash flow in its own consolidated financial statements which are publicly available (see note 17).

Interest

Interest payable/receivable is accrued over the term of the related borrowing/loan so as to recognise the total cost/income evenly over the life of the loan.

Taxation

The company has adopted FRS 19 during the year. The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

Risk Management

The BMW AG Board sets the objectives and policies for financial risk management, which are consistent with the formal procedures, and policies operated by the company to cover banking, foreign exchange and other treasury matters. The company's policy is not to trade or speculate in financial instruments.

Interest Rate Risk

The company manages BMW UK Group companies' interest rate risks primarily through utilising interest rate swaps.

Currency Risk

The company manages BMW UK Group companies' currency risks primarily through utilising forward contracts.

BMW (UK) Capital plc

Credit Risk

A large number of major international financial institutions are counter parties to the interest rate swaps, foreign exchange contracts and borrowings transacted by the company. The company continually monitors its position to ensure that it stays within credit exposure limits set by BMW AG.

Financial Instruments

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Discounts and premiums are charged or credited to the profit and loss account over the life of the asset or liability to which they relate.

Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument.

Foreign Currencies

Transactions in foreign currencies are converted at the rates prevailing at the date of transaction. Monetary assets and liabilities are translated at the rates ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Foreign currency assets and liabilities covered by forward contracts are translated at contract rates of exchange.

BMW (UK) Capital plc

Notes to the Financial Statements

1	INTEREST RECEIVABLE	<u>2002</u>	<u>2001</u>
		£'000	£'000
			As restated
	Interest from short-term deposits	20,418	24,357
	Interest receivable from group undertakings	78,469	136,545
	Exchange gains receivable on FX Contracts	7,547	1,978
		<u>106,434</u>	<u>162,880</u>

In 2001 exchange gains receivable on FX Contracts hedging a foreign deposit, were not separately identified. Management has included this analysis to improve comparability.

2	INTEREST PAYABLE	<u>2002</u>	<u>2001</u>
		£'000	£'000
			As restated
	Interest on bank loans/overdrafts	10,000	15,000
	Interest on other loans	63,421	117,560
	Interest payable to group undertakings	27,231	24,480
		<u>100,652</u>	<u>157,040</u>

In 2001 interest payable on other loans was not separately identified. Management has included this analysis to improve comparability.

BMW (UK) Capital plc

Notes to the Financial Statements continued

- 3 An analysis of interest receivable and financial receivables by geography is as follows:

	<u>UK</u> £'000	<u>US</u> £'000	<u>Total</u> £'000
Interest receivable	<u>92,197</u>	<u>14,237</u>	<u>106,434</u>
Financial receivables	<u>1,432,686</u>	<u>154,914</u>	<u>1,587,600</u>

The company's operations are funded entirely in the UK. Management has not analysed the interest payable or the company's net assets by geography, as it believes that this would give a distorted view of the company's operations.

BMW (UK) Capital plc

Notes to the Financial Statements continued

4	OPERATING PROFIT	<u>2002</u>	<u>2001</u>
		£'000	£'000
	Operating profit is stated after charging:		
	Auditors' remuneration - audit	<u>25</u>	<u>15</u>

5 DIRECTORS' EMOLUMENTS

None of the Directors were entitled to or received any emoluments in respect of their services to the company during the period (2001 - £nil).

6	STAFF COSTS	<u>2002</u>	<u>2001</u>
		number	number
	Staff numbers	<u>7</u>	<u>6</u>

	<u>2002</u>	<u>2001</u>
	£'000	£'000
Payroll Costs	<u>352</u>	<u>325</u>

The company's staff have contracts of employment with BMW (UK) Manufacturing Ltd., and have therefore not been included as employees within these accounts. Payroll costs shown above represent a recharge from BMW (UK) Manufacturing Ltd.

BMW (UK) Capital plc

Notes to the Financial Statements continued

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the period	<u>2002</u> £'000	<u>2001</u> £'000
UK corporation tax		
Adjustments in respect of prior periods	0	(38)
	<hr/>	<hr/>
Total current tax	0	(38)
	<hr/>	<hr/>
Tax on profit on ordinary activities	<u>0</u>	<u>(38)</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2001:lower) than the profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%, 2001:30%). The differences are explained below.

