McLaren Group Limited

Directors' report and consolidated financial statements

Registered number 01967715

31 December 2006

Contents

Officers and professional advisers

Directors

R Dennis
N Carrington – resigned 13/02/07
R Grube (German) – resigned 13/02/07
A Myers – resigned 13/02/07
MA Ojjeh (French)
M Whitmarsh
D Zetsche (German) – resigned 13/02/07
T Weber (German) – appointed 13/02/07
B Uebber (German) – appointed 13/02/07
N Haug (German) – appointed 13/02/07
K Maier (German)– appointed 13/02/07
Talal Ali Al-Zain (Bahraini)– appointed 13/02/07
Shaikh Mohammed Bin Essa Al Khalifa (Bahraini) – appointed 13/02/07

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 2006

Principal activities

The Group's principal activities during the year were those of participating in motor racing events throughout the world, designing and constructing engine management systems, data-logging equipment and electronic products, automotive research, engineering design, manufacturing services and the manufacture and sale of high performance sports cars, and the provision of marketing and advertising services

Business review and future prospects

As shown in the consolidated profit and loss account on page 8 the groups revenues have fallen by £34 5m to £206 6m in 2006 (14%) The two primary drivers are as follows

- McLaren Automotive turnover fell by £31 4m as a direct result of lower SLR sales (2005 649 units, 2006 261 units)
- McLaren Racing turnover fell by £9 6m in the year to £109 8m Sponsorship income levels were similar to 2005 despite having no official title sponsor in the year Although there were other small variances, the fall in profit was dominated by the fall in other operating income In 2005 the company received a significant settlement (£10m) following a dispute with a supplier which has not reoccurred in 2006

The Directors believe the groups turnover will grow in 2007 and beyond due to new contracts being signed, including Vodafone as team sponsor of the F1 team, and SLR sales increase due to the release of new derivatives, namely the 722 and Roadster

Profits after tax are stated at £2 3m for the year down £9 9m (2005 £12 2m) This is as a consequence of lower profits in McLaren Automotive (resulting from lower production volumes during the build up to the launch of the SLR Roadster in 2007) and the reduction in Other income, noted above

In 2006 a memorandum of understanding (MOU) was signed with Alpha Topco, the owners of Formula 1 Under this MOU the F1 teams were to receive additional prize monies for 2006 onwards Once a new Concorde agreement is signed, in line with the MOU, McLaren Racing will receive approximately £6 million additional prize monies relating to 2006 However, none of this additional income has been accrued in these accounts

The Directors are confident the business, prior to exceptional items, will improve its profitability in 2007 given the new sponsorship agreements already in place, increased profitability on new automotive development programmes and the growth of the Electronics business

The consolidated balance sheet on page 9 of the financial statements shows the net assets moving in line with the increase in reserves noted above The most notable improvement shown in the balance sheet is the elimination of £70m net debt shown at the end of 2005 At the year end the net cash position was £1 4m in credit This is a major achievement and delivered through tight cash management throughout the group

The significant events since the balance sheet date are disclosed in note 27 These are a change in share ownership of the group and the World Motor Sports Council ruling of 13 September 2007

Directors' report *(continued)*

Principal risks and uncertainties

The group is not only reasonably well diversified, but a significant proportion of its income is received via long term contracts e g contract manufacture of vehicles for DaimlerChrysler, sponsorship agreements for the F1 team and design and manufacture of engine control units for the FIA As such the turnover of the Group is predictable, leaving the focus on managing the cost base of each business This by its very nature lowers the future financial risks faced by the group in the short to medium term

Most of the companies in the group sell and purchase products and services in foreign currencies This results in exposure to currency movements This risk is monitored and managed centrally using the group treasury policy Where appropriate the group manages these risks using forward foreign exchange contracts

At the balance sheet date the group holds a net cash balance Due to this and the predictability of its near term cash flows the group currently operates using an unsecured 364 day overdraft and revolving credit facility to manage short term borrowing requirements There are no charges or any form of security held over the assets of the company

Results

The profit on ordinary activities for the year after taxation and minority interest amounted to £2,217,551 *(2005 profit of £12,197,943)*

Dividends

The directors do not propose a dividend for the year ended 31 December 2006 *(2005 £nil)*

Directors

The directors who served during the period are as reported on page 1 and those that have an interest in the share capital of the company are as follows

	50p ordinary shares	
	31 Dec 2006	31 Dec 2005
R Dennis	**30,093**	30,093

The directors had no interests in the shares of any other group company

Employment of disabled persons

The policy of the company and its subsidiaries 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

Employee involvement

Employees are provided with information on matters concerning them as employees When decisions are taken which are likely to effect employees interests, their involvement is encouraged

Research and development

By the nature of its activities, the group has an ongoing investment into research and development across all of its motoring operations

Directors' report *(continued)*

Donations

During the year the group made charitable donations of £75,000 *(2005 £44,158)* and no political donations *(2005 £nil)*

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 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. [signature]

T Murnane
Secretary

Date 29 October 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 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 Group Limited.

