

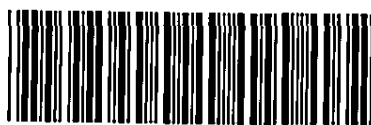
# **BMW (UK) Capital plc**

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

Registered number 3114356

31 December 2009

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## Directors' report

The directors present their report and financial statements for the year ended 31 December 2009

### Principal activities

The principal activity of the company is to raise funds in the financial markets and provide inter-company funding for BMW Group companies, principally but not exclusively BMW Group companies in the United Kingdom. The company manages UK BMW Group companies' financial risks, primarily by entering into financial derivatives. The company acts as a guarantor for UK BMW Group companies and provides all treasury services as required.

### Business review

The company's profit or loss arises principally from the net interest margin charged on deposits and borrowings as well as from the fair value gain or loss on derivative financial instruments. These derivatives are entered into in order to hedge the market risk to which the company is exposed when making deposits to BMW Group companies and taking up funds internally and on the capital markets. Since a number of these financial instruments do not qualify for fair value hedge accounting under International Financial Reporting Standards, the company is exposed to the volatility of changes in the fair values of such instruments in its income statement whereas the underlying items are shown at amortised cost. The management of the company believes that the instruments entered into nevertheless constitute an economic hedge of the company's risks.

The company, as part of the BMW Group, uses and continuously develops further a diversified and intelligent target debt structure to ensure its funding in the most efficient and cost effective manner. Due to the reputation and the credit rating of BMW Group the distortions on the capital markets and in the banking sector were manageable even in the stressed times since the second half of 2008.

Management believes that the key performance indicator of the company is profit or loss before taxation. The profit before taxation for the year ended 31 December 2009 amounted to £49.7 million (2008: loss before taxation £24.1 million). The net interest income achieved on operating activities resulted in a profit of £36.9 million (2008: profit £27.1 million). Profit before taxation for the year ended 31 December 2009 includes fair value gains of £13.4 million (2008: fair value losses £50.7 million) mainly relating to derivatives which, while economically hedging risk, do not qualify for fair value hedge accounting and therefore volatility is reflected in the profit or loss. Following on from the significant fair value losses accounted for in 2008, these gains partly off-set the fair value losses resulting from the declining yield curve at the short end in 2009. In spite of a portfolio which declined in the first half of 2009 (driven by the recession) and then stabilised, the underlying performance of the company improved mainly due to the optimisation of both the interest income and the interest expense.

A detailed description of the main risks facing the company and the instruments used to manage these risks is set out in note 18. The level of these risks at 31 December 2009 was acceptable and in line with BMW Group guidelines. The company's financial position at 31 December 2009 was satisfactory.

## **Directors' report** *(continued)*

### **Outlook**

The current economic and capital market environment continues to show a sustained level of high uncertainty about the development of interest rates and exchange rates in the light of the risks related to inflation and growth in the UK. The ongoing significant fiscal and monetary actions undertaken by governments and central banks in the UK and worldwide continue to contribute to the normalisation of the availability of liquidity and of (corporate) credit spreads as well as to support the economic recovery. The pace of the latter will be decisive for the development of the company's portfolio through the financial year 2010 which is presently forecast to grow moderately from the current level. However, the net interest income on operating activities is expected to decline gradually due to a reduced volatility of interest rates/credit spreads, higher funding costs and the effects upon the company's arm's length pricing. Furthermore, volatility in the fair market values of derivative instruments also following on from the significant fair value result in the past will continue to impact the profit before taxation of the company. In the light of the environment discussed above, the company believes that overall it will have a moderately declining underlying performance in the financial year 2010. The company's funding activities on the capital markets depend on the liquidity need of the BMW Group and its affiliates. The company expects to continue its current activities and no major changes in the organisation are expected.

### **Corporate governance Internal Control System**

The company is subject to the internal control system of the BMW Group which is aimed at ensuring the effectiveness of operations. It makes an important contribution towards ensuring compliance with applicable laws as well as providing assurance on the propriety and reliability of internal and external financial reporting. It is therefore a significant factor in the management of process risks. The principal features of the internal control system, as far as they relate to the financial reporting processes, are described below.

The principal features of the internal control system, as far as they relate to individual entity and Group financial reporting processes, are described below. The risk management system is an integral part of the internal control system and is therefore not referred to in this section.

#### *Information and communication*

One of the elements of the internal control system is the area of "Information and Communication", which ensures that all information necessary to achieve the objectives set for the internal control system is made available in an appropriate and timely manner to those responsible. The requirements relating to the provision of information relevant for financial reporting at the level of BMW AG, other consolidated Group entities and the BMW Group are primarily set out in organisational manuals, in guidelines covering internal and external financial reporting issues and in accounting manuals. These instructions, which can be accessed at all levels via the BMW Group's intranet system, provide the framework for ensuring that the relevant rules are applied consistently across the Group. The quality and relevance of these instructions is ensured by regular review as well as by continuous communication between the relevant departments.

#### *Organisational measures*

All financial reporting processes are structured in organisational terms in accordance with the principle of segregation of duties. These structures as well as rigorous application of the principle of dual control allow errors to be identified at an early stage and prevent potential wrongdoing. Regular comparison of internal forecasts and external financial reports improves the quality of financial reporting. The internal audit department serves as a process-independent function, testing and assessing the effectiveness of the internal control system and proposing improvements when appropriate.

#### *Controls*

Extensive controls are carried out by management in all financial reporting processes to ensure that legal requirements and internal guidelines are complied with and that all business transactions are properly executed. Controls are also carried out with the aid of IT applications, thus reducing the incidence of process risks.

## **Directors' report** *(continued)*

### **Corporate governance: Internal Control System (continued)**

#### *IT authorisations*

All IT applications used in financial reporting processes throughout the BMW Group are subject to access restrictions. As a result, only authorised persons can gain access on a controlled basis to systems and data, depending on the nature of the work being performed. In addition, IT processes are designed and authorisations allocated using the dual control principle, as a result of which, for instance, requests cannot be submitted and approved by the same person.

#### *Internal control training for employees*

All employees are appropriately trained to carry out their duties and kept informed of any changes in regulations or processes that affect them. Managers and staff also have access to detailed best-practice descriptions relating to risks and controls in the various processes, thus increasing risk awareness at all levels. As a consequence, the internal control system can be evaluated regularly and further improved as necessary. Employees can, at any time and independently, deepen their understanding of control methods and design using an information platform that is accessible groupwide.

#### *Evaluation of effectiveness of the internal control system*

Responsibilities for ensuring the effectiveness of the internal control system in relation to financial reporting processes are clearly defined and allocated to the relevant managers and process owners. The BMW Group assesses the design and effectiveness of the internal control system on the basis of internal review procedures on the one hand (e.g. management self-audits, internal audit findings) and the findings of external auditors on the other. Audits performed at regular intervals show that the internal control system in place throughout the BMW Group is both appropriate and effective. As a group entity the company is required to confirm regularly as part of its reporting duties that the internal control system is functioning properly.

