

BMW (UK) Capital plc

Directors' report and financial statements

**Registered number 3114356
31 December 2006**

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Directors' report

The directors present their report and financial statements for the year ended 31 December 2006

Principal activities

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

Business review

The main purpose of the company is to provide financing for BMW Group companies, principally in the United Kingdom. The company also provides other treasury services as required.

Management believes that the key performance indicator of the company is profit before taxation. The profit before taxation for the year ended 31 December 2006 amounted to £24,690,000 (2005 £7,987,000). Profit increased versus the previous year due mainly to growth in the financing business and the net fair value gain on financial instruments.

The company's profit arises principally from the net interest margin charged on intragroup deposits and borrowings and the fair value gain or loss on financial instruments. Since a number of these financial instruments do not qualify for hedge accounting to International Financial Reporting Standards, the company is exposed to the volatility of changes in the fair values of such instruments in its income statement. The management of the company believes that the instruments entered into nevertheless constitute an economic hedge of the company's risks.

A detailed description of the main risks facing the company and the instruments used to manage these risks is set out in note 19. The level of these risks at 31 December 2006 was acceptable and in line with BMW Group guidelines.

The company's financial position at 31 December 2006 was satisfactory. The directors expect that the company's activities will continue for the foreseeable future.

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 directly with the financial market. Opposite instruments are then entered into with group counterparties, 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 2006 (2005 £nil) and none are proposed. A reconciliation of the movements in capital and reserves is given in note 17.

Directors' report *(continued)*

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 (2005 nil)

Directors and directors' interests

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

Erich Ebner von Eschenbach (appointed 2 October 2006)

Dr Frank Stenner (resigned 29 September 2006)

Matthew Todd (appointed 1 January 2006)

Neil C Wharton

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) Holdings 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 (2005 nil)

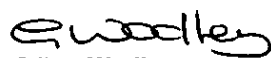
Disclosure of information to auditors

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

4 April 2007

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.



KPMG LLP

Arlington Business Park

Theale

RG7 4SD

United Kingdom

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 2006 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 are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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.

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

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 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

24/04/07

KPMG LLP
Chartered Accountants
Registered Auditors

Income statement

for the year ended 31 December 2006


| | <i>Note</i> | 2006 £000 | 2005 £000 |
|---|-------------|----------------------------|----------------------------|
| Interest receivable and similar income | 2 | 131,430 | 112,469 |
| Foreign exchange gains | | 40,981 | 36,244 |
| Fair value gains on financial instruments and derivatives | | 129,260 | 170,885 |
| | | <hr/> | <hr/> |
| Revenue | | 301,671 | 319,598 |
| | | <hr/> | <hr/> |
| Interest payable | 3 | (115,209) | (101,412) |
| Foreign exchange losses | | (45,193) | (37,950) |
| Fair value losses on financial instruments and derivatives | | (116,182) | (171,862) |
| | | <hr/> | <hr/> |
| Finance costs | | (276,584) | (311,224) |
| | | <hr/> | <hr/> |
| Financial income | | 25,087 | 8,374 |
| Administrative expenses | 4 | (397) | (387) |
| | | <hr/> | <hr/> |
| Profit before taxation | | 24,690 | 7,987 |
| Taxation | 6 | (7,407) | (2,396) |
| | | <hr/> | <hr/> |
| Profit for the year attributable to equity holders of the parent company | | 17,283 | 5,591 |
| | | <hr/> | <hr/> |

The above results relate wholly to continuing operations

Balance sheet
at 31 December 2006

| | <i>Note</i> | 2006 £000 | 2005 £000 |
|--------------------------------------|-------------|------------------------|------------------------|
| Non-current assets | | | |
| Deferred tax | 7 | - | 677 |
| Receivables from BMW Group companies | 8 | 1,016,500 | 755,000 |
| Derivative assets | 9 | 12,387 | 17,847 |
| | | <hr/> 1,028,887 | <hr/> 773,524 |
| Current assets | | | |
| Receivables from BMW Group companies | 8 | 1,818,000 | 1,575,188 |
| Derivative assets | 9 | 31,372 | 31,573 |
| Other financial assets | 10 | 13,945 | 12,190 |
| Cash and cash equivalents | 11 | 84,345 | 31,634 |
| | | <hr/> 1,947,662 | <hr/> 1,650,585 |
| Total assets | | <hr/> 2,976,549 | <hr/> 2,424,109 |
| Current liabilities | | | |
| Bank overdraft | 11 | 562 | 7 |
| Commercial paper | 12 | 248,845 | 4,991 |
| Medium term notes | 13 | 205,955 | 147,326 |
| Loans from BMW Group companies | 14 | 2,100,141 | 1,748,386 |
| Derivative liabilities | 15 | 38,483 | 29,267 |
| Other financial liabilities | 16 | 3,957 | 6,488 |
| Tax payable | | 2,450 | 2,053 |
| | | <hr/> 2,600,393 | <hr/> 1,938,518 |
| Non-current liabilities | | | |
| Deferred tax | 7 | 2,232 | - |
| Medium term notes | 13 | 152,222 | 369,265 |
| Loans from BMW Group companies | 14 | 100,000 | - |
| Derivative liabilities | 15 | 4,676 | 16,583 |
| | | <hr/> 259,130 | <hr/> 385,848 |
| Total liabilities | | <hr/> 2,859,523 | <hr/> 2,324,366 |
| Net assets | | <hr/> 117,026 | <hr/> 99,743 |
| Equity shareholder's funds | | | |
| Share capital | 17 | 281 | 281 |
| Share premium | 17 | 57,568 | 57,568 |
| Retained earnings | 17 | 59,177 | 41,894 |
| Total equity | | <hr/> 117,026 | <hr/> 99,743 |

These financial statements were approved by the board of directors on 4 April 2007 and were signed on its behalf by


Erich Ebner von Eschenbach
Director (Chairman)

Cash flow statement
for the year ended 31 December 2006

| | <i>Note</i> | 2006 | 2005 |
|--|-------------|---------------|---------------|
| | | £000 | £000 |
| Cash flows from operating activities | | | |
| Profit for the year | | 17,283 | 5,591 |
| Fair value gains on financial instruments and derivatives | | (129,260) | (170,885) |
| Fair value losses on financial instruments and derivatives | | 116,182 | 171,862 |
| Unrealised foreign exchange (gains)/losses | | (5,104) | 3,325 |
| Current and deferred taxation | | 7,407 | 2,396 |
| Other non cash items | | - | 153 |
| | | <hr/> | <hr/> |
| | | 6,508 | 12,442 |
| | | <hr/> | <hr/> |
| Changes in operating assets and liabilities | | | |
| (Increase) in receivables from BMW Group companies | | (504,270) | (406,161) |
| (Increase)/decrease in other financial assets | | (1,755) | 563 |
| Net increase in fair value of derivatives | | 16,048 | 1,765 |
| (Decrease)/increase in fair value of medium term notes | | (10,940) | 3,016 |
| (Decrease)/increase in other financial liabilities | | (2,531) | 1,983 |
| Income taxes paid | | (4,100) | (1,958) |
| | | <hr/> | <hr/> |
| Cash outflow from operating activities | | (501,040) | (388,350) |
| | | <hr/> | <hr/> |
| Cash flows from financing activities | | | |
| Increase/(decrease) in loans from BMW Group companies | | 456,817 | 592,872 |
| Repayment of bank loans | | - | (50,000) |
| Issuance of commercial paper | | 408,337 | 2,178,674 |
| Redemption of commercial paper | | (164,483) | (2,352,932) |
| Issuance of medium term notes and bonds | | - | 288,615 |
| Redemption of medium term notes and bonds | | (147,475) | (246,563) |
| | | <hr/> | <hr/> |
| Net cash inflow from financing activities | | 553,196 | 410,666 |
| | | <hr/> | <hr/> |
| Net increase/(decrease) in cash and cash equivalents | | 52,156 | 22,316 |
| Cash and cash equivalents at 1 January | | 31,627 | 9 311 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at 31 December | <i>11</i> | 83,783 | 31 627 |
| | | <hr/> | <hr/> |