We have audited the group and parent company financial statements (the "financial statements") of McLaren Group Limited for the year ended 31 December 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, 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 Annual Report and 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 5

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 became aware of any apparent misstatements within it

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's 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
Chartered Accountants
Registered Auditor

1 Forest Gate
Brighton Road
Crawley
RH11 9PT

29/10/07

Consolidated profit and loss account

for the year ended 31 December 2006

	Note	**Year ended 31 December 2006 £000**	Year ended 31 December 2005 £000
Turnover	*2*	**206,636**	241,094
Cost of sales		**(140,411)**	(183,852)
Gross profit		**66,225**	57,242
Administrative expenses		**(68,473)**	(52,911)
Other operating income	*4*	**-**	10,000
Operating (loss)/profit		**(2,248)**	14,331
Interest receivable and similar income	*5*	**165**	482
Interest payable and similar charges	*6*	**(3,191)**	(5,902)
(Loss)/Profit on ordinary activities before taxation	*7*	**(5,274)**	8,911
Tax on (loss)/profit on ordinary activities	*8*	**7,519**	3,317
Profit on ordinary activities after taxation		**2,245**	12,228
Equity minority interest		**(27)**	(31)
Profit on ordinary activities	*19*	**2,218**	12,197

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

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

There are no other gains and losses other than those reported in the profit and loss accounts above

Consolidated balance sheet
as at 31 December 2006

	Note		2006		2005
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	*9*		**581**		-
Tangible assets	*10*		**265,951**		277,025
			266,532		277,025
Current assets					
Stocks	*12*	**28,642**		33,016	
Debtors	*13*	**43,870**		82,120	
Cash at bank and in hand		**11,597**		2,460	
		84,109		117,596	
Creditors: amounts falling due within one year	*14*	**(88,393)**		(119,885)	
Net current liabilities			**(4,284)**		(2,289)
Total assets less current liabilities			**262,248**		274,736
Creditors amounts falling due after more than one year	*15*		**(155)**		(20,008)
Provisions for liabilities and charges	*16*		**(1,555)**		(4,461)
Deferred capital funding	*17*		**(148,464)**		(140,438)
Net assets			**112,074**		109,829
Capital and reserves					
Called up share capital	*18*		**50**		50
Profit and loss account	*19*		**111,844**		109,626
			111,894		109,676
Equity minority interests			**180**		153
Shareholders' funds	*20*		**112,074**		109,829

These financial statements were approved by the board of directors on 29 October 2007 and were signed on their behalf by

R Dennis
Director

Company balance sheet
as at 31 December 2006

	Note	£000	2006 £000	£000	2005 £000
Fixed assets					
Tangible assets	*10*		**222,099**		232,410
Investments	*11*		**82**		82
			222,181		232,492
Current assets					
Stocks	*12*	**8**		8	
Debtors	*13*	**17,796**		64,612	
Cash at bank and in hand		**-**		597	
		17,804		65,217	
Creditors amounts falling due within one year	*14*	**(36,435)**		(85,462)	
Net current liabilities			**(18,631)**		(20,245)
Total assets less current liabilities			**203,550**		212,247
Creditors amounts falling due after more than one year	*15*		**(155)**		(20,000)
Provisions for liabilities and charges	*16*		**(4,933)**		(6,314)
Deferred capital funding	*17*		**(148,464)**		(140,438)
Net assets			**49,998**		45,495
Capital and reserves					
Called up share capital	*18*		**50**		50
Profit and loss account	*19*		**49,948**		45,445
Shareholders' funds	*20*		**49,998**		45,495

These financial statements were approved by the board of directors on 19 October 2007 and were signed on their behalf by

R Dennis
Director

Consolidated cash flow statement
for the year ended 31 December 2006

	Note	**Year ended 31 December 2006 £000**	Year ended 31 December 2005 £000
Net cash flow from operating activities	*21*	**63,597**	(18,594)
Returns on investments and servicing of finance	*22*	**(1,747)**	(2,709)
Taxation		**(63)**	2,091
Capital expenditure and financial investment	*22*	**8,786**	21,557
Cash inflow before financing		**70,573**	2,345
Net cash (outflow) / inflow from financing	*22*	**(68,959)**	3,861
Increase in cash in the year		**1,614**	6,206

Reconciliation of net cash flