

**BMW (UK) Capital plc**  
**DIRECTORS' REPORT AND**  
**FINANCIAL STATEMENTS**  
**31 DECEMBER 2003**

Registered in England and Wales

No 3114356



## **BMW (UK) Capital plc**

### **DIRECTORS' REPORT**

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 December 2003.

#### **Activities**

The principal activity of the company is to raise funds in the financial markets for use by BMW Group Companies. The company also enters into derivatives on behalf of UK BMW Group Companies.

#### **Financial**

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

No dividends were paid in 2003 and none are proposed (2002 - £nil). A reconciliation of the movements in shareholders' funds is given in note 13.

#### **Directors**

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

Dr. Wolfgang Stofer (Chairman)

Neil C Wharton

Michael C Kreeft (Resigned 10/01/2003)

Gerald Rona (Appointed 10/01/2003)

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


#### **Policy on payment of creditors**

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

#### **Auditors**

In accordance with S384 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

 29 March 2004

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

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



## KPMG LLP

Arlington Business Park

Theale

Reading

RG7 4SD

United Kingdom

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

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

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

#### Respective responsibilities of directors and auditors

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

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

#### Basis of audit opinion

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

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
KPMG LLP

Chartered Accountants

Registered Auditor

29-04-04

**BMW (UK) Capital plc**

**PROFIT AND LOSS ACCOUNT**

**For the year ended 31 December 2003**

	<u>Notes</u>	<u>Year ended</u> <u>31 December 2003</u>		<u>Year ended</u> <u>31 December 2002</u>	
		£'000	£'000	£'000	£'000
Interest receivable & similar income	1		94,827		106,434
Interest payable	2		<u>(86,803)</u>		<u>(100,652)</u>
Gross profit			8,024		5,782
Administrative expenses		(522)		(580)	
Other operating income		14,080		7,379	
Other operating expenses		<u>(14,548)</u>		<u>(7,222)</u>	
			<u>(990)</u>		<u>(423)</u>
Operating profit and profit on ordinary activities before taxation	3-6		7,034		5,359
Tax on profit on ordinary activities	7		<u>-</u>		<u>-</u>
Profit for the financial year	13		<u><u>7,034</u></u>		<u><u>5,359</u></u>

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

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

**BMW (UK) Capital plc**

**BALANCE SHEET**

**As at 31 December 2003**

	Notes	2003	2002
		£'000	£'000
<b>CURRENT ASSETS</b>			
Debtors	8	2.955.136	1.587.804
Cash and short term deposits	9	<u>110.365</u>	<u>74.574</u>
		3.065.501	1.662.378
<b>CREDITORS: Amounts falling due within one year</b>	10	<u>(2.673.692)</u>	<u>(624.407)</u>
<b>NET CURRENT ASSETS:</b>			
Due within one year		59.309	801.471
Debtors due after one year	8	<u>332.500</u>	<u>236.500</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		391.809	1.037.971
<b>CREDITORS: Amounts falling due after more than one year</b>	10	<u>(299.847)</u>	<u>(953.043)</u>
<b>NET ASSETS</b>		<u>91.962</u>	<u>84.928</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	281	281
Share premium account	13	57.568	57.568
Profit and loss account	13	34.113	27.079
<b>SHAREHOLDERS' FUNDS - EQUITY</b>	13	<u>91.962</u>	<u>84.928</u>

The financial statements were approved by the Board of directors on 25th March 2004 and were signed on their behalf by:

Dr W Stöfer - Director (Chairman)



## **BMW (UK) Capital plc**

### **ACCOUNTING POLICIES**

#### **For the year ended 31 December 2003**

These financial statements have been prepared in accordance with applicable accounting standards, except for gains on Foreign Exchange Contracts which are presented within interest receivable (see note 1).

Accounting policies have been consistently applied within the accounts from one financial year to another.

#### **Cash flow statement**

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

#### **Interest**

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

#### **Taxation**

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

#### **Risk Management**

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

#### **Interest Rate Risk**

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

#### **Currency Risk**

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

## **BMW (UK) Capital plc**

### **Credit Risk**

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

### **Financial Instruments**

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

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

### **Foreign Currencies**

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



**BMW (UK) Capital plc**

**Notes to the Financial Statements**

<b>1</b>	<b>INTEREST RECEIVABLE &amp; SIMILAR INCOME</b>	<u>2003</u> £'000	<u>2002</u> £'000
	Interest from short-term deposits	8,575	20,418
	Interest receivable from group undertakings	84,675	78,469
	Exchange gains receivable on foreign exchange contracts	1,577	7,547
		<u>94,827</u>	<u>106,434</u>

