

BMW (UK) Capital plc

**Directors' report and financial
statements**

Registered number 3114356

31 December 2005



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Directors' report

The directors present their report and financial statements for the year ended 31 December 2005.

Principal activities

The principal activity of the company is to raise funds in the financial markets for use by BMW Group companies. The company manages UK BMW Group companies' financial risks, primarily by entering into derivatives. The company acts as a guarantor for UK BMW Group companies and provides all treasury services as required.

Business review

The level of business during the year and the year end financial position were satisfactory. The directors expect that the level of business activity will be maintained for the foreseeable future.

The profit for the year is shown in the income statement on page 5.

Research and development

The company does not carry out any research and development.

Financial instruments

The company provides a treasury service to the BMW UK Group. As part of this service, the company enters into financial derivatives with group counterparties. Opposite instruments are entered into, 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 and to hedge against interest rate risk and future cash flow risk on recognised assets and liabilities. The instruments used have predominantly been interest rate swaps, cross currency swaps, foreign exchange contracts and foreign exchange option contracts. These instruments are used on an on going basis, in order to reduce, to an acceptable level, the majority of risk.

Credit risk is managed according to BMW Group guidelines. The company continually monitors its position to ensure it stays within the credit exposure limits set by BMW AG. Liquidity risk is also managed according to BMW Group guidelines. The company maintains credit line facilities with various banks, both directly and through its participation in a multi-currency revolving credit facility guaranteed by BMW AG.

Proposed dividend

No dividends were paid in 2005 (2004: £nil) and none are proposed. A reconciliation of the movements in shareholders' funds is given in note 17.

Policy and practice 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. The company had no trade creditors at the year end (2004: nil).

Directors' report *(continued)*

Directors and directors' interests

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

Dr Wolfgang Stofer (resigned 6 June 2005)
Dr Frank Stenner (appointed 6 June 2005)
Neil C Wharton
Gerald Rona (resigned 21 March 2005)
Ulrich Hurmer (appointed 21 March 2005 and resigned 31 December 2005)
Matthew Todd (appointed 1 January 2006)

According to the register of directors' interests, no director held either any beneficial interest in the shares or debentures of BMW Group companies during the year, or had any right to subscribe for shares or debentures of BMW Group companies.

Employees

The company's staff have contracts of employment with BMW (UK) Manufacturing Ltd and therefore are not included as employees within these accounts.

Political and charitable contributions

The company made no political or charitable contributions during the year (2004: nil).

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, 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 the 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

In accordance with Section 384 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.

By order of the board


Gillian Woolley
Secretary

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

28 June 2006

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

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU.

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

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

Under applicable law, the directors are also responsible for preparing a Directors' Report that complies with that law.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Report of the independent auditors to the members of BMW (UK) Capital plc

We have audited the financial statements of BMW (UK) Capital plc for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 3.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been 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 other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

28/06/08

KPMG LLP
Chartered Accountants
Registered Auditors

Income statement
for the year ended 31 December 2005

	<i>Note</i>	2005 £000	2004 £000
Interest receivable and similar income	2	112,469	107,424
Foreign exchange gains		36,244	18,924
Fair value gains on financial instruments and derivatives		170,885	200,726
Revenue		319,598	327,074
Interest payable	3	(101,412)	(99,230)
Foreign exchange losses		(37,950)	(19,056)
Fair value losses on financial instruments and derivatives		(171,862)	(202,577)
Finance costs		(311,224)	(320,863)
Financial income		8,374	6,211
Administrative expenses	4	(387)	(434)
Profit before tax		7,987	5,777
Taxation	6	(2,396)	(1,733)
Profit for the year		5,591	4,044

The above results relate wholly to continuing operations.

