McLaren Racing Limited

Directors' report and financial statements

Registered number 01517478

31 December 2008

Contents

Officers and professional advisers

Directors	J Cooper T Murnane J Neale A Ojjeh (Saudi Arabian) M A Ojjeh (Saudi Arabian) M Whitmarsh N Haug R Dennis (resigned 28 May 2009)
Secretary	T Murnane
Registered office	McLaren Technology Centre Chertsey Road Woking Surrey GU21 4YH
Auditors	KPMG LLP 1 Forest Gate Brighton Road Crawley RH11 9PT

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Registered number

The company's registered number is 01517478.

Principal activity

The company's principal activity during the year was that of participating in Formula One motor racing events throughout the world. This includes the design, development, manufacture and racing of Formula One cars.

Business review and future prospects

The directors consider race performance, turnover, cost base, profit before tax and cash flow to be the principal key performance indicators to assess progress towards their strategic goals.

The company enjoyed another highly successful year on the track. Lewis Hamilton became the youngest ever World Champion when he clinched the title by one point at the very last race in Brazil. In a truly memorable year of Formula One racing no fewer than 5 teams won races.

Lewis Hamilton, together with his team-mate Heikki Kovalainen secured 6 wins, 13 podiums and 8 pole positions for the Vodafone McLaren Mercedes Team.

Turnover has increased from £127m to £139m, with the team's partners relatively unchanged.

The cost base of the company remains firmly under control, with cost of sales increasing from £79m to £82m and administrative expenses reducing from £47m to £43m.

Principal risks and uncertainties

The key risks and uncertainties faced by the business are: continuing to be competitive in F1, ability to gain and retain sponsorship, control of the cost base of developing F1 cars and staff recruitment and retention. All of these are obviously linked.

McLaren has remained competitive over many years and aims to continue to win races in the 2009 season, where we have seen many technical rule changes including reduced downforce aerodynamics, kinetic energy recovery and a return to slick tyres. Although the company drives itself to achieve efficiencies in developing and manufacturing cars and components, costs remain a key challenge in today's tough economic conditions.

For further information on these risks and uncertainties, please refer to the Directors' Report of the company's ultimate parent, McLaren Group Limited.

Results

The profit on ordinary activities for the year after taxation amounted to £5,985,000 *(2007: loss £34,502,000)*.

Dividends

The directors do not propose a dividend for the year ended 31 December 2008 *(2007:£nil)*.

Directors' Report *(continued)*

Directors

The directors who served during the year are as reported on page 1. The directors served throughout the year unless otherwise stated.

Employment of disabled persons

The policy of the company is to give full and fair consideration to employment application by disabled persons and to ensure that disabled employees receive appropriate training and career development opportunities.

Employment policies

The company is committed to ensuring that its people are actively engaged in the ongoing management and future direction of the business. Regular formal and informal briefings are held with all sections of the workforce.

The company takes reasonable steps to ensure that all employees, existing and prospective, are given fair and equal opportunity, regardless of sex, race, ethnicity, religion or disability.

Disclosure of information

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 or she 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

T. N. M

T Murnane
Secretary

29th October 2009

Company's Registered Number:
01517478

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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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.

Independent auditors' report to the members of McLaren Racing Limited

We have audited the financial statements of McLaren Racing Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, 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 financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 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

KPMG LLP
29th October 2009
Chartered Accountants
Registered Auditor

1 Forest Gate
Brighton Road
Crawley
RH11 9PT

Profit and loss account
for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Turnover	*1*	**139,090**	127,376
Cost of sales		**(82,124)**	(79,113)
Gross profit		**56,966**	48,263
Administrative expenses		**(43,062)**	(46,592)
Operating profit		**13,904**	1,671
Exceptional item	*3*	**-**	(37,690)
Interest receivable and similar income	*4*	**211**	780
Interest payable and similar charges	*5*	**(31)**	(161)
Profit/ (loss) on ordinary activities before taxation	*6*	**14,084**	(35,400)
Tax on profit/ (loss) on ordinary activities	*7*	**(8,099)**	898
Profit/ (loss) for the financial year	*17*	**5,985**	(34,502)

In both the current year and preceding period, the company made no material acquisitions and had no discontinued operations.