<b>2</b>	<b>INTEREST PAYABLE</b>	<u>2003</u> £'000	<u>2002</u> £'000
	Interest on bank loans/overdrafts	9,585	10,000
	Interest on other loans	45,868	63,421
	Interest payable to group undertakings	31,350	27,231
		<u>86,803</u>	<u>100,652</u>

# **BMW (UK) Capital plc**

## **Notes to the Financial Statements continued**

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

	2003			
	<u>UK</u> £'000	<u>US</u> £'000	<u>Germany</u> £'000	<u>Total</u> £'000
Interest receivable	<u>88,598</u>	<u>2,334</u>	<u>3,895</u>	<u>94,827</u>
Financial receivables	<u>1,852,087</u>	<u>-</u>	<u>1,097,578</u>	<u>2,949,665</u>
	2002			
	<u>UK</u> £'000	<u>US</u> £'000	<u>Germany</u> £'000	<u>Total</u> £'000
Interest receivable	<u>92,197</u>	<u>14,237</u>	<u>-</u>	<u>106,434</u>
Financial receivables	<u>1,432,686</u>	<u>154,914</u>	<u>-</u>	<u>1,587,600</u>

Management has not analysed the interest payable, profit before interest and tax, or the company's net assets by geography, as it believes that this would give a distorted view of the company's operations.

## BMW (UK) Capital plc

### Notes to the Financial Statements continued

<b>4</b>	<b>OPERATING PROFIT</b>	<u>2003</u> £'000	<u>2002</u> £'000
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Operating profit is stated after charging:

Auditors' remuneration - audit	18	25
Gains on foreign currency borrowing and deposits	13,842	6,880
Losses on foreign currency borrowing and deposits	<u>(14,143)</u>	<u>(6,817)</u>

### 5 DIRECTORS' EMOLUMENTS

None of the Directors were entitled to or received any emoluments in respect of their services to the company during the period (2002 - £nil).

### 6 STAFF COSTS

	<u>2003</u> number	<u>2002</u> number
Staff numbers	<u>6</u>	<u>7</u>

	<u>2003</u> £'000	<u>2002</u> £'000
Payroll Costs	<u>378</u>	<u>352</u>

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

## BMW (UK) Capital plc

### Notes to the Financial Statements continued

#### 7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the period	<u>2003</u> £'000	<u>2002</u> £'000
UK corporation tax	-	-
Total current tax	-	-
Tax on profit on ordinary activities	-	-

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower (2002:lower) than the profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%, 2002:30%). The differences are explained below.

	<u>2003</u> £'000	<u>2002</u> £'000
Current tax reconciliation		
Profit on ordinary activities before tax	7,034	5,359
Current tax at 30% (2002 : 30%)	2,110	1,608
Effects of:		
Group relief not paid for	(2,110)	(1,608)
Total current tax charge (see above)	-	-

Factors that may affect future tax charges:

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

The company has no deferred tax assets or liabilities (2002 - £nil).

**BMW (UK) Capital plc****Notes to the Financial Statements continued****8 DEBTORS**

	<u>2003</u> £'000	<u>2002</u> £'000
Amounts owed by group undertakings		
Due within one year	2,617,165	1,351,100
Due after one year	332,500	236,500
Other debtors		
Due within one year	5,471	204
Due after one year	-	-
	<u>2,955,136</u>	<u>1,587,804</u>

**9 CASH AND SHORT TERM DEPOSITS**

Cash and deposits comprise sterling deposits placed on the London money markets. The sterling deposits were yielding a weighted average interest rate of 3.6624% as at 31 December 2003.

# **BMW (UK) Capital plc**

## **Notes to the Financial Statements continued**

### **10 CREDITORS:**

#### **Analysis by maturity**

	31 December 2003				
	Bank Loans/ Overdrafts £'000	Other Loans £'000	Accruals/ Deferred Income £'000	Group Undertakings £'000	Total £'000
Due within one year	202,605	1,548,300	10,784	912,003	2,673,692
Due after one year	50,000	249,847	-	-	299,847
Analysed as :					
After five years	-	100,000	-	-	100,000
From two to five years	-	-	-	-	0
From one to two years	50,000	149,847	-	-	199,847

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

Included in other loans is a balance of £321k relating to unamortised commission and premium on the issue of bonds.

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

# **BMW (UK) Capital plc**

## **Notes to the Financial Statements continued**

### **10 CREDITORS: (Cont)**

#### **Analysis by currency**

Bank Loans, Overdrafts, Other Loans and Group Companies		Weighted Int Rate	Weighted Average Period	2003 £'000
Sterling	Fixed Borrowings	5.840%	1.78	175,179
	Floating Borrowings			1,657,709
				<u>1,832,888</u>

The floating-rate borrowings are linked to GBP LIBOR.