### **Corporate governance: Risk management systems**

The company adheres to the BMW Group's risk management framework. Risk reporting is based on an integrated risk management approach. The risk management process comprises the early identification of risks and opportunities, their measurement and the use of suitable instruments to manage and monitor risks. The risk management system comprises a wide range of organisational and methodological components that are all finely tuned to each other. The Group reporting system provides decision makers with comprehensive, up-to-date information on performance against targets and on new developments with regard to the market and competitors. Risk management is viewed as a continuous process, given the fact that changes in the legal, economic or regulatory environment or those within the company itself could lead to new risks or to known risks being differently assessed. Standardised rules and procedures consistently applied throughout the BMW Group form the basis for an organisation that is permanently learning. By regularly sharing experiences with other companies, we ensure that innovative ideas and approaches flow into the risk management system and that risk management is subjected to continual improvement. Regular basic and further training as well as information events are invaluable ways of preparing employees for new or additional requirements with regard to the processes in which they are involved.

Overall risk management within the BMW Group is managed centrally and reviewed for appropriateness and effectiveness by the Group's internal audit department. In addition, knowledge gained from external audits also provides a good basis for further improvements. At present, no risks have been identified which could threaten the going concern status of the BMW Group or which could have a materially adverse impact on the net assets, financial position or results of operations of the Group.

### **Research and development**

The company does not carry out any research and development.

## **Directors' report** *(continued)*

### **Acquisition of own shares**

The company had not acquired any of its own shares in either 2008 or 2009. A reconciliation of the movements in capital and reserves is given in note 16.

### **Financial instruments**

The company provides a treasury service to the BMW UK Group. As part of this service, the company enters into financial derivatives directly with the financial market. Opposite instruments are then entered into with group counterparties. 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 market risk (interest rate and foreign exchange) and future cash flow risk on recognised assets and liabilities. The instruments used have predominantly been interest rate swaps, cross currency swaps, foreign exchange swaps, forward 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 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, mostly directly but also through its participation in a multi-currency committed credit facility guaranteed by BMW AG.

### **Proposed dividend**

No dividends were paid in 2009 (2008: nil) and none are proposed. A reconciliation of the movements in capital and reserves is given in note 16.

### **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 non-group trade creditors at the year end (2008: nil).

### **Directors and directors' interests**

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

Erich Ebner von Eschenbach (resigned 5 January 2009)

Joachim Hensel (appointed 5 January 2009)

Ansgar Kreuzer

Neil C. Wharton

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

### **Employees**

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

## **Directors' report** *(continued)*

### **Political and charitable contributions**

The company made no political or charitable contributions during the year (2008 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**

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

  
Gillian Woolley  
Secretary

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

7th April 2010

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

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

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

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

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

### **Responsibility Statement by the company's legal representatives**

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the Directors' report and financial statements include a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

**The Board of Directors**  
BMW (UK) Capital plc





**KPMG LLP**

Arlington Business Park  
Theale  
Reading  
RG7 4SD  
United Kingdom

**INDEPENDENT AUDITORS' REPORT 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 2009 set out on pages 9 to 41. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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**

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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

**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 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BMW (UK) CAPITAL PLC (continued)**

**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



**D. McAllan (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Arlington Business Park,  
Theale,  
Reading  
RG7 4SD

7th April 2010

## Income statement

for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Interest receivable and similar income	2	204,562	243,496
Foreign exchange gains	2	218,845	403,357
Fair value gains on financial instruments and derivatives	2	841,277	1,343,391
<b>Revenue</b>		<b>1,264,684</b>	<b>1,990,244</b>
Interest payable	2	(166,750)	(211,709)
Foreign exchange losses	2	(219,780)	(408,016)
Fair value losses on financial instruments and derivatives	2	(827,856)	(1,394,079)
<b>Finance costs</b>		<b>(1,214,386)</b>	<b>(2,013,804)</b>
<b>Financial income/(expense)</b>		<b>50,298</b>	<b>(23,560)</b>
Administrative expenses	3	(586)	(587)
<b>Profit/(loss) before taxation</b>		<b>49,712</b>	<b>(24,147)</b>
Taxation	5	(14,025)	6,603
<b>Profit/(Loss) for the year attributable to equity holders of the parent company</b>		<b>35,687</b>	<b>(17,544)</b>

The above results relate wholly to continuing operations

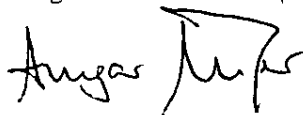
The company has no other comprehensive income in the year (2008 - £nil) and has therefore not presented a statement of comprehensive income

**Balance sheet**  
*at 31 December 2009*

	<i>Note</i>	<b>2009</b> <b>£000</b>	<b>2008</b> <b>£000</b>
<b>Non-current assets</b>			
Deferred tax	6	11,370	15,727
Receivables from BMW Group companies	7	1,701,884	1,733,653
Derivative assets	8	165,863	282,165
Other Financial Assets	9	1,926	-
		<b>1,881,043</b>	<b>2,031,545</b>
<b>Current assets</b>			
Receivables from BMW Group companies	7	2,076,659	2,506,715
Derivative assets	8	76,952	531,985
Other financial assets	9	18,518	24,028
Cash and cash equivalents	10	41,110	25,685
		<b>2,213,239</b>	<b>3,088,413</b>
<b>Total assets</b>		<b>4,094,282</b>	<b>5,119,958</b>
<b>Current liabilities</b>			
Bank overdraft	10	23	13
Bank loans	10	-	70,000
Commercial paper	11	99,847	271,788
Medium term notes	12	337,141	883,764
Loans from BMW Group companies	13	2,381,330	2,458,782
Derivative liabilities	14	71,585	292,636
Other financial liabilities	15	15,640	7,014
Tax payable		18,263	9,445
		<b>2,923,829</b>	<b>3,993,442</b>
<b>Non-current liabilities</b>			
Medium term notes	12	747,985	795,700
Loans from BMW Group companies	13	221,805	142,749
Derivative liabilities	14	58,891	84,972
Other financial liabilities	15	6,086	3,096
		<b>1,034,767</b>	<b>1,026,517</b>
<b>Total liabilities</b>		<b>3,958,596</b>	<b>5,019,959</b>
<b>Net assets</b>		<b>135,686</b>	<b>99,999</b>
<b>Equity</b>			
Share capital	16	281	281
Share premium	16	57,568	57,568
Retained earnings	16	77,837	42,150
<b>Total equity</b>		<b>135,686</b>	<b>99,999</b>

These financial statements were approved by the board of directors on 7th April 2010 and were signed on its behalf by