There were no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account, and therefore no separate statement of total recognised gains and losses has been presented.

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

Balance sheet
as at 31 December 2008

	Note	£000	2008 £000	£000	2007 £000
Fixed assets					
Tangible assets	8		**23,854**		25,582
Investments	9		**1,416**		1,740
			25,270		27,322
Current assets					
Stocks	10	**24,101**		19,387	
Debtors	11	**50,902**		56,329	
Cash at bank and in hand		**63**		230	
		75,066		75,946	
Creditors: amounts falling due within one year	12	**(110,164)**		(121,257)	
Net current liabilities			**(35,098)**		(45,311)
Total assets less current liabilities			**(9,828)**		(17,989)
Provisions for liabilities and charges	13		**(2,176)**		-
			(12,004)		(17,989)
Capital and reserves					
Called up share capital	15		**50**		50
Profit and loss account	16		**(12,054)**		(18,039)
Equity	17		**(12,004)**		(17,989)

These financial statements were approved by the board of directors on 29th October 2009 and were signed on their behalf by:

M Whitmarsh
Director

Notes
(Forming part of the financial statements)

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, and under the historical cost accounting rules. The particular accounting policies adopted are described below, and have been applied consistently throughout the current and preceding period.

Going Concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £35,098,000 (2007: £45,311,000) and net liabilities of £12,004,000 (2007: £17,989,000), which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by McLaren Group Limited, the company's ultimate parent. McLaren Group Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. The directors consider that this should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Consolidation

Consolidated financial statements have not been prepared as the company is a wholly owned subsidiary of a company registered in England and Wales. Accordingly, these financial statements present information about the company as an individual undertaking and not as a group.

Joint arrangements

Where the company is party to a joint arrangement which is not an entity, its part of the income and expenditure, assets and liabilities have been included in these financial statements.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided over the estimated useful lives of the assets at the following rates:

Leasehold premises and improvements	- written off over the life of the lease
Fixtures, fittings and office equipment	- 20% of reducing balance
Plant, machinery, tools and equipment	- 20% of reducing balance
Motor vehicles	- 25% of reducing balance

No depreciation is provided until the assets are brought into use.

Fixed assets – motor vehicles

Motor vehicles include £5,242,000 *(2007:£5,222,000)* of historic racing cars. These cars are carried at their historic cost plus costs of refurbishment. They are not depreciated on the basis that estimated residual values exceed their historic cost. Maintenance costs are expensed as incurred.

Fixed asset investments

Investments are unlisted and are stated at cost less any provision for any impairment.

Stocks, work in progress and expenditure on racing cars

Stocks are valued at the lower of invoiced cost and net realisable value. Racing cars have an expected life of one year and all expenditure on the production and maintenance of such cars is charged to the profit and loss account during the racing season in which the racing car is used. The Board considers that research and development continues to play a vital role in the group's success. The group carries forward to the following year, certain development costs incurred in the current year which relate to the production of next season's car.

Notes *(continued)*

Turnover

Turnover represents sponsorship income and other motor racing related revenue receivables, excluding value added tax. Turnover relating to sponsorship contracts is recognised over the term of that agreement.

In certain cases, the company enters into agreements with suppliers whereby goods and services are received in exchange for various sponsorship and marketing activities. In such cases, turnover is recorded at the fair value of the goods or services rendered.

All turnover originates in the United Kingdom. An analysis of turnover, operating profit and net assets by geographical destination has not been included as the directors believe that the group operates in a single global market and that the allocation to geographical destination segments would be seriously prejudicial to the company.