Statement of changes in equity
for the year ended 31 December 2006

| | Share Capital £000 | Share premium £000 | Retained earnings £000 | Total £000 |
|---------------------------|--------------------------|--------------------------|------------------------------|---------------|
| 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 |
| Balance at 1 January 2006 | 281 | 57,568 | 41,894 | 99,743 |
| Profit for the year | - | - | 17,283 | 17,283 |
| At 31 December 2006 | 281 | 57,568 | 59,177 | 117,026 |

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 has prepared its financial statements in accordance with International Financial Reporting Standards as adopted for use in the EU

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

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

Interest-bearing receivables from and loans from BMW Group companies, debt securities and other non-derivative financial assets and liabilities are initially recognised at cost. If hedge accounting is applied, subsequent to initial recognition, the financial instruments are measured at fair value. All financial assets 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 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. This fair value is calculated using the company's treasury management system as described in note 19. 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 as fair value gains or losses on financial instruments in the income statement (even if those gains would normally be recognised directly in reserves).

Notes (continued)

1 Accounting policies (continued)

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

Loans and other receivables

Loans and other receivables are measured at amortised cost less impairment losses

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand 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 are hedged in respect of interest rate risk and currency risk, the movement in fair value being recognised immediately in the income statement. 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. The required segmental analysis is given in notes 2 and 3 and on the face of the income statement

Notes (continued)

2 Interest receivable

| | 2006 £000 | 2005 £000 |
|--|----------------|----------------|
| Interest from short-term deposits | 926 | 1,825 |
| Interest receivable from BMW Group companies | 130,504 | 110,426 |
| Premium received | - | 218 |
| | <hr/> | <hr/> |
| | 131,430 | 112,469 |
| | <hr/> | <hr/> |

By geographical segment

| | 2006 £000 | 2005 £000 |
|----------------|----------------|----------------|
| UK | 131,133 | 111,861 |
| Rest of Europe | 297 | 608 |
| | <hr/> | <hr/> |
| | 131,430 | 112,469 |
| | <hr/> | <hr/> |

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

3 Interest payable

| | 2006 £000 | 2005 £000 |
|--|----------------|----------------|
| Interest on bank loans/overdrafts | 702 | 721 |
| Interest payable to BMW Group companies | 90,507 | 64,139 |
| Interest on medium term notes and commercial paper | 24,000 | 36,180 |
| Commission paid | - | 372 |
| | <hr/> | <hr/> |
| | 115,209 | 101,412 |
| | <hr/> | <hr/> |

Notes (continued)

4 Administration expenses

Administration expenses include auditors' remuneration

| | 2006 £000 | 2005 £000 |
|-------------------------------------|--------------|--------------|
| Audit of these financial statements | 21 | 25 |

5 Staff numbers and costs

The staff working on behalf of the company have contracts of employment with BMW (UK) Holdings Ltd, 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 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 of BMW (UK) Ltd.

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 £64,000 (2005: £119,000).

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

| | Number of employees | |
|---------------|---------------------|------|
| | 2006 | 2005 |
| Staff numbers | 5 | 4 |

The aggregate recharges for these persons were as follows:

| | 2006 £000 | 2005 £000 |
|---|--------------|--------------|
| Wages and salaries | 255 | 223 |
| Social security costs and pension recharges | 66 | 46 |
| | 321 | 269 |

Notes (continued)

6 Taxation

Recognised in the income statement

| | 2006 £000 | 2005 £000 |
|---------------------------------|--------------|--------------|
| <i>Current tax expense</i> | | |
| Current year | 3,588 | 1,756 |
| Adjustments for prior years | 910 | - |
| | <hr/> | <hr/> |
| <i>Deferred tax expense</i> | | |
| Deferred tax expense / (income) | 3,819 | 640 |
| Adjustments for prior years | (910) | |
| | <hr/> | <hr/> |
| Total tax in income statement | <u>7,407</u> | <u>2,396</u> |