			€'000	£'000
Euro	Fixed Borrowings (ECP)	2.134%	1,557,321	1,095,104
	Floating Borrowings		49,264	34,763
			<u>1,606,585</u>	<u>1,129,867</u>

A fixed amount of interest is paid on the issue of commercial paper shown above under fixed borrowing. Maturity dates are normally less than 3 months and are linked to EURIBOR.

The floating-rate borrowings are linked to the Euro overnight interest index average (EONIA)

BMW Group has entered into one undrawn committed credit facility of US\$7 billion.  
BMW (UK) Capital plc can draw under this facility. The facility matures as follows :

Less than one year	US\$ 2.5 billion
More than two years	US\$ 4.5 billion

## BMW (UK) Capital plc

### Notes to the Financial Statements continued

#### 11 HEDGING & FAIR VALUES

	Gains £'000	Losses £'000	£'000
Unrecognised gains and losses on hedges at 1st January 2003.	102,704	103,152	(448)
Gains and losses arising in previous years that were recognised in 2003.	26,480	41,048	(14,568)
Gains and losses arising before 1st Jan 2003 that were not recognised in 2003.	76,224	62,104	14,120
Gains and losses arising in 2003 that were not recognised in 2003.	108,624	104,544	4,080
Unrecognised gains and losses on hedges at 31st December 2003.	<u>184,848</u>	<u>166,648</u>	<u>18,200</u>
Of which :			
Gains and losses expected to be recognised in 2004	77,796	66,719	11,077
Gains and losses expected to be recognised in 2005 or later	107,052	99,929	7,123

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

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

The company previously issued deposits to BMW (US) Capital LLC in USD. The company hedged these instruments with foreign exchange contracts. In May 2003 these deposits ceased.

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

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



## BMW (UK) Capital plc

### Notes to the Financial Statements continued

#### 11 HEDGING & FAIR VALUES (Cont)

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

	Book Value	Fair Value	Book Value	Fair Value
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	£'000	£'000	£'000	£'000
Cash, Deposits	110,365	110,365	74,574	74,576
Short-term debtors	2,608,671	2,588,595	1,340,786	1,342,685
Long-term debtors				
Floating Rate	332,500	327,230	236,500	240,021
Short-term borrowings	(2,009,428)	(2,009,497)	(496,402)	(496,767)
Long-term borrowings				
Floating Rate	(803,364)	(809,808)	(921,372)	(912,872)
Fixed Rate	(149,679)	(153,870)	(149,512)	(157,267)
Derivative financial instruments				
Interest rate swaps	-	10,888	-	18,050
Forward foreign currency contracts	-	-	-	3,048
Cross currency swaps	-	7,312	-	(21,546)

Fair values are determined by using the company's Treasury Management System. This system incorporates relevant & current external market information. Specifically, fair market values are calculated by using a discounted cash flow method. Each future cash flow is discounted by a factor based on the zero yield curve. The zero yield curve is calculated by the system using current market data. The above described calculation method is approved by the BMW Group's auditors.

An analysis of deposits is provided below:

	Weighted Interest Rate	Weighted Average Period	<u>2003</u> £'000
Fixed Deposits	4.42%	1.0	830,619
Floating Deposits			<u>2,220,917</u>
			<u>3,051,536</u>

Of the £830.6m fixed deposits, £641.6m has been swapped to a floating interest rate based on GBP Libor.

Interest rates on floating-rate deposits are linked to GBP LIBOR or EURIBOR.

An analysis of borrowings is provided in note 10.

## BMW (UK) Capital plc

### Notes to the Financial Statements continued

#### 12 CALLED UP SHARE CAPITAL

Ordinary shares of £1 each

	<u>2003</u>	<u>2002</u>
Authorised	<u>10,000,000</u>	<u>10,000,000</u>
Allotted, called up and fully paid	<u>281,000</u>	<u>281,000</u>

#### 13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital £'000	Share Premium £'000	Profit and Loss £'000	Total £'000
At 1 January 2003	281	57,568	27,079	84,928
Profit for the financial year	-	-	7,034	7,034
At 31 December 2003	<u>281</u>	<u>57,568</u>	<u>34,113</u>	<u>91,962</u>

#### 14 CAPITAL COMMITMENTS

No capital commitments existed as at 31 December 2003 (2002 - £nil).

#### 15 CONTINGENT LIABILITIES AND COMMITMENTS

The company acts as guarantor for lease amounts totalling £279m (2002 - £272m) which have been taken out by group companies, of this amount £276m (2002 - £270m) is reguaranteed by BMW AG.

#### 16 RELATED PARTY DISCLOSURES

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

## **BMW (UK) Capital plc**

### **Notes to the Financial Statements continued**

#### **17 ULTIMATE PARENT COMPANY**

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

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

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