Ansgar Kreuzer *Director (Chairman)*



**Statement of cashflows**  
*for the year ended 31 December 2009*

	<i>Note</i>	<b>2009</b> <b>£000</b>	<b>2008</b> <b>£000</b>
<b>Cash flows from operating activities</b>			
Profit/(loss) for the year		35,687	(17,544)
Fair value gains on financial instruments and derivatives		(841,277)	(1,343,391)
Fair value losses on financial instruments and derivatives		827,856	1,394,079
Unrealised foreign exchange (gains)/losses		(69,270)	60,452
Current and deferred taxation charge/(credit)		14,025	(6,603)
		(32,979)	86,993
<b>Changes in operating assets and liabilities</b>			
Decrease/(increase) in receivables from BMW Group companies		433,401	(616,569)
Decrease/(increase) in other financial assets		3,584	(7,723)
Net decrease/(increase) in fair value of derivatives		337,623	(463,830)
(Decrease)/increase in fair value of medium term notes		(273,260)	406,851
Increase/(decrease) in other financial liabilities		11,614	(530)
Income taxes paid		(850)	(3,200)
<b>Cash inflow/(outflow) from operating activities</b>		<b>479,133</b>	<b>(598,008)</b>
<b>Cash flows from financing activities</b>			
Increase in loans from BMW Group companies		99,299	59,710
Issuance of commercial paper		2,154,080	744,895
Redemption of commercial paper		(2,326,020)	(741,545)
Issuance of medium term notes and bonds		359,318	735,846
Redemption of medium term notes and bonds		(680,395)	(327,587)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(393,718)</b>	<b>471,319</b>
Net increase/(decrease) in cash and cash equivalents		85,415	(126,689)
Cash and cash equivalents at 1 January		(44,328)	82,361
<b>Cash and cash equivalents at 31 December</b>	<i>10</i>	<b>41,087</b>	<b>(44,328)</b>

**Statement of changes in equity**  
*for the year ended 31 December 2009*

	Share Capital £000	Share premium £000	Retained earnings £000	Total £000
Balance at 1 January 2008	281	57,568	59,694	117,543
Loss for the year	-	-	(17,544)	(17,544)
At 31 December 2008	281	57,568	42,150	99,999
Balance at 1 January 2009	281	57,568	42,150	99,999
Profit for the year	-	-	35,687	35,687
At 31 December 2009	281	57,568	77,837	135,686

## 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 financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs')

#### *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

#### *Going concern*

The company is managed according to BMW Group guidelines notably with respect to Credit risk and Liquidity risk. It is the view of the management that the company has suitable access to credit line facilities directly and through the BMW Group's multi-currency committed credit facility. As such management believes it is appropriate that the financial statements are prepared on a going concern basis.

#### *Adopted IFRS not yet applied*

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

- Revised IFRS 3 'Business Combinations' (mandatory for the year commencing on or after 1 July 2009)
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (mandatory for EU adopters for the year commencing on or after 30 June 2009)
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items' (mandatory for year commencing on or after 1 July 2009)
- Amendments to IAS 39 'Reclassification of Financial Assets: Effective Date and Transition' (mandatory for year commencing on or after 1 July 2009)

#### *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 retranslated 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.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Financial instruments*

##### *Non-derivative financial instruments*

Interest-bearing receivables from and loans to BMW Group companies, debt securities and other non-derivative financial assets and liabilities are initially recognised at fair value. If fair value hedge accounting is applied, subsequent to initial recognition, the non-derivative financial instruments are measured at fair value. All non-derivative financial instruments are recorded on the settlement date.

##### *Loans and other receivables*

Loans and receivables are recognised initially at fair value. Subsequent to initial recognition, any such instruments denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. If denominated in local currency, loans and receivables are measured at amortised cost.

##### *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 and bank loans are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

##### *Borrowings*

Borrowings are recognised initially at fair value less attributable transaction costs, which is equivalent to the consideration given. Subsequent to initial recognition, borrowings denominated in sterling 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. Borrowings denominated in a currency other than sterling are hedged in respect of interest rate risk and currency risk.

Where fair value hedge accounting is applicable the movement in fair value of the borrowings is recognised immediately in the income statement. Subsequent measurement is described under 'Fair value hedges' below. Where fair value hedge accounting is not applicable, the borrowings are translated at the foreign exchange rate ruling at the balance sheet date.

##### *Derivative financial instruments*

Derivative financial instruments on a stand-alone basis and those designated as fair value hedges are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The classification in the balance sheet of derivative assets and derivative liabilities into current or non-current assets or liabilities is determined according to the contractual maturity date of each instrument.

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 estimated market price at the balance sheet date, being the present value of the forward price. These fair values are calculated using the company's treasury management system as described in note 18.

##### *Fair value hedges*

Where a derivative financial instrument is designated as a fair value hedge of the variability in value of a recognised underlying asset or liability or an unrecognised firm commitment, the carrying value of this hedged underlying item is adjusted by the change in fair value that is attributable to the risk being hedged (even if without fair value hedging it is carried at cost or amortised cost). Any gains or losses on remeasurement of the hedged underlying item are recognised immediately as fair value gains or losses in the income statement. Similarly any gains or losses on remeasurement of the designated derivative financial instruments are recognised immediately in the income statement.

On the discontinuance of fair value hedge accounting, any adjustment made to the carrying amount of the hedged underlying item as a consequence of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item. The corresponding derivative financial instrument would continue to be revalued in line with the section 'Derivative Financial Instruments' above.



## Notes (continued)

### 1 Accounting policies (continued)

#### *Day one' gains and losses*

A 'day one' gain or loss is the difference between the amount received upon issuing a non-derivative financial instrument and its fair value (calculated using a bond-specific yield curve for discounting purposes) at the date it is issued. By discounting this instrument, for example the cash flows of a liability, the fair value and the amount received show a difference at the opening date. This 'day one' gain or loss is recognised immediately in the income statement. The magnitude of the 'day one' gain or loss will depend in part upon the risk premium implied in the coupon of the liability.

#### *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 IFRS 8, the Company has fully considered presentation of segmental information.

The Company's business consists only of financing and treasury activities. Revenues and expenses arise principally through interest on deposits and borrowings, as well as fair value gain or loss on some of the entity's underlying financial instruments and on derivatives entered into for hedging purposes.

Resources are not allocated separately to the funding and hedging activities, neither is the operating result segmented for purposes of management review.

The customers of the Company are based in UK and Europe. Note 2 gives an overview of interest income and note 7 an overview of receivables by geographical area.

## Notes (continued)

### 2 Finance income and expense recognised in profit or loss

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

#### Interest receivable

By geographical area	2009 £000	2008 £000
UK	185,095	233,188
Rest of Europe	19,467	10,306
Rest of World	-	2
	<b>204,562</b>	<b>243,496</b>
 By instrument	 2009 £000	 2008 £000
Interest receivable from short-term deposits	334	3,398
Interest receivable from BMW Group companies	182,879	227,189
Interest receivable from held for trading derivative instruments	5,205	12,909
Interest receivable from hedging instruments designated as part of a fair value hedge relationship	16,144	-
Total interest receivable	<b>204,562</b>	<b>243,496</b>

#### Foreign exchange gains

	2009 £000	2008 £000
Total foreign exchange gains	<b>218,845</b>	<b>403,357</b>

#### Net fair value gains and losses

	2009 £000	2008 £000
Net fair value gains/(losses) on held for trading derivative instruments	12,035	(40,305)
Net fair value gains/(losses) from hedged items designated as part of a fair value hedge relationship	219,636	(284,704)
Net fair value (losses)/gains on hedging instruments designated as part of a fair value hedge relationship	(218,250)	274,320
Total net fair value gains/(losses)	<b>13,421</b>	<b>(50,689)</b>