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

| | 2006 £000 | 2005 £000 |
|---|--------------|--------------|
| Profit before taxation | 24,690 | 7,987 |
| | <hr/> | <hr/> |
| Tax using the UK corporation tax rate of 30% (2005 30%) | 7,407 | 2,396 |
| | <hr/> | <hr/> |
| Total tax in income statement | <u>7,407</u> | <u>2,396</u> |

Notes (continued)

7 Deferred tax

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

| | 2006 £000 | 2005 £000 |
|---|----------------|--------------|
| Temporary differences on market values of financial instruments and derivatives | (2,232) | 677 |
| Net deferred tax (liabilities)/assets | <u>(2,232)</u> | <u>677</u> |

Movement in deferred tax during the year

| | 1 January 2006 £000 | Recognised in income £000 | 31 December 2006 £000 |
|---|---------------------------|---------------------------------|-----------------------------|
| Temporary differences on market values of financial instruments and derivatives | 677 | (2,909) | (2,232) |
| | <u>677</u> | <u>(2,909)</u> | <u>(2,232)</u> |

Movement in deferred tax during the prior 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> |

As a result of the Chancellor's Budget on 21 March 2007, it is expected that the corporation tax rate will reduce from 30% to 28% from April 2008. Management estimates that the deferred tax liability recognised would reduce by £114,000 as a result of this change.

Notes (continued)

8 Receivables from BMW Group companies

Financial receivables from related parties at the year end included £2,834,500,000 (2005 £2,330,188,000) of unsecured interest bearing loans, which the company expects to be settled in cash, which may be analysed as follows

| | 2006 Currency'000 | 2005 Currency'000 |
|--------------------------------------|----------------------|----------------------|
| <i>Non current</i> | | |
| Receivables from fellow subsidiaries | GBP 1,016,500 | GBP 755,000 |
| <i>Current</i> | | |
| Receivables from fellow subsidiaries | GBP 1,787,091 | GBP 1,566,263 |
| Receivables from fellow subsidiaries | EUR 45,952 | EUR 13,079 |

Financial receivables analysed by geographical segment are as follows

| | 2006 £000 | 2005 £000 |
|----------------|------------------|------------------|
| UK | 2,803,591 | 2 319,982 |
| Rest of Europe | 30,909 | 10,206 |
| | <u>2,834,500</u> | <u>2,330,188</u> |

The following details apply to the receivables from BMW Group companies at 31 December 2006

| Interest | Volume in relevant currency | Weighted average maturity period | Weighted average effective interest rate (in %) |
|----------|--------------------------------|-------------------------------------|---|
| Fixed | GBP 2 803 million | 17 months | 5.2 |
| Fixed | EUR 46 million | 5 months | 4.0 |

9 Derivative assets

| | 2006 £000 | 2005 £000 |
|---|---------------|---------------|
| <i>Non-current</i> | | |
| Interest derivatives with fellow subsidiaries | - | 4,859 |
| Interest derivatives with non-related parties | 11,522 | 5,659 |
| Currency derivatives with fellow subsidiaries | 688 | - |
| Currency derivatives with non-related parties | 177 | 7 329 |
| | <u>12,387</u> | <u>17 847</u> |
| <i>Current</i> | | |
| Interest derivatives with fellow subsidiaries | - | 98 |
| Interest derivatives with non-related parties | 2,574 | 163 |
| Currency derivatives with fellow subsidiaries | 26,681 | 2,955 |
| Currency derivatives with non-related parties | 2,117 | 28,357 |
| | <u>31,372</u> | <u>31,573</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 19. The non-related parties described above comprise international financial institutions.