Balance sheet
at 31 December 2005

	Note	2005 £000	2004 £000
Non-current assets			
Deferred tax	7	677	1,317
Receivables from BMW Group companies	8	755,000	542,500
Derivative assets	9	17,847	91,670
		<hr/> 773,524	<hr/> 635,487
Current assets			
Receivables from BMW Group companies	8	1,575,188	1,381,554
Derivative assets	9	31,573	57,902
Other financial assets	10	12,190	12,753
Cash and cash equivalents	11	31,634	9,500
		<hr/> 1,650,585	<hr/> 1,461,709
Total assets		<hr/> 2,424,109	<hr/> 2,097,196
Current liabilities			
Bank overdraft	11	7	189
Bank loans		-	50,000
Commercial paper	12	4,991	179,249
Medium term notes	13	147,326	240,471
Loans from BMW Group companies	14	1,748,386	1,152,216
Derivative liabilities	15	29,267	57,084
Other financial liabilities	16	6,488	4,505
Tax payable		2,053	2,255
		<hr/> 1,938,518	<hr/> 1,685,969
Non-current liabilities			
Medium term notes	13	369,265	230,899
Derivative liabilities	15	16,583	86,176
		<hr/> 385,848	<hr/> 317,075
Total liabilities		<hr/> 2,324,366	<hr/> 2,003,044
Net assets		<hr/> 99,743	<hr/> 94,152
Equity shareholder's funds			
Share capital	17	281	281
Share premium	17	57,568	57,568
Retained earnings	17	41,894	36,303
Total equity		<hr/> 99,743	<hr/> 94,152

These financial statements were approved by the board of directors on 28 June 2006 and were signed on its behalf by:



N C Wharton
Director

Cash flow statement
for the year ended 31 December 2005

	<i>Note</i>	2005 £000	2004 £000
Cash flows from operating activities			
Profit for the year		5,591	4,044
Net change in fair value of financial instruments		977	1,851
Unrealised foreign exchange losses/(gains)		3,325	(96)
Current and non current tax		2,396	1,733
Other non cash items		153	167
		<hr/> 12,442	<hr/> 7,699
Changes in operating assets and liabilities			
(Increase)/decrease in receivables from BMW Group companies		(406,161)	1,009,377
Increase in other financial assets		563	6,256
Net increase in fair value of derivatives		4,781	19,846
(Increase)/decrease in other financial liabilities		1,983	(6,041)
Income taxes paid		(1,958)	-
		<hr/>	<hr/>
Cash flow from operating activities		(388,350)	1,037,137
		<hr/>	<hr/>
Cash flow from investing activities		-	-
		<hr/>	<hr/>
Cash flows from financing activities			
Increase in loans from BMW Group companies		592,872	239,897
Repayment of bank loans		(50,000)	(202,600)
Decrease in commercial paper		(174,258)	(915,855)
Increase/(decrease) in medium term notes and bonds		42,052	(259,629)
		<hr/>	<hr/>
Net cash flow from financing activities		410,666	(1,138,187)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		22,316	(101,050)
Cash and cash equivalents at 1 January		9,311	110,361
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	<i>11</i>	<hr/> 31,627	<hr/> 9,311

Statement of changes in equity
for the year ended 31 December 2005

	Share capital £000	Share premium £000	Retained earnings £000	Total £000
At 1 January 2004	281	57,568	32,259	90,108
Profit for the year	-	-	4,044	4,044
At 31 December 2004	281	57,568	36,303	94,152
Balance at 1 January 2005	281	57,568	36,303	94,152
Profit for the year	-	-	5,591	5,591
At 31 December 2005	281	57,568	41,894	99,743

A reconciliation of the movement in capital and reserves is shown in note 17.

Notes

(forming part of the financial statements)

1 Accounting policies

BMW (UK) Capital plc (the "Company") is a company incorporated in the UK.

Statement of compliance

The Company is preparing its financial statements in accordance with IFRS as adopted for use in the EU ("adopted IFRSs") for the first time and consequently has applied IFRS 1. An explanation of how the transition to adopted IFRSs has affected the reported financial position, financial performance and cash flows is provided in note 23. The company has not taken any IFRS 1 exemptions as none are applicable to it.

Basis of preparation

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as fair value through profit or loss.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to adopted IFRSs.

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.

Financial instruments

All financial instruments are recorded on the settlement date.

Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, 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.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item.

Notes (continued)

1 Accounting policies (continued)

Loans and other receivables

Loans and other receivables are measured at amortised cost less impairment losses. On the transition to IFRS, the fair value of receivables in the balance sheet as at 1 January 2004 was adjusted to reflect the difference between amortised cost and fair value of receivables previously hedged by interest rate swaps under a fair value hedging relationship, which qualified for hedge accounting under UK GAAP but not under IFRS. This adjustment was amortised over the remaining average life of the receivables hedged in this way.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost less attributable transaction costs, which is equivalent to the fair value of the consideration given. Subsequent to initial recognition, interest-bearing borrowings, except for certain medium term notes, are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Medium term notes issued in a currency other than sterling have been designated at initial recognition as being held at fair value through profit or loss. Subsequent measurement is described under "Fair value hedges" above.

Revenue

Revenue comprises interest receivable on loans to BMW Group companies and deposits with banks, fair value gains on financial instruments (including derivatives) and foreign exchange gains. Interest income is recognised in the income statement as it accrues, calculated on a daily basis on the amounts outstanding, using the effective interest rate for each transaction.

Interest

Interest payable and interest receivable are due to funds borrowed and invested. Interest income and interest payable are recognised in the income statement as they accrue, calculated on a daily basis on the amounts outstanding.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. 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.

Segmental analysis

In accordance with IAS 14, the Company presents segmental information. Segment information is presented in respect of the Company's geographical segments, due to the fact that the Company's business consists only of financing and treasury activities. The customers of the Company are based in UK and Europe. Note 2 gives an overview of interest income and note 8 an overview of receivables by geographical segment. Finance costs are all incurred in the UK so it is not practicable to present segment results by location of customers.

Notes (continued)

2 Interest receivable

	2005 £000	2004 £000
Interest from short-term deposits	1,825	9,952
Interest receivable from BMW Group companies	110,426	97,234
Premium received	218	238
	<hr/>	<hr/>
	112,469	107,424
	<hr/>	<hr/>
<i>By geographical segment</i>	2005 £'000	2004 £'000
UK	111,861	104,578
Rest of Europe	608	2,846
	<hr/>	<hr/>
	112,469	107,424
	<hr/>	<hr/>

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

3 Interest payable

	2005 £000	2004 £000
Interest on bank loans/overdrafts	721	11,196
Interest payable to BMW Group companies	64,139	50,586
Interest on other loans	36,180	37,043
Commission paid	372	405
	<hr/>	<hr/>
	101,412	99,230
	<hr/>	<hr/>

The reduction in interest on bank loans/overdrafts is due to maturity of bank loans in December 2004 and March 2005 and no replacement bank loans being taken.

Notes (continued)

4 Administration expenses

Administration expenses include auditors' remuneration:

	2005 £000	2004 £000
Audit	25	20

5 Staff numbers and costs

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

The staff working on behalf of the company belong to the BMW (UK) Operations Pension Scheme and the costs are included in the recharge from BMW (UK) Manufacturing Ltd. All appropriate accounting disclosures are made within the accounts of BMW (UK) Holdings Ltd.

Costs for the services of one director were recharged to the company during the year. The aggregate amount charged to the company in respect of this director's services was £119,000 (2004: £nil).

The average number of persons working on behalf of the company during the year was as follows:

	Number of employees	
	2005	2004
Staff numbers	4	5

The aggregate recharges for these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	223	263
Social security costs and pension recharges	46	52
	269	315

Notes *(continued)*

6 Taxation

Recognised in the income statement

	2005 £000	2004 £000
Current year tax expense	1,756	2,255
Deferred tax expense/(income)	640	(522)
Total tax in income statement	2,396	1,733

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

	2005 £000	2004 £000
Profit before tax	7,987	5,777
Tax using the UK corporation tax rate of 30% (2004: 30%)	2,396	1,733
Total tax in income statement	2,396	1,733

Notes (continued)