## Notes (continued)

### 2 Finance income and expense recognised in profit or loss (continued)

#### Finance expense

	2009 £000	2008 £000
Interest payable to BMW Group companies	30,074	133,738
Interest payable on bank loans/overdrafts	309	3,247
Interest payable on commercial paper	7,149	4,432
Interest payable on medium term notes held at amortised cost	5,039	18,271
Interest payable on fair value medium term notes	37,108	33,643
Interest payable on held for trading derivative instruments	84,946	-
Interest payable on fair value derivative instruments	2,125	18,378
 Total interest payable expense	 166,750	 211,709

#### Foreign exchange losses

	2009 £000	2008 £000
Total foreign exchange losses	219,780	408,016

### 3 Administration expenses

#### Administration expenses include auditors' remuneration

	2009 £000	2008 £000
Audit of these financial statements	24	22

## Notes (continued)

### 4 Staff numbers and costs

The staff working on behalf of the company have contracts of employment with BMW (UK) Holdings Ltd or with BMW AG, and have therefore not been included as employees within these accounts. Payroll services for these staff are provided by BMW (UK) Ltd. The costs shown below represent recharges to the company.

The staff working on behalf of the company belong to the BMW (UK) Operations Pension Scheme or to the BMW (GB) Ltd Employee Benefits Plan or to the BMW AG scheme and the costs are included in the recharges to the company. All appropriate accounting disclosures are made within the accounts of BMW (UK) Holdings Ltd or BMW (UK) Ltd or of BMW AG.

Costs for the services of one director were recharged to the company during the year, only this director is included in the disclosure below. The aggregate amount charged to the company in respect of this director's services was £128,000 (2008: £105,000).

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

	Number of employees	
	2009	2008
Staff numbers	7	7

The aggregate recharges for these persons were as follows:

	2009 £000	2008 £000
Wages and salaries	345	308
Social security costs and pension recharges	50	52
	395	360

### 5 Taxation

#### Recognised in the income statement

	2009 £000	2008 £000
<i>Current tax expense</i>		
Current year	9,562	7,422
Adjustments for prior years	106	158
	9,668	7,580
<i>Deferred tax expense</i>		
Deferred tax expense/(credit)	4,357	(14,183)
<i>Total tax in expense/(credit)</i>	14,025	(6,603)

## Notes (continued)

### 5 Taxation (continued)

#### Reconciliation of effective tax rate

	2009 £000	2008 £000
Profit/(loss) before taxation	49,712	(24,147)
Tax using the prevailing UK corporation tax rate of 28% (2008 – 28%)	13,919	(6,761)
Adjustments for prior years	106	158
Total tax expense/(credit)	14,025	(6,603)

### 6 Deferred tax

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	2009 £000	2008 £000
Temporary differences on market values of financial instruments and derivatives	11,370	15,727
Net deferred tax assets	11,370	15,727

## Notes (continued)

### 6 Deferred tax (continued)

#### *Movement in deferred tax during the year*

	1 January 2009 £000	Recognised in income £000	31 December 2009 £000
Temporary differences on market values of financial instruments and derivatives	15,727	(4,357)	11,370
	15,727	(4,357)	11,370

#### *Movement in deferred tax during the prior year*

	1 January 2008 £000	Recognised in income £000	31 December 2008 £000
Temporary differences on market values of financial instruments and derivatives	1,544	14,183	15,727
	1,544	14,183	15,727

The deferred tax asset is only recognised to the extent that it is recoverable based on the fact that the company is likely to be profitable in the future.

Deferred tax assets and liabilities are measured at average tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been acted or substantially enacted at the balance sheet date.

## Notes (continued)

### 7 Receivables from BMW Group companies

Financial receivables from related parties at the year end included £3,778,543,000 (2008: £4,240,368,000) of unsecured interest bearing loans, which the company expects to be settled in cash, which may be analysed as follows:

	2009 Carrying amount Currency '000	2009 Fair value Currency '000	2008 Carrying amount Currency '000	2008 Fair value Currency '000
<i>Non current</i>				
Receivables from fellow subsidiaries (1-5 years)	GBP 1,638,250	GBP 1,729,860	GBP 1,710,246	GBP 1,806,094
Receivables from fellow subsidiaries (1-5 years)	EUR 67,300	EUR 70,675	EUR 24,000	EUR 25,212
<i>Current</i>				
Receivables from fellow subsidiaries	GBP 1,955,135	GBP 1,921,342	GBP 2,226,865	GBP 2,157,504
Receivables from fellow subsidiaries	EUR 141,375	EUR 141,721	EUR 294,661	EUR 208,509
Receivables from fellow subsidiaries	USD 29	USD 29	USD -	USD -

The fair values of these receivables are calculated using the company's treasury management system as described in note 18.

The sterling equivalents of the carrying amounts of these financial receivables analysed by geographical area are as follows:

	2009 £000	2008 £000
UK	3,593,382	3,937,444
Rest of Europe	185,161	302,924
	<hr/>	<hr/>
	3,778,543	4,240,368

The following details apply to the receivables from BMW Group companies at 31 December 2009:

Interest	Volume in relevant currency	Weighted average maturity period	Weighted average effective interest rate (in %)
Fixed	GBP 3,593 million	25 months	4.1
Fixed	EUR 209 million	14 months	2.0

The following details apply to the receivables from BMW Group companies at 31 December 2008:

Interest	Volume in relevant currency	Weighted average maturity period	Weighted average effective interest rate (in %)
Fixed	GBP 3,937 million	21 months	5.0
Fixed	EUR 319 million	6 months	3.1

## Notes (continued)

### 8 Derivative assets

The following derivative assets are carried in the balance sheet at their fair values. These fair values are calculated using the company's treasury management system as described in note 18.

	2009 £000	2008 £000
<i>Non-current</i>		
<i>Held for trading</i>		
Interest derivatives with fellow subsidiaries (1-5 years)	10,049	15,474
Interest derivatives with fellow subsidiaries (greater than 5 years)	1,852	2,640
Interest derivatives with non-related parties (1-5 years)	1,534	371
Currency derivatives with non-related parties (1-5 years)	67,715	98,770
Currency derivatives with non-related parties (greater than 5 years)	30,062	39,419
<i>Fair value through profit or loss</i>		
Interest derivatives with non-related parties (1-5 years)	-	9,569
Currency derivatives with non-related parties (1-5 years)	54,651	115,922
	<hr/> 165,863	<hr/> 282,165
<i>Current</i>		
<i>Held for trading</i>		
Interest derivatives with non-related parties	-	31
Currency derivatives with fellow subsidiaries	2,486	1,412
Currency derivatives with non-related parties	39,149	354,322
<i>Fair value through profit or loss</i>		
Interest derivatives with non-related parties	5,504	1,045
Currency derivatives with non-related parties	29,813	175,175
	<hr/> 76,952	<hr/> 531,985

Derivative contracts are entered into with related parties in order to manage their financial risks as described in note 18. The non-related parties described above comprise international financial institutions.