10 Other financial assets

Other financial assets comprise

| | 2006 £000 | 2005 £000 |
|-----------------------------|---------------|---------------|
| Accrued interest receivable | 13,912 | 12,115 |
| Other | 33 | 75 |
| | <u>13,945</u> | <u>12,190</u> |

11 Cash and cash equivalents/bank overdrafts

| | 2006 £000 | 2005 £000 |
|---|---------------|---------------|
| Cash and cash equivalents per balance sheet | 84,345 | 31,634 |
| Bank overdrafts | (562) | (7) |
| | <u>83,783</u> | <u>31,627</u> |
| Cash and cash equivalents per cash flow statement | | |

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 250 million | 27 | 5.2 |

13 Medium term notes

| | 2006 £000 | 2005 £000 |
|---|--------------|--------------|
| Non current | | |
| Medium term notes recognised as fair value through profit or loss | 152,222 | 369,265 |
| | <hr/> | <hr/> |
| Current | | |
| Medium term notes classified as fair value through profit or loss | 205,955 | 87,326 |
| Medium term notes held at amortised cost | - | 60,000 |
| | <hr/> | <hr/> |
| | 205,955 | 147,326 |
| | <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 275 million | 2.5 | 3.7 |
| Variable | JPY 5,000 million | 2.0 | 0.6 |
| 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 £2,200,141,000 (2005 £1,748,386,000) of unsecured interest bearing loans, which the company expects to be settled in cash

| | 2006 Currency '000 | 2005 Currency '000 |
|-------------------------------------|-----------------------|-----------------------|
| <i>Non current</i> | | |
| Loans from fellow subsidiaries | GBP 100,000 | GBP - |
| <i>Current</i> | | |
| Loans from ultimate parent company | EUR - | EUR 525,190 |
| Loans from immediate parent company | GBP 4,680 | GBP 4 550 |
| Loans from fellow subsidiaries | GBP 1,458,773 | GBP 1 296 527 |
| Loans from fellow subsidiaries | EUR 946,577 | EUR 126,997 |

The following details apply to the loans from BMW Group companies at 31 December 2006

| Interest | Volume in relevant currency | Weighted average maturity period (in days) | Weighted average effective interest rate (in %) |
|----------|--------------------------------|--|---|
| Fixed | EUR 947 million | 29 | 3.7 |
| Fixed | GBP 1,563 million | 122 | 5.2 |

15 Derivative liabilities

| | 2006 £000 | 2005 £000 |
|---|---------------|---------------|
| <i>Non-current</i> | | |
| Interest derivatives with fellow subsidiaries | 2,724 | 381 |
| Interest derivatives with non-related parties | 39 | 8,558 |
| Currency derivatives with fellow subsidiaries | 177 | 6,037 |
| Currency derivatives with non-related parties | 1,736 | 1,607 |
| | <u>4,676</u> | <u>16 583</u> |
| <i>Current</i> | | |
| Interest derivatives with fellow subsidiaries | 1,254 | 39 |
| Interest derivatives with non-related parties | 55 | 817 |
| Currency derivatives with ultimate parent | 69 | - |
| Currency derivatives with fellow subsidiaries | 1,701 | 24,067 |
| Currency derivatives with non-related parties | 35,404 | 4,344 |
| | <u>38,483</u> | <u>29,267</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 19. The non-related parties described above comprise international financial institutions.

Notes (continued)

16 Other financial liabilities

Other financial liabilities comprise

| | 2006 £000 | 2005 £000 |
|--------------------------|--------------|--------------|
| Accrued interest payable | 3,844 | 6,323 |
| Other | 113 | 165 |
| | <u>3,957</u> | <u>6,488</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 2005 | 281 | 57,568 | 36,303 | 94,152 |
| Profit for the year | - | - | 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 |
| | <u>281</u> | <u>57,568</u> | <u>41,894</u> | <u>99,743</u> |
| Balance at 1 January 2006 | 281 | 57,568 | 41,894 | 99,743 |
| Profit for the year | - | - | 17,283 | 17,283 |
| | <u>281</u> | <u>57,568</u> | <u>59,177</u> | <u>117,026</u> |
| Balance at 31 December 2006 | 281 | 57,568 | 59,177 | 117,026 |

18 Share capital

| | 2006 £000 | 2005 £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 |

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 (2005: nil).

Notes (continued)

19 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, 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 2006 (2005: nil).

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 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.