7 Deferred tax

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2005 £000	2004 £000
Temporary differences on market values of financial instruments and derivatives	677	1,317
Net deferred tax assets	<u>677</u>	<u>1,317</u>

Movement in deferred tax during the year

	1 January 2005 £000	Recognised in income £000	31 December 2005 £000
Temporary differences on market values of financial instruments and derivatives	1,317	(640)	677
	<u>1,317</u>	<u>(640)</u>	<u>677</u>

Movement in deferred tax during the prior year

	1 January 2004 £000	Recognised in income £000	31 December 2004 £000
Temporary differences on market values of financial instruments and derivatives	795	522	1,317
	<u>795</u>	<u>522</u>	<u>1,317</u>

Notes (continued)

8 Receivables from BMW Group companies

Financial receivables from related parties at the year end included £2,330,188,000 (2004: £1,924,054,000) of unsecured interest bearing loans, which the company expects to be settled in cash, which may be analysed as follows:

	2005 Currency'000	2004 Currency'000
<i>Non current</i>		
Receivables from fellow subsidiaries	GBP 755,000	GBP 542,500
<i>Current</i>		
Receivables from immediate parent company	-	GBP 4,414
Receivables from fellow subsidiaries	GBP 1,566,263	GBP 1,337,864
Receivables from fellow subsidiaries	EUR 13,079	EUR 55,451

Financial receivables analysed by geographical segment are as follows:

	2005 £'000	2004 £'000
UK	2,319,982	1,884,828
Rest of Europe	10,206	39,226
	<u>2,330,188</u>	<u>1,924,054</u>

The following details apply to the receivables from BMW Group companies at 31 December 2005:

Interest	Volume in relevant currency	Weighted average maturity period	Weighted average effective interest rate (in %)
Fixed	GBP 2,321 million	17 months	4.9
Fixed	EUR 13 million	7 days	2.6

9 Derivative assets

	2005 £000	2004 £000
<i>Non-current</i>		
Interest derivatives with related parties	4,859	2,575
Interest derivatives with non-related parties	5,659	6,915
Currency derivatives with non-related parties	7,329	82,180
	<u>17,847</u>	<u>91,670</u>
<i>Current</i>		
Interest derivatives with related parties	98	195
Interest derivatives with non-related parties	163	793
Currency derivatives with related parties	2,955	-
Currency derivatives with non-related parties	28,357	56,914
	<u>31,573</u>	<u>57,902</u>

Notes (continued)

9 Derivative assets (continued)

Derivative contracts are entered into with related parties in order to manage their financial risks and without taking a margin, as described in note 18. The fair values of those derivative assets shown above transacted with related parties are entirely with fellow subsidiaries.

10 Other financial assets

Other financial assets comprise:

	2005 £000	2004 £000
Accrued interest receivable	12,115	12,752
Other	75	1
	<hr/> 12,190	<hr/> 12,753
	<hr/>	<hr/>

11 Cash and cash equivalents/bank overdrafts

	2005 £000	2004 £000
Cash and cash equivalents per balance sheet	31,634	9,500
Bank overdrafts	(7)	(189)
	<hr/> 31,627	<hr/> 9,311
	<hr/>	<hr/>

Notes (continued)

12 Commercial paper

The following details apply to commercial paper:

Issue volume in relevant currency	Weighted average maturity period (in days)	Weighted average nominal interest rate (in %)
GBP 5 million	13	4.6

13 Medium term notes

	2005 £000	2004 £000
Non current		
Medium term notes classified as fair value through profit or loss	369,265	230,899
	<hr/>	<hr/>
Current		
Medium term notes classified as fair value through profit or loss	87,326	10,471
Medium term notes held at amortised cost	60,000	230,000
	<hr/>	<hr/>
	147,326	240,471
	<hr/>	<hr/>

Medium term notes comprise:

Interest	Issue volume in relevant currency	Weighted average maturity period (in years)	Weighted average effective interest rate (in %)
Variable	EUR 375 million	2.3	2.3
Variable	GBP 60 million	1.0	4.6
Variable	JPY 8,800 million	2.0	0.1
Fixed	GBP 150 million	7.0	6.0