## Notes (continued)

### 8 Derivative assets (continued)

#### *Fair value hierarchy*

The tables below analyse financial instruments carried at fair value, by valuation method for 2009 and for 2008. The different levels have been defined as follows:

- Level One: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level Two: Inputs other than quoted prices included within Level One that are observable from the asset or liability, either directly or indirectly
- Level Three: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

#### Table of derivative assets by fair value hierarchy 2009

	2009 £000	2009 £000	2009 £000	2009 £000
	Level 1	Level 2	Level 3	Total
<b>Non-current</b>				
<i>Held for trading</i>				
Interest derivatives with fellow subsidiaries (1-5 years)	-	10,049	-	10,049
Interest derivatives with fellow subsidiaries (greater than 5 years)	-	1,852	-	1,852
Interest derivatives with non-related parties (1-5 years)	-	1,534	-	1,534
Currency derivatives with non-related parties (1-5 years)	-	67,715	-	67,715
Currency derivatives with non-related parties (greater than 5 years)	-	30,062	-	30,062
<i>Fair value through Income Statement</i>				
Interest derivatives with non-related parties (1-5 years)	-	-	-	-
Currency derivatives with non-related parties (1-5 years)	-	54,651	-	54,651
	-	165,863	-	165,863
<b>Current</b>				
<i>Held for trading</i>				
Interest derivatives with non-related parties	-	-	-	-
Currency derivatives with fellow subsidiaries	-	2,486	-	2,486
Currency derivatives with non-related parties	-	39,149	-	39,149
<i>Fair value through Income Statement</i>				
Interest derivatives with non-related parties	-	5,504	-	5,504
Currency derivatives with non-related parties	-	29,813	-	29,813
	-	76,952	-	76,952

There have been no transfers to or from Level 2 in the year (2008: none)

## Notes (continued)

### 8 Derivative assets (continued)

Table of derivative assets by fair value hierarchy 2008

	2008 £000	2008 £000	2008 £000	2008 £000
	Level 1	Level 2	Level 3	Total
<i>Non-current</i>				
<i>Held for trading</i>				
Interest derivatives with fellow subsidiaries (1-5 years)	-	15,474	-	15,474
Interest derivatives with fellow subsidiaries (greater than 5 years)	-	2,640	-	2,640
Interest derivatives with non-related parties (1-5 years)	-	371	-	371
Currency derivatives with non-related parties (1-5 years)	-	98,770	-	98,770
Currency derivatives with non-related parties (greater than 5 years)	-	39,419	-	39,419
<i>Fair value through Income Statement</i>				
Interest derivatives with non-related parties (1-5 years)	-	9,569	-	9,569
Currency derivatives with non-related parties (1-5 years)	-	115,922	-	115,922
	-	282,165	-	282,165
<i>Current</i>				
<i>Held for trading</i>				
Interest derivatives with non-related parties	-	31	-	31
Currency derivatives with fellow subsidiaries	-	1,412	-	1,412
Currency derivatives with non-related parties	-	354,322	-	354,322
<i>Fair value through Income Statement</i>				
Interest derivatives with non-related parties	-	1,045	-	1,045
Currency derivatives with non-related parties	-	175,175	-	175,175
	-	531,985	-	531,985

## Notes (continued)

### 9 Other financial assets

Other financial assets comprise

	2009 £000	2008 £000
<b>Non-Current</b>		
Day One initial valuation gains	1,926	-
<b>Current</b>		
Accrued interest receivable	17,594	19,320
Day One initial valuation gains	924	4,708
	20,444	24,028

The fair value of accrued interest receivable is estimated as its carrying amount given the receivable should be settled within three months. The fair value of the 'Day One' initial valuation gains is estimated as its carrying amount.

The reconciliation of 'Day One' gains is as follows

	2009 £000	2008 £000
Opening balance at 1 January	4,708	1,484
'Day One' initial valuation gains during the year	-	4,947
Amortisation of gains during the year	(1,858)	(1,723)
Closing balance at 31 December	2,850	4,708

### 10 Cash and cash equivalents/bank overdrafts

	2009 £000	2008 £000
Cash and cash equivalents per balance sheet	41,110	25,685
Bank loans and overdrafts	(23)	(70,013)
Cash and cash equivalents per cash flow statement	41,087	(44,328)

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand.

## Notes (continued)

### 11 Commercial paper

*The following details apply to commercial paper*

	2009	2008
	£000	£000
Issue volume	100,000	275,000
Carrying amount	99,847	271,788
Fair value	99,878	272,342
Weighted average maturity period	11 days	79 days
Weighted average nominal interest rate	1.7%	5.1%

The fair value of the commercial paper has been calculated using the company's treasury management system as described in note 18

## Notes (continued)

### 12 Medium term notes

	2009 £000	2008 £000
<i>Non current</i>		
Medium term notes recognised at fair value through profit or loss	485,877	502,569
Medium term notes held at amortised cost	262,108	293,131
<i>Current</i>		
Medium term notes recognised at fair value through profit or loss	293,830	716,124
Medium term notes held at amortised cost	43,311	167,640
	1,085,126	1,679,464

The fair value of medium term notes has been calculated using the company's treasury management system as described in note 18

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

	2009		2008	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Medium term notes not carried at fair value	305,419	309,584	460,771	466,830

The schedule below classifies the medium term notes in issue at the balance sheet date by issue currency, interest rate basis and by maturity

Security	Currency	Issue volume in local currency '000	Interest	Rate basis	Listed	Maturity
EMTN	GBP	200,000,000	FIXED	6.38%	Luxembourg	2010
EMTN	JPY	3,000,000,000	FIXED	2.47%	Luxembourg	2011
EMTN	JPY	24,000,000,000	FIXED	2.48%	Luxembourg	2013
EMTN	GBP	300,000,000	FIXED	5.00%	Luxembourg	2017
EMTN	SEK	500,000,000	VARIABLE	3M SEK STIBOR	Luxembourg	2010
EMTN	JPY	6,700,000,000	VARIABLE	3M JPY LIBOR	Luxembourg	2010
EMTN	JPY	6,500,000,000	VARIABLE	6M JPY LIBOR	Luxembourg	2010
EMTN	CZK	1,080,000,000	VARIABLE	6M CZK PRIBOR	Luxembourg	2011
EMTN	JPY	15,000,000,000	VARIABLE	3M JPY LIBOR	Luxembourg	2011
EMTN	JPY	18,900,000,000	VARIABLE	3M JPY LIBOR	Luxembourg	2013

## Notes (continued)

### 13 Loans from BMW Group companies

Loans from BMW Group companies at the year end included £2,603,135,000 (2008: £2,601,531,000) of unsecured interest bearing loans, which the company expects to be settled in cash, these may be analysed as follows:

	2009		2009		2008		2008	
	Carrying amount		Fair value		Carrying amount		Fair value	
	Currency '000		Currency '000		Currency '000		Currency '000	
<i>Non current</i>								
Loans from fellow subsidiaries (1-5 years)	EUR	100,000	EUR	102,263	EUR	-	EUR	-
Loans from fellow subsidiaries ( greater than 5 years)	EUR	150,000	EUR	177,651	EUR	150,000	EUR	176,433
<i>Current</i>								
Loans from ultimate parent company	EUR	410,000	EUR	410,201	EUR	200,000	EUR	200,121
Loans from ultimate parent company	GBP	150,000	GBP	150,029	GBP	0	GBP	0
Loans from immediate parent company	GBP	290,000	GBP	289,965	GBP	44,492	GBP	44,492
Loans from fellow subsidiaries	GBP	942,437	GBP	942,337	GBP	1,426,808	GBP	1,302,368
Loans from fellow subsidiaries	EUR	704,969	EUR	705,202	EUR	833,782	EUR	834,707
Loans from fellow subsidiaries	USD	13,876	USD	13,876	USD	4,954	USD	4,954
Loans from fellow subsidiaries	JPY	161,243	JPY	161,243	JPY	40,152	JPY	40,152

The fair value of loans from BMW Group companies has been calculated using the company's treasury management system as described in note 18.

The following details apply to the loans from BMW Group companies at 31 December 2009:

Interest	Volume in relevant currency	Weighted average maturity period (in days)	Weighted average effective interest rate (in %)
Fixed	EUR 1,365 million	492	1.42
Fixed	GBP 1,382 million	21	0.35
Fixed	JPY 161 million	2	0.31
Fixed	USD 14 million	2	0.04

The following details apply to the loans from BMW Group companies at 31 December 2008:

Interest	Volume in relevant currency	Weighted average maturity period (in days)	Weighted average effective interest rate (in %)
Fixed	EUR 1,184 million	501	3.81
Fixed	GBP 1,371 million	24	1.83
Fixed	JPY 40 million	2	0.01
Fixed	USD 5 million	2	0.30
Variable	GBP 100 million	1,096	3M GBP LIBOR + 17 bps

## Notes (continued)

### 14 Derivative liabilities

The following derivative liabilities are carried in the balance sheet at their fair values. These fair values are calculated using the company's treasury management system as described in note 18.

	2009 £000	2008 £000
<i>Non-current</i>		
<i>Held for trading</i>		
Interest derivatives with non-related parties (1-5 years)	45,847	76,507
Interest derivatives with non-related parties (greater than 5 years)	1,852	2,640
Currency derivatives with non-related parties (1-5 years)	4,685	5,825
<i>Fair value through profit or loss</i>		
Currency derivatives with non-related parties	6,507	25,658
	58,891	84,972
<i>Current</i>		
<i>Held for trading</i>		
Interest derivatives with non-related parties	22,726	9,690
Currency derivatives with fellow subsidiaries	33,468	257,288
Currency derivatives with non-related parties	15,391	-
<i>Fair value through profit or loss</i>		
Currency derivatives with non-related parties	-	25,658
	71,585	292,636

Derivative contracts are entered into with these parties in order to manage their financial risks as described in note 18. The non-related parties described above comprise international financial institutions.

## Notes (continued)

### 14 Derivative liabilities (continued)

#### *Fair value hierarchy*

The tables below analyse financial instruments carried at fair value by valuation method for 2009 and for 2008. The different levels have been defined as follows:

- Level One: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level Two: Inputs other than quoted prices included within Level One that are observable from the asset or liability, either directly or indirectly
- Level Three: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

#### Table of derivative liabilities by fair value hierarchy 2009

	2009 £000	2009 £000	2009 £000	2009 £000
	Level 1	Level 2	Level 3	Total
<b>Non-current</b>				
<i>Held for trading</i>				
Interest derivatives with non-related parties (1-5 years)	-	45,847	-	45,847
Interest derivatives with non-related parties (greater than 5 years)	-	1,852	-	1,852
Currency derivatives with non-related parties (1-5 years)	-	4,685	-	4,685
<i>Fair value through Income Statement</i>				
Currency derivatives with non-related parties	-	6,507	-	6,507
	-	58,891	-	58,891
<b>Current</b>				
<i>Held for trading</i>				
Interest derivatives with non-related parties	-	22,726	-	22,726
Currency derivatives with fellow subsidiaries	-	33,468	-	33,468
Currency derivatives with non-related parties	-	15,391	-	15,391
<i>Fair value through Income Statement</i>				
Currency derivatives with non-related parties	-	-	-	-
	-	71,585	-	71,585

There have been no transfers to or from Level 2 in the year (2008: none)



## Notes (continued)

### 14 Derivative liabilities (continued)

#### Table of derivative liabilities by fair value hierarchy 2008

	2008 £000	2008 £000	2008 £000	2008 £000
	Level 1	Level 2	Level 3	Total
<b>Non-current</b>				
<i>Held for trading</i>				
Interest derivatives with non-related parties (1-5 years)	-	76,507	-	76,507
Interest derivatives with non-related parties (greater than 5 years)	-	2,640	-	2,640
Currency derivatives with non-related parties (1-5 years)	-	5,825	-	5,825
<i>Fair value through Income Statement</i>				
Currency derivatives with non-related parties	-	25,658	-	25,658
	-	84,972	-	84,972
<b>Current</b>				
<i>Held for trading</i>				
Interest derivatives with non-related parties	-	9,690	-	9,690
Currency derivatives with fellow subsidiaries	-	257,288	-	257,288
Currency derivatives with non-related parties	-	-	-	-
<i>Fair value through Income Statement</i>				
Currency derivatives with non-related parties	-	25,658	-	25,658
	-	292,636	-	292,636

## Notes (continued)

### 15 Other financial liabilities

Other financial liabilities comprise

	2009 £000	2008 £000
<i>Non-current</i>		
Other financial liability with non-related party	3,924	3,096
Day One' initial valuation losses	2,162	-
<i>Current</i>		
Other financial liability with non-related party	2,079	3,663
Accrued interest payable	12,409	2,188
Other accruals	75	6
Day One' initial valuation losses	1,077	1,157
	21,726	10,110

The fair values of accrued interest payable, trade payables to any fellow subsidiary and other accruals payable to external counterparties are estimated as their respective carrying amounts given the company's liabilities should be settled within three months. The fair value of the 'Day One' initial valuation losses is estimated as its carrying amount. The other financial liability with non-related party (non-current and current) represents a non-interest bearing loan. This is entered into by the company in order to make a back-to-back non-interest bearing deposit to Alphabet (GB) Limited. The company bears no external credit risk. The fair value of this other liability is estimated as its carrying value given that the liability is non interest bearing.

The reconciliation of 'Day one' losses is as follows

	2009 £000	2008 £000
Opening balance at 1 January	1,157	1,406
Day One' initial valuation losses during the year	3,984	687
Amortisation of losses during the year	(1,902)	(936)
Closing balance at 31 December	3,239	1,157

### 16 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 2008	281	57,568	59,694	117,543
Loss for the year	-	-	(17,544)	(17,544)
At 31 December 2008	281	57,568	42,150	99,999
Balance at 1 January 2009	281	57,568	42,150	99,999
Profit for the year	-	-	35,687	35,687
At 31 December 2009	281	57,568	77,837	135,686

## Notes (continued)

### 16 Capital and reserves (continued)

#### Capital management

The company's capital management objective is to support the objectives of the BMW Group. The BMW Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in the long-term and to provide an adequate return to shareholders.

The BMW Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk profile of the underlying assets.

The BMW Group manages the structure of debt capital on the basis of a target debt ratio. An important aspect of the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the BMW Group uses a variety of financial instruments available on the world's capital markets to achieve optimal diversification.

### 17 Share capital

	2009 £000	2008 £000
<i>Authorised</i>		
Ordinary shares of £1 each	10,000	10,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	281	281
Shares classified in shareholders' funds	281	281

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 during the year (2008: nil).

### 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 directly with the financial market. Opposite instruments are then entered into with Group counterparties. 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, Cross Currency Swaps, Foreign Exchange Swaps, Forward 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.

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

- Credit risk
- Liquidity risk
- Market risk

## Notes (continued)

### 18 Financial instruments (continued)

#### *Credit risk*

Credit risk is the risk of financial loss to the company where a counterparty to a financial instrument fails to perform its contractual obligations. Credit risk is managed according to BMW Group guidelines. The company continually monitors its position to ensure that it stays within the credit exposure limits set by BMW AG. For both the current and prior years at the respective balance sheet dates, the company did not provide for any impairment allowances. Furthermore, for both the current and prior years at the respective balance sheet dates the company had no financial receivables that were past due but not impaired. No financial assets were past due as at 31 December 2009.

Receivables from BMW Group companies represent over 90% (2008: 80%) of the company's assets by value. These receivables are predominantly sterling-denominated deposits to UK-based group companies, where deposits are made, without any collateral as security, to other BMW Group companies.

Derivative assets comprise both interest rate derivatives and currency derivatives. The counterparts to these derivative assets are major international financial institutions and other BMW Group companies. Foreign exchange contracts with such financial institutions entered into as a service for other BMW Group companies represent one seventh (2008: one third) of these derivatives assets by value. In the event of failure of one of those financial institutions, the company would have a risk on the cost of replacing any such derivatives. As at 31 December 2009 this risk was not considered significant.

Other financial assets comprised mainly accrued interest receivable from other BMW Group companies. This accrued interest receivable is due within three months of 31 December 2009.

The balance of cash and cash equivalents as at 31 December 2009 comprised principally of a sterling money market deposit repayable on 4 January 2010. A range of major international financial institutions are counterparties to money market deposits transacted by the company through the year.

#### *Liquidity risk*

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. Liquidity risk is managed in accordance with BMW Group guidelines. In addition to its participation in the BMW Group Medium Term Note (MTN) and Commercial Paper (CP) programmes, 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 (which expires in November 2012) guaranteed by BMW AG. No drawings had been made under this facility as at 31 December 2009 (2008: nil).

Both foreign currency and interest rate transactions are entered into as a service for BMW Group counterparties. The company enters into financial derivatives directly with the financial market and opposite instruments are then entered into with group counterparties. These are transacted back-to-back.

The derivative liabilities shown on the balance sheet include these back-to-back transactions classified as held for trading.

## Notes (continued)

### 18 Financial instruments (continued)

#### Liquidity risk (continued)

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

#### 31 December 2009

	Carrying value £000	Expected cashflows (total) £000	Maturity within one year £000	Maturity between one and five years £000	Maturity later than five years £000
<i>Non-derivative financial liabilities</i>					
Commercial paper	99,847	100,000	100,000	-	-
Medium term notes	1,085,126	1,229,652	367,697	516,955	345,000
Loans from BMW Group companies	2,603,135	2,680,583	2,393,391	122,717	164,475
Other financial liabilities	18,486	18,486	14,562	3,924	-
Tax payable	18,263	18,263	18,263	-	-
	3,824,857	4,046,984	2,893,913	643,596	509,475
<i>Derivative financial liabilities</i>					
Interest and currency derivatives	130,476	1,496,355	1,466,097	18,587	11,671
	130,476	1,496,355	1,466,097	18,587	11,671

#### 31 December 2008

	Carrying value £000	Expected cashflows (total) £000	Maturity within one year £000	Maturity between one and five years £000	Maturity later than five years £000
<i>Non-derivative financial liabilities</i>					
Commercial paper	271,788	275,000	275,000	-	-
Medium term notes	1,679,464	1,741,581	928,625	812,956	-
Loans from BMW Group companies	2,601,531	2,764,692	2,546,227	33,626	184,839
Other financial liabilities	10,110	10,110	7,014	3,096	-
Tax payable	9,445	9,445	9,445	-	-
	4,572,338	4,800,828	3,766,311	849,678	184,839
<i>Derivative financial liabilities</i>					
Interest and currency derivatives	377,608	3,454,652	3,454,594	57	1
	377,608	3,454,652	3,454,594	57	1

## Notes (continued)

### 18 Financial instruments (continued)

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. The principal market risks to which the company is exposed are interest rate risk and foreign currency risk.

#### Market risk - Interest rate risk

The company manages BMW UK Group companies' interest rate 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 company is therefore exposed to risks resulting from changes in interest rates.

The company manages its interest rate risk exposure on a portfolio basis due to the nature of the company's business. With the exception of the interest rate derivatives entered into to synthesise the fixed rate income from deposits into BMW Group companies into floating rate income, all interest rate derivative transactions are entered into as a service transaction, and not entered into on a separate basis. For this reason, management has opted to disclose on a portfolio approach, netting the interest rate derivative assets with the interest rate derivative liabilities.

The company's portfolio of interest bearing instruments at the balance sheet date is as follows

	2009 £000	2008 £000
Fair Market Value GBP	237,184	151,430

The company applies a value-at-risk approach for internal reporting purposes and to manage interest rate risks. This is based on a historical simulation, in which the potential future fair value losses of the interest rate portfolio are compared with expected amounts on the basis of a holding period of sixty-five trading days and a confidence level of 99%.

A one basis point movement in interest rates would have increased or decreased this valuation of the company's net position by £40,000. The calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

In the following table the potential volume of fair value fluctuations - measured on the basis of the value-at-risk approach - is compared with the expected value for the interest rate relevant position of the company.

	2009 £000	2008 £000
Value-at-risk GBP	3,549	4,288

The calculation of the fair values of interest rate swaps is described overleaf.

## Notes (continued)

### 18 Financial instruments (continued)

#### Foreign currency risk

The company manages BMW UK Group companies' currency risks primarily through utilising forward contracts, foreign exchange swaps and foreign exchange option contracts. The company utilises foreign exchange swaps and cross-currency swaps to hedge its own exposures on foreign currency loans and receivables. All foreign currency-denominated positions are fully hedged and any foreign currency transactions entered into as a service for BMW Group companies are transacted back-to-back. The foreign currency denominated medium term notes (see note 12) are fully hedged by cross-currency derivatives exchanging interest payable in a foreign currency for floating rate interest payable in sterling. The foreign currency positions entered into with BMW Group companies are fully hedged by equal and opposite positions entered into with external counterparts. These economically effective hedges result in there being no significant net foreign currency exposure for the company.

#### 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 (or a bond-specific yield curve in the case of Medium Term Notes). 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.

	2009		2008	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Receivables from BMW Group companies				
Non current	1,701,884	1,796,488	1,733,653	1,830,655
Current	2,076,659	2,104,131	2,506,715	2,355,350
	3,778,543	3,900,619	4,240,368	4,186,005
Loans from BMW Group companies				
Non current	221,805	248,345	142,749	167,904
Current	2,381,330	2,381,617	2,458,782	2,335,337
	2,603,135	2,629,962	2,601,531	2,503,241

The interest rates used to discount estimated cash flows where applicable are based on the following interest rates for the respective currencies:

%	GBP	EUR	JPY	CZK	SEK
Interest rate for 3 months	0.5250	0.4690	0.2775	1.4000	0.4313
Interest rate for 6 months	0.5750	0.5410	0.4800	1.6750	0.4857
Interest rate for one year	0.8650	0.8620	0.6938	1.9800	0.7680
Interest rate for five years	3.4824	2.8458	0.6992	-	2.8959

## Notes (continued)

### 18 Financial instruments (continued)

The nominal amounts, fair values and maturities of financial derivative instruments, which the company expects to be settled in cash, shown in the balance sheet are as follows

#### Ageing of fair values

31 December 2009	Nominal amount	Fair values			
		Total	Due within one year	Due between one and five years	Due later than five years
	Currency '000	£000	£000	£000	£000
<i>Assets</i>					
Interest rate contracts	GBP 848,000	21,425	7,990	11,583	1,852
Currency hedge contracts	EUR 1,846,800	66,193	35,663	468	30,062
Currency hedge contracts	JPY 74,100,000	146,358	29,813	116,545	-
Currency hedge contracts	SEK 500,000	3,486	3,486	-	-
Currency hedge contracts	CZK 1,080,000	5,353	-	5,353	-
<i>Liabilities</i>					
Interest rate contracts	GBP 2,767,400	76,932	22,726	45,848	8,358
Currency hedge contracts	EUR 2,821,308	53,544	48,859	4,685	-
Net asset		112,339	5,367	83,416	23,556

31 December 2008	Nominal amount	Fair values			
		Total	Due within one year	Due between one and five years	Due later than five years
	Currency '000	£000	£000	£000	£000
<i>Assets</i>					
Interest rate contracts	GBP 940,000	30,541	2,487	25,414	2,640
Currency hedge contracts	EUR 4,907,000	459,476	420,057	-	39,419
Currency hedge contracts	JPY 106,100,000	312,531	105,130	207,401	-
Currency hedge contracts	SEK 690,000	4,310	4,310	-	-
Currency hedge contracts	CZK 1,080,000	7,291	-	7,291	-
<i>Liabilities</i>					
Interest rate contracts	GBP 2,551,150	88,837	9,690	76,507	2,640
Currency hedge contracts	EUR 3,816,499	288,771	282,946	5,825	-
Net asset		436,541	239,348	157,774	39,419



## Notes (continued)

### 18 Financial instruments (continued)

Ageing of nominal amounts

31 December 2009

		Nominal amount			
		Total	Due within one year	Due between one and five years	Due later than five years
		'000	'000	'000	'000
<i>Assets</i>					
Interest rate contracts	GBP	848,000	340,000	488,000	20,000
Currency hedge contracts	EUR	1,846,800	1,673,500	23,300	150,000
Currency hedge contracts	JPY	74,100,000	13,200,000	60,900,000	-
Currency hedge contracts	SEK	500,000	500,000	-	-
Currency hedge contracts	CZK	1,080,000	-	1,080,000	-
<i>Liabilities</i>					
Interest rate contracts	GBP	2,767,400	1,011,150	1,436,250	320,000
Currency hedge contracts	EUR	2,821,308	2,677,308	144,000	-

31 December 2008

		Nominal amount			
		Total	Due within one year	Due between one and five years	Due later than five years
		000	000	000	000
<i>Assets</i>					
Interest rate contracts	GBP	940,000	320,000	600,000	20,000
Currency hedge contracts	EUR	4,907,000	4,757,000	-	150,000
Currency hedge contracts	JPY	106,100,000	35,000,000	71,100,000	-
Currency hedge contracts	SEK	690,000	690,000	-	-
Currency hedge contracts	CZK	1,080,000	-	1,080,000	-
<i>Liabilities</i>					
Interest rate contracts	GBP	2,551,150	794,000	1,737,150	20,000
Currency hedge contracts	EUR	3,816,499	3,792,499	24,000	-

### 19 Capital commitments

No capital commitments existed as at 31 December 2009 (2008: £nil)

### 20 Contingencies and commitments

The company acts as guarantor for commitments, predominantly lease commitments, totalling £169 million (2008: £202 million) which have been entered into by BMW Group companies. Of this, £164 million (2008: £199 million) is re-guaranteed by BMW AG.

The company provides a EUR 200 million committed credit facility to BMW Austria Bank GmbH, Athens Branch (2008: EUR 200 million). BMW Austria Bank GmbH, Athens Branch has the right to terminate this facility with 1 month's notice. The company has the right to terminate this facility with 37 months' notice. Drawings of EUR 187 million were outstanding as at 31 December 2009 (2008: EUR 166 million).

The company provides a EUR 50 million uncommitted revolving credit facility to BMW Hellas Trade of Cars SA (2008: EUR nil), which terminates on 14<sup>th</sup> July 2010. Drawings of EUR 19 million were outstanding as at 31 December 2009.

## **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 for 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

#### **Parent undertakings**

BMW AG

BMW Holding BV

BMW (UK) Holdings Ltd

#### **Fellow subsidiaries**

BMW Finance NV

BMW (UK) Ltd

BMW (P&A) Ltd

Park Lane Ltd

BMW Financial Services (GB) Ltd

BMW Financial Services (Ireland) Ltd

BMW Leasing (GB) Ltd

Alphabet (GB) Ltd

BMW (UK) Manufacturing Ltd

BMW Services Ltd

BMW (UK) Investments Ltd

BMW (UK) Pensions Services Ltd

Rolls-Royce Motor Cars Ltd

Rolls-Royce Motor Cars GmbH

BMW Hams Hall Motoren GmbH, UK Branch

BMW Automotive (Ireland) Ltd

Swindon Pressings Ltd

BMW Hellas Trade of Cars SA

BMW Austria Bank GmbH, Athens Branch

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

### **21 Related parties (continued)**

Interest receivable within the year from the ultimate parent company was £nil (2008 £612,000), interest payable within the year to the ultimate parent company was £2,358,000 (2008 £432,000). As at 31 December 2009, loans due to the ultimate parent company amounted to EUR 579,000,000 (2008 EUR 200,000,000).

The charge for guarantee fees payable to the ultimate parent company in relation to guarantees on external debt and finance leases was £100,000 (2008 £111,000).

Interest receivable within the year from the immediate parent company was £1,000 (2008 £17,000), interest payable within the year to the immediate parent company was £422,000 (2008 £701,000). As at 31 December 2009, there was a loan due to the immediate parent company of £294,379,000 (2008 £44,492,000).

### **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.