Notes (continued)

19 Financial instruments (continued)

The carrying amounts and fair values of receivables from and loans from BMW Group companies are shown in the table below

| | 2006 | | 2005 | |
|--------------------------------------|-------------------------|--------------------|-------------------------|--------------------|
| | Carrying amount £000 | Fair Value £000 | Carrying amount £000 | Fair Value £000 |
| Receivables from BMW Group companies | | | | |
| Non current | 1,016,500 | 1,012,842 | 755,000 | 762,833 |
| Current | 1,818,000 | 1,816,866 | 1,575,188 | 1,576,204 |
| | <u>2,834,500</u> | <u>2,829,708</u> | <u>2,330,188</u> | <u>2,339,037</u> |
| Loans from BMW Group companies | | | | |
| Non current | 100,000 | 100,351 | - | - |
| Current | 2,100,141 | 2,099,729 | 1,748,386 | 1,747,911 |
| | <u>2,200,141</u> | <u>2,200,080</u> | <u>1,748,386</u> | <u>1,747,911</u> |

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

| | 2006 | | 2005 | |
|---|-------------------------|--------------------|-------------------------|--------------------|
| | Carrying amount £000 | Fair Value £000 | Carrying amount £000 | Fair Value £000 |
| Medium term notes not carried at fair value | - | - | 60,000 | 59,998 |

Notes (continued)

19 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

| 31 December 2006 | 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 |
| Assets | | | | | |
| Interest rate contracts | GBP 2,007,400 | 14,096 | 2,574 | 11,375 | 147 |
| Currency hedge contracts | EUR 3,500,581 | 29,663 | 28,798 | 865 | - |
| Liabilities | | | | | |
| Interest rate contracts | GBP 680,000 | 4,073 | 1,309 | 2,617 | 147 |
| Currency hedge contracts | EUR 4,389,744 | 39,086 | 37,174 | 1,912 | - |
| | | <u>600</u> | <u>(7,111)</u> | <u>7,711</u> | <u>-</u> |
| | | | | | |
| 31 December 2005 | 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 |
| 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> |

20 Capital commitments

No capital commitments existed as at 31 December 2006 (2005 £nil)

21 Contingencies and commitments

The company acts as guarantor for commitments, predominantly lease commitments, totalling £275 million (2005 - £373 million) which have been entered into by BMW Group companies. Of this, £272 million (2005 - £372 million) is re-guaranteed by BMW AG.

The company provides a EUR 100 million committed credit facility to BMW Austria Bank GmbH, Athens Branch. BMW Austria Bank GmbH, Athens Branch has the right to terminate this facility with 1 months' notice. The company has the right to terminate this facility with 37 months' notice. Drawings of EUR 39 million were outstanding as at 31 December 2006 (2005 nil),

Notes *(continued)*

22 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 21, 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 Leasing (GB) Ltd

Alphabet (GB) Ltd

BMW (UK) Manufacturing Ltd

BMW Services Ltd

BMW (UK) Investments Ltd

BMW (UK) Pensions Services Ltd

Midland Gears Ltd

Rolls-Royce Motor Cars Ltd

Rolls-Royce Motor Cars GmbH

BMW Hams Hall Motoren GmbH, UK Branch

BMW Automotive (Ireland) Ltd

Softlab Ltd

BMW Austria Bank GmbH, Athens Branch

Notes (continued)

22 Related parties (continued)

Interest receivable within the year from the ultimate parent company was £nil (2005 £nil), interest payable within the year to the ultimate parent company was £2,510,000 (2005 £540,000) As at 31 December 2006, there was no financial receivable due from or loan due to the ultimate parent company (2005 loan due to the ultimate parent company of EUR 525,000,000)

The charge for guarantee fees payable to the ultimate parent company in relation to guarantees on external debt and finance leases was £127,000 (2005 £234,000)

As at 31 December 2006 a liability of £69,000 is shown within the balance sheet for a foreign currency derivative with the ultimate parent company

Interest receivable within the year from the immediate parent company was £57,000 (2005 £154,000), interest payable within the year to the immediate parent company was £332,000 (2005 £418,000) As at 31 December 2006, there was a loan due to the immediate parent company of £4,680,000 (2005 £4,550,000)

23 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