Notes (continued)

14 Loans from BMW Group companies

Loans from BMW Group companies at the year end included £1,748,386,000 (2004: £1,152,216,000) of unsecured interest bearing loans, which the company expects to be settled in cash:

	2005 Currency'000	2004 Currency'000
Loans from ultimate parent company	EUR 525,190	GBP 10,000
Loans from immediate parent company	GBP 4,550	-
Loans from fellow subsidiaries	GBP 1,296,527	GBP 1,095,089
Loans from fellow subsidiaries	EUR 126,997	EUR 66,535

The following details apply to the loans from BMW Group companies at 31 December 2005:

Interest	Volume in relevant currency	Weighted average maturity period (in days)	Weighted average effective interest rate (in %)
Fixed	EUR 652 million	21	2.5
Fixed	GBP 1,301 million	57	4.4

15 Derivative liabilities

	2005 £000	2004 £000
Non-current		
Interest derivatives with related parties	381	1,471
Interest derivatives with non-related parties	8,558	5,390
Currency derivatives with related parties	6,037	78,998
Currency derivatives with non-related parties	1,607	317
	<u>16,583</u>	<u>86,176</u>
Current		
Interest derivatives with related parties	39	51
Interest derivatives with non-related parties	817	213
Currency derivatives with related parties	24,067	56,820
Currency derivatives with non-related parties	4,344	-
	<u>29,267</u>	<u>57,084</u>

Derivative contracts are entered into with these parties in order to manage their financial risks and without taking a margin, as described in note 18. The fair values of those derivative liabilities shown above transacted with related parties are entirely with fellow subsidiaries.

Notes (continued)

16 Other financial liabilities

Other financial liabilities comprise:

	2005 £000	2004 £000
Accrued interest payable	6,323	4,370
Other	165	135
	<u>6,488</u>	<u>4,505</u>

17 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Retained earnings £000	Total £000
Balance at 1 January 2004	281	57,568	32,259	90,108
Total recognised income and expense	-	-	4,044	4,044
	<u>281</u>	<u>57,568</u>	<u>36,303</u>	<u>94,152</u>
Balance at 31 December 2004	281	57,568	36,303	94,152
	<u>281</u>	<u>57,568</u>	<u>36,303</u>	<u>94,152</u>
Balance at 1 January 2005	281	57,568	36,303	94,152
Total recognised income and expense	-	-	5,591	5,591
	<u>281</u>	<u>57,568</u>	<u>41,894</u>	<u>99,743</u>
Balance at 31 December 2005	281	57,568	41,894	99,743

Share capital

	2005 £000	2004 £000
<i>Authorised</i>		
Ordinary shares of £1 each	10,000	10,000
	<u>10,000</u>	<u>10,000</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	281	281
	<u>281</u>	<u>281</u>
Shares classified in shareholders funds	281	281
	<u>281</u>	<u>281</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 (2004: nil).

Notes (continued)

18 Financial instruments

The company provides a treasury service to the BMW UK Group. As part of this service, the company enters into financial derivatives with group counterparties. Opposite instruments are entered into, 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 and to hedge against interest rate risk. The instruments used have predominantly been Interest Rate Swaps, Foreign Exchange Contracts and Foreign Exchange Option Contracts. These instruments are used on an ongoing basis, in order to reduce, to an acceptable level, the majority of risk.

Credit risk

Credit risk is managed according to BMW Group guidelines. Deposits are made, without any collateral as security, to other BMW Group companies and to regulated banks. A large number of major international financial institutions are counter parties to the interest rate swaps, foreign exchange contracts and deposits transacted by the company. The company continually monitors its position to ensure that it stays within the credit exposure limits set by BMW AG.

Liquidity risk

The company maintains uncommitted money market facilities with a number of international banks to support its activities. The company is also party to a committed USD 8 billion multi-currency revolving credit facility guaranteed by BMW AG. No drawings had been made under this facility as at 31 December 2005 (2004: nil drawings under a comparable facility).

Interest rate risk

The company manages BMW UK Group companies' currency risks primarily through utilising interest rate swaps. The company also utilises interest rate swaps to manage its own interest rate risk. Management believes that the interest rate swaps entered into by the company constitute an economic hedge against interest rate risk, but one that does not qualify for hedge accounting treatment under IAS 39. The calculation of the fair values of interest rate swaps is described below.

Foreign currency risk

The company manages BMW UK Group companies' currency risks primarily through utilising forward contracts and foreign exchange swaps. The company also utilise foreign exchange swaps and cross-currency swaps to hedge its own exposures on foreign currency loans.

Calculation of fair values

Fair values of financial instruments (derivatives and non-derivative instruments) are determined by using the company'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 receivables from and loans from BMW Group companies are shown in the table below:

	2005		2004	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Receivables from BMW Group companies				
Non current	755,000	762,833	542,500	547,512
Current	1,575,188	1,576,204	1,381,554	1,383,404
	<u>2,330,188</u>	<u>2,339,037</u>	<u>1,924,054</u>	<u>1,930,916</u>
Loans from BMW Group companies	<u>1,748,386</u>	<u>1,747,911</u>	<u>1,152,216</u>	<u>1,151,954</u>

Notes (continued)

18 Financial instruments (continued)

The carrying amounts and fair values of medium term notes not carried at fair value are as follows:

	2005		2004	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Medium term notes not carried at fair value	60,000	59,998	230,000	231,526

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 2005		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					
Interest rate contracts	GBP 1,103,035	10,779	261	6,892	3,626
Currency hedge contracts	EUR 3,067,660	38,641	31,312	7,329	-
Liabilities					
Interest rate contracts	GBP 1,586,423	9,795	856	5,313	3,626
Currency hedge contracts	EUR 2,628,068	36,055	28,411	7,644	-
		<u>3,570</u>	<u>2,306</u>	<u>1,264</u>	<u>-</u>
31 December 2004		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					
Interest rate contracts	GBP 1,175,060	10,478	988	7,231	2,259
Currency hedge contracts	EUR 2,624,596	139,094	56,914	82,180	-
Liabilities					
Interest rate contracts	GBP 999,644	7,125	264	4,602	2,259
Currency hedge contracts	EUR 2,619,053	136,135	56,820	79,315	-
		<u>6,312</u>	<u>818</u>	<u>5,494</u>	<u>-</u>

19 Capital commitments

No capital commitments existed as at 31 December 2005 (2004 - £nil).

20 Contingencies and commitments

The company acts as guarantor for lease commitments, totalling £167m (2004 - £275m) which have been entered into by BMW Group companies. Of this, £165m (2004 - £272m) is re-guaranteed by BMW AG.

Notes (continued)

21 Related parties

The company provides treasury services to other subsidiaries of BMW AG. All transactions are carried out on an arm's length basis, with interest rates being set in line with market rates prevailing at the time at which the parties enter into each transaction.

As disclosed in note 20, the company has provided guarantees to related parties, of which the majority have been re-guaranteed by BMW AG. BMW AG has provided guarantees in relation to debt issued to third parties, for which the company pays guarantee fees to BMW AG.

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

BMW AG
BMW Holding BV
BMW (UK) Holdings Ltd
BMW Finance NV
BMW (UK) Ltd
BMW (P&A) Ltd
Park Lane Ltd
BMW Financial Services (GB) Ltd
BMW Leasing (GB) Ltd
Alphabet (GB) Ltd
BMW (UK) Manufacturing Ltd
BMW Services Ltd
BMW (UK) Investments Ltd
BMW Pensions Services Ltd
Midland Gears Ltd
Rolls-Royce Motor Cars Ltd
Rolls-Royce Motor Cars GmbH
BMW Hams Hall Motoren GmbH
BMW Automotive (Ireland) Ltd
Softlab Ltd

During the year, the company used office space provided by BMW (UK) Manufacturing Ltd, for which it paid a charge calculated on an arm's length basis. This charge is included in the income statement under Administrative expenses.