	<u>2002</u> £'000	<u>2001</u> £'000
Current tax reconciliation		
Profit on ordinary activities before tax	<u>5,359</u>	<u>5,623</u>
Current tax at 30% (2001 : 30%)	1,608	1,687
Effects of:		
Group relief	(1,608)	(1,687)
Adjustments in respect of prior years	0	(38)
	<hr/>	<hr/>
Total current tax charge (see above)	<u>0</u>	<u>(38)</u>

Factors that may affect future tax charges

Future current tax charges are anticipated to be lower than profits on ordinary activities multiplied by the standard rate of corporation tax due to the surrender to the company of current tax losses of other group companies for which payment is not required.

The company has no deferred tax assets or liabilities (2001 - £nil).

BMW (UK) Capital plc

Notes to the Financial Statements continued

8 DEBTORS

	<u>2002</u>	<u>2001</u>
	£'000	£'000
Amounts owed by group undertakings		
Due within one year	1,351,100	1,672,907
Due after one year	236,500	103,008
Other debtors		
Due within one year	204	2,262
Due after one year	-	0
	<u>1,587,804</u>	<u>1,778,177</u>

9 CASH AND SHORT TERM DEPOSITS

Cash and deposits comprise sterling deposits placed on the London money markets. The sterling deposits were yielding a weighted average interest rate of 4.6875% as at 31 December 2002.

BMW (UK) Capital plc**Notes to the Financial Statements continued****10 CREDITORS:****Analysis by maturity**

	31 December 2002				
	Bank Loans/ Overdrafts £'000	Other Loans £'000	Accruals/ Deferred Income £'000	Group Companies £'000	Total £'000
Due within one year	0	117,841	9,238	497,328	624,407
Due after one year	250,000	703,043	-	-	953,043
Analysed as :					
After five years	-	100,000	-	-	100,000
From two to five years	50,000	149,847	-	-	199,847
From one to two years	200,000	453,196	-	-	653,196

The company has one loan of £100m, with an interest rate of 6.375%, maturing on 22 May 2009. The company has entered into a three month Libor interest rate swap against this instrument.

	31 December 2001				
	Bank Loans/ Overdrafts £'000	Other Loans £'000	Accruals/ Deferred Income £'000	Group Companies £'000	Total £'000
Due within one year	79,724	222,054	14,180	596,559	912,517
Due after one year	250,000	820,884	0	-	1,070,884
Analysed as :					
After five years	0	100,000	0	-	100,000
From two to five years	250,000	603,043	0	-	853,043
From one to two years	0	117,841	0	-	117,841

BMW (UK) Capital plc

Notes to the Financial Statements continued

10 CREDITORS: (Cont)

Analysis by currency

Bank Loans, Overdrafts, Other Loans and Group Companies		Weighted Int Rate	Average Yrs Fixed	2002 £'000
Sterling	Fixed Borrowings	6.125%	2.9	149,512
	Floating Borrowings			1,418,700
				<u>1,568,212</u>

The floating-rate borrowings are related to GBP LIBOR.

BMW Group has entered into two committed credit facilities totalling US\$5 billion, BMW (UK) Capital plc can draw under them. The facilities mature as follows :

Less than one year	US\$ 1.5 billion
Less than two years	US\$ 2 billion
More than two years	US\$ 1.5 billion

BMW (UK) Capital plc

Notes to the Financial Statements continued

11 HEDGING & FAIR VALUES

	Gains £'000	Losses £'000	£'000
Unrecognised gains and losses on hedges at 1st January 2002.	246,212	244,622	1,590
Gains and losses arising in previous years that were recognised in 2002.	184,267	179,861	4,406
Gains and losses arising before 1st Jan 2002 that were not recognised in 2002.	61,945	64,761	(2,816)
Gains and losses arising in 2002 that were not recognised in 2002.	40,759	38,391	2,368
Unrecognised gains and losses on hedges at 31st December 2002.	<u>102,704</u>	<u>103,152</u>	<u>(448)</u>
Of which :			
Gains and losses expected to be recognised in 2003	26,480	41,048	(14,568)
Gains and losses expected to be recognised in 2004 or later	76,224	62,104	14,120

The company provides a treasury service to the BMW (UK) Group.