Taxation

Current taxation, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate ruling on the date of the transaction, unless matching forward foreign exchange contracts have been entered into, in which case the rate specified in the relevant contract is used. At the balance sheet date unhedged monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date. All foreign currency differences are dealt with through the profit and loss account.

Derivative instruments utilised by the company are forward exchange contracts. The company does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of any existing underlying exposure of the company in line with the company's risk management policies.

Leases

Assets held under finance leases are initially reported at the fair value of the asset with equivalent liability categorised as appropriate under creditors due within or after one year. The assets are depreciated over the shorter of the lease term and their useful economic lives. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of charge on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate. Hire purchase transactions are dealt with similarly except that assets are depreciated over their useful economic lives.

Rental costs under operating leases are charged on a straight-line basis over the lease term.

Pensions

The company participates in a defined contribution pension scheme operated by McLaren Group Limited and also pays contributions to personal pension schemes of certain employees. The amounts payable to these schemes during the period are charged to the profit and loss account.

Cash flow statement

The company is a wholly owned subsidiary of McLaren Group Limited and is included in the consolidated financial statements of McLaren Group Limited, which are publicly available. Consequently, the company has taken exemption from preparing a cash flow statement as permitted under FRS 1 (revised 1996).

Notes *(continued)*

2 Information regarding directors and employees

	2008 £000	2007 £000
Directors' emoluments:		
Emoluments (excluding pension contributions)	**200**	163
Highest paid director's emoluments	**561**	491
Aggregate of emoluments (excluding pension contributions)	**761**	654
Pension contributions	**10**	9
Highest paid director's contributions	**29**	27
	39	36
	Number	Number
Number of directors who are members of a defined contribution scheme	**2**	2

R Dennis, M R Whitmarsh and T Murnane are also directors of other group companies and their remuneration for services to the group have been borne by another group company. The share of the total emoluments of these directors allocated in respect of services to this company is £1,621,320 *(2007: £1,639,699).*

	2008 £000	2007 £000
Employees costs during the period (including directors):		
Wages and salaries	**33,220**	30,574
Social security costs	**3,848**	3,567
Other pension costs	**895**	772
	37,963	34,913
	Number	Number
Average number of persons employed		
Production	**353**	340
Engineering	**173**	156
Administration	**85**	74
	611	570

Notes *(continued)*

3 Exceptional item

The World Motor Sport Council, at a meeting on 13 September 2007, imposed sanctions on the McLaren Racing Team. These sanctions resulted in lower prize money being received in 2008 and the first quarter 2009. The sanctions also resulted in a payment to the FIA. Due to the nature of the calculation the total payment due was estimated at $66m in the 2007 accounts and at the balance sheet date $63.5m (2007: $50m) had been paid. This exceptional item (including cost associated with the sanctions) was debited to the profit and loss account in the year ended 31 December 2007.

4 Interest receivable and similar income

	2008	2007
	£000	£000
On group company loans	**205**	780
Other interest receivable	**6**	-
	211	780

5 Interest payable and similar charges

	2008	2007
	£000	£000
Other interest payable and finance charges	**6**	9
Net exchange losses	**25**	152
	31	161

6 Profit/ (loss) on ordinary activities before taxation

		2008	2007
		£000	£000
Profit/ (loss) on ordinary activities before taxation is stated after charging/(crediting):			
Depreciation	- owned	**4,563**	4,086
Operating lease rentals	- other	**5,921**	5,921
Auditors' remuneration	- audit of these financial statements	**26**	24
	- other services relating to taxation	**112**	21
	- all other services	**1**	25
Impairment of investments held as fixed assets		**324**	-
Loss/ (profit) on disposal of fixed assets		**21**	(55)

Notes *(continued)*

7 Tax on profit /(loss) on ordinary activities

	2008 £000	2007 £000
United Kingdom corporation tax at 28.5% *(2007: 30%)*	**59**	(849)
Adjustments in respect of prior years	**850**	238
Total current tax	**909**	(611)
Deferred taxation:		
Origination and reversal of timing differences	**(196)**	(1,295)
Changes in tax rates	**-**	306
Adjustments in respect of prior years	**7,386**	702
	8,099	(898)

Factors affecting tax charge for the current year

The current tax charge for the year is lower *(2007: lower)* than the standard rate of corporation tax in the UK of 28.5% *(2007: 30%).* The differences are explained below:

	2008 £000	2007 £000
Profit on ordinary activities before taxation	**14,084**	(35,400)
Tax at 28.5% thereon	**(4,014)**	10,620
Effects of:		
Expenses not deductible for tax purposes	**(245)**	(1,077)
Depreciation in excess of capital allowances	**(232)**	(1,208)
Movement in short term timing differences	**-**	(78)
Tax losses carried forward	**(175)**	(10,744)
Tax incentives	**4,607**	3,336
Adjustments in respect of prior years	**(850)**	(238)
Total actual amount of current tax	**(909)**	611

Notes *(continued)*

8 Tangible fixed assets

	Leasehold premises and improvements £000	Plant and machinery, tools and equipment £000	Motor vehicles and historic cars £000	Fixtures, fittings and office equipment £000	Total £000
Cost:					
At 1 January 2008	83	24,113	14,702	9,598	48,496
Additions	54	1,489	46	1,306	2,895
Reclassification	-	69	(294)	-	(225)
Disposals	-	(117)	(38)	-	(155)
At 31 December 2008	137	25,554	14,416	10,904	51,011
Accumulated depreciation:					
At 1 January 2008	13	12,543	5,737	4,621	22,914
Charge for the year	16	2,460	1,027	1,060	4,563
Depreciation reclassification	-	69	(294)	-	(225)
Disposals	-	(64)	(31)	-	(95)
At 31 December 2008	29	15,008	6,439	5,681	27,157
Net book value:					
At 31 December 2008	**108**	**10,546**	**7,977**	**5,223**	**23,854**
At 31 December 2007	**70**	**11,570**	**8,965**	**4,977**	**25,582**

Notes *(continued)*

9 Investment held as fixed assets

	Shares in group companies £000
Cost:	
At 31 December 2007 and 31 December 2008	3,153
Provisions:	
At 31 December 2007	1,413
Impairment during the year	324
Ar 31 December 2008	1,737
Net book value:	
At 31 December 2008	**1,416**
At 31 December 2007	1,740

The subsidiaries are:

Name	**Activity**	**Holding (Ordinary Share Capital)**	**Net Assets at 31 Dec 2008**	**Profit / (loss) for the year ended 31 Dec 2008**
Lydden Circuit Limited	Race track operation	100%	1,387	(345)
Absolute Taste Limited	Catering services	55%	598	110

Consolidated financial statements have not been prepared as the company is a wholly owned subsidiary of a company registered in England and Wales. Accordingly, these financial statements present information about the company as an individual undertaking and not as a group.

10 Stocks

	2008 £000	2007 £000
Racing car development costs	**22,193**	18,079
Raw materials and consumables	**1,532**	996
Finished goods	**376**	312
	24,101	19,387

Notes *(continued)*

11 Debtors

	2008 £000	2007 £000
Trade debtors	**25,309**	24,990
Amounts owed by group undertakings	**380**	3,168
Amounts owed by related parties	**19,635**	17,435
Other debtors	**4,748**	4,872
Prepayments and accrued income	**830**	850
Deferred tax assets (note 13)	**-**	5,014
	50,902	56,329

12 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	**6,710**	7,699
Amounts owed to group companies	**30,664**	31,545
Amounts owed to related parties	**19,516**	17,597
Taxation and social security	**2,472**	2,203
Other creditors	**338**	3,035
Accruals and deferred income	**50,464**	59,178
	110,164	121,257