Notes *(continued)*

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.

Notes (continued)

23 Explanation of transition to adopted IFRSs

As stated in note 1, these are the company's first financial statements prepared in accordance with adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 31 December 2003, the company's date of transition.

In preparing its opening IFRS balance sheet, the company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to adopted IFRSs has affected the company's financial position, financial performance and cash flows is set out in the following table.

Reconciliation of net assets at 31 December 2003

	Note	£000
Net assets under UK GAAP at 31 December 2003		91,962
Fair value gain from interest rate derivatives	(i)	14,323
Fair value gain from foreign currency derivatives	(i)	167,522
Fair value loss from interest rate derivatives	(i)	(3,435)
Fair value loss from foreign currency derivatives	(i)	(160,210)
Foreign currency loss from year end revaluations	(ii)	(18,487)
Disapplication of hedge accounting under UK GAAP	(iii)	(2,362)
Deferred tax	(iv)	795
		(1,854)
Net assets at 31 December 2003		90,108

Reconciliation of profit for the year ended 31 December 2004

	Note	£000
Profit for the year under UK GAAP		5,262
Fair value gain from interest rate derivatives	(v)	34,863
Fair value gain from foreign currency derivatives	(v)	165,620
Foreign currency gain from year end revaluations	(vi)	225
Fair value loss from interest rate derivatives	(v)	(32,589)
Fair value loss from foreign currency derivatives	(v)	(169,987)
Foreign currency loss from year end revaluations	(vi)	(115)
Reversal of adjustment for disapplication of hedge accounting on transition to IFRS	(vii)	243
Movement in deferred tax	(viii)	522
		(1,218)
Profit for the year under IFRS		4,044

Notes (continued)

23 Explanation of transition to adopted IFRSs (continued)

Reconciliation of net assets at 31 December 2004

	Note	£000
Net assets under UK GAAP at 31 December 2004		97,224
Fair value gain from interest rate derivatives	(i)	10,478
Fair value gain from foreign currency derivatives	(i)	139,094
Fair value loss from interest rate derivatives	(i)	(7,125)
Fair value loss from foreign currency derivatives	(i)	(136,135)
Foreign currency loss from year end revaluations	(ii)	(8,582)
Disapplication of hedge accounting under UK GAAP	(iii)	(2,119)
Deferred tax	(iv)	1,317
		(3,072)
Net assets at 31 December 2004		94,152

- (i) In accordance with IFRS all derivative financial instruments have been recognised as assets or liabilities at fair value. The measurement of all derivatives at fair value has increased the net assets at 31 December 2003 by £18,200,000 and at 31 December 2004 by £6,312,000.
- (ii) The measurement of financial assets and liabilities at fair value has decreased the net assets at 31 December 2003 by £18,487,000 and at 31 December 2004 by £8,582,000.
- (iii) Net assets at 31 December 2003 have been reduced by £2,362,000 on the disapplication of hedge accounting under UK GAAP, in relation to receivables which had been hedged using interest rate swaps. Management believes that this constitutes an economic hedge but one that does not qualify for hedge accounting under IAS 39. The balance at 31 December 2004 was £2,119,000.
- (iv) A deferred tax asset of £795,000 has been recognised in relation to the adjustments referred to in notes (i), (ii) and (iii) as at 31 December 2003. At the 31 December 2004, the impact is £1,317,000.
- (v) All derivative financial instruments have been recognised as assets or liabilities at fair value. The measurement of all derivatives at fair value has reduced the profit for the year 2004 by £2,093,000 in comparison to UK GAAP.
- (vi) The measurement of financial assets and liabilities at fair value has increased the profit for the year 2004 by £110,000 in comparison with UK GAAP.
- (vii) The partial unwinding of the transitional adjustment referred to in note (iii) has resulted in an increase in the profit for the year 2004 of £243,000, compared to UK GAAP.
- (viii) A movement in deferred tax of £522,000 has been recognised in relation to the adjustments referred to in notes (v), (vi) and (vii).