As part of this service, the company enters into financial derivatives with group internal counter parties. All instruments entered into are immediately hedged directly with the financial market, without taking any margin. The company also uses financial instruments for its own purposes, in order to secure a matched funding position on its receivables and liabilities. The instruments used have predominantly been Interest Rate Swaps and Foreign Exchange Contracts.

During 2002 the company has issued deposits to BMW (US) Capital LLC, rolling on a monthly basis. The company hedges this instrument with a foreign exchange contract, in order to hedge against foreign exchange rate risk.

The company also issues fixed rate deposits to group internal counter parties. In order to secure a matched funding position, the company enters into interest rate swaps, to hedge against interest rate risk.

These instruments are used on an on going basis, whilst any risk exists.

BMW (UK) Capital plc

Notes to the Financial Statements continued

11 HEDGING & FAIR VALUES (Cont)

Set out below is a year-end comparison of the book value and current fair value of the company's financial instruments by category.

	Book Value <u>2002</u> £'000	Fair Value <u>2002</u> £'000	Book Value <u>2001</u> £'000	Fair Value <u>2001</u> £'000
Cash, Deposits	74,574	74,576	284,793	284,707
Short-term debtors	1,340,786	1,342,685	1,675,169	1,661,268
Long-term debtors				
Floating Rate	236,500	240,021	103,008	103,228
Short-term borrowings	(496,402)	(496,767)	(676,284)	(673,642)
Long-term borrowings				
Floating Rate	(921,372)	(912,872)	(1,022,092)	(1,002,576)
Fixed Rate	(149,512)	(157,267)	(270,845)	(267,683)
Derivative financial instruments				
Interest rate swaps	-	18,050	-	11,434
Forward foreign currency contracts	-	3,048	-	4,024
Cross currency swaps	-	(21,546)	-	(9,844)

Fair values are determined by using the company's Treasury Management System. This system incorporates relevant & 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 above described calculation method is approved by the BMW Group's auditors.

	Weighted Int Rate	Average Yrs Fixed	<u>2002</u> £'000
Fixed Borrowings	6.125%	2.9	149,512
Floating Borrowings			<u>1,418,700</u>
			<u>1,568,212</u>
Interest rates on floating-rate deposits are related to GBP LIBOR.			
Fixed Deposits	4.94%	1.4	331,500
Floating Deposits			<u>1,256,304</u>
			<u>1,587,804</u>

Of the £331.5m fixed deposits, £182.5m has been swapped to a floating interest rate based on GBP Libor.

Interest rates on floating-rate deposits are related to GBP LIBOR.

Notes to the Financial Statements continued

12 CALLED UP SHARE CAPITAL

Ordinary shares of £1 each

	<u>2002</u>	<u>2001</u>
Authorised	<u>10,000,000</u>	<u>10,000,000</u>
Allotted, called up and fully paid	<u>281,000</u>	<u>281,000</u>

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital £'000	Share Premium £'000	Profit and Loss £'000	Total £'000
At 1 January 2002	281	57,568	21,720	79,569
Profit for the financial year	-	-	5,359	5,359
At 31 December 2002	<u>281</u>	<u>57,568</u>	<u>27,079</u>	<u>84,928</u>

14 CAPITAL COMMITMENTS

No capital commitments existed as at 31 December 2002 (2001 - £nil).

15 CONTINGENT LIABILITIES AND COMMITMENTS

The company acts as guarantor for lease amounts totalling £272m (2001 - £373m) which have been taken out by group companies, of this amount £270m (2001 - £371m) is reguaranteed by BMW AG.

16 RELATED PARTY DISCLOSURES

In accordance with Financial Reporting Standard 8, transactions between group companies where there is a controlling interest of more than 90% have not been disclosed. There have been no other related party transactions during the period.

BMW (UK) Capital plc

Notes to the Financial Statements continued

17 ULTIMATE PARENT COMPANY

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

The ultimate parent company is Bayerische Motoren Werke Aktiengesellschaft, which is incorporated in Germany.

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