13 Provisions for liabilities and charges

Deferred Tax:	2008 £000	2007 £000
At 1 January 2008	**5,014**	4,727
Credited during the year	**(7,190)**	287
At 31 December 2008	**(2,176)**	5,014

	2008 £000	2007 £000
The Deferred tax consists of the following amounts:		
Advanced Capital Allowances	**(2,406)**	4,819
Short-term timing differences	**230**	195
Deferred tax (liability)/ asset	**(2,176)**	5,014

There are tax losses available to offset against future profits arising from the same trade, subject to the approval of the HM Revenue & Customs, of £90,422,637 *(2007:£ 58,219,115)*. The total deferred tax asset that is not recognised in the financial statements in relation to losses carried forward and other timing differences is £25,318,388 *(2007:£15,342,321)*. The deferred tax asset has not been recognised as there is insufficient evidence that the asset will be recovered. The deferred tax asset will be realised when suitable taxable profits are generated by the company.

Notes *(continued)*

14 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings	
	2008	2007
	£000	£000
Over five years	**2,986**	2,986

15 Called up share capital

	2008	2007
	£000	£000
Authorised, allotted, called up and fully paid:		
50,150 ordinary shares of £1 each	**50**	50

Notes *(continued)*

16 Profit and loss account

	£000
At 1 January 2008	(18,039)
Profit retained for the year	5,985
At 31 December 2008	**(12,054)**

17 Reconciliation of movement in shareholders' funds

	2008 £000	2007 £000
Profit/ (loss) for the year	**5,985**	(34,502)
Dividends	-	-
Net change in shareholders' funds	**5,985**	(34,502)
Opening shareholders' funds	(17,989)	16,513
Closing shareholders' funds	**(12,004)**	(17,989)

18 Contingent liability

McLaren Racing Limited is party to an unlimited cross company guarantee securing all monies due, or to become due, in respect of the overdraft and loan facility provided to the McLaren Group by its bankers. As at 31 December 2008 the balance guaranteed was £30,349,000 *(2007:£8,130,000)*.

19 Ultimate parent company

In the opinion of the directors, the company's controlling entity is McLaren Group Limited, a company registered in England and Wales. This is also the parent undertaking of the largest and only group which includes the company and for which group financial statements are prepared.

Copies of the group financial statements of McLaren Group Limited are available from Companies House, Crown Way, Cardiff CF14 3UZ.

Ownership of McLaren Group Limited at 31 December 2008 was as follows: 40% Daimler AG (incorporated in Germany), 30% Bahrain Mumtalakat Holding Company (incorporated in Bahrain), 15% Mr R Dennis and 15% TAG Group (Holdings) SA (incorporated in Luxembourg).

Notes *(continued)*

20 Related party transactions

Transactions with related companies during the period were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007	Balance Outstanding at 31 December 2008	Balance outstanding at 31 December 2007
	£000	£000	£000	£000
Related party sales				
Daimler AG and related companies	44,291	41,713	19,355	17,406
TAG Group (Holdings) SA and its subsidiaries	1,031	7	-	-
Greyscape Limited	2	10	-	-
Absolute Taste Limited	366	502	218	29
Bahrain Mumtalakat Holding Company	-	-	62	-
R Dennis	-	63	-	
M Whitmarsh	-	11	-	-
T Murnane	-	1	-	-
Related party purchases				
Daimler AG and related companies	876	912	19,245	17,404
TAG Group (Holdings) SA and its subsidiaries	49	65	-	-
Bahrain Mumtalakat Holding Company	146	60	-	-
Absolute Taste Limited	2,472	2,287	271	193

During the year, Bahrain Mumtalakat Holding Company prepaid £62,000 to the Company for services to be provided in 2009.

Pursuant to the exemptions granted by FRS 8 'Related Party Disclosures', transactions with other undertakings within the McLaren Group have not been disclosed within these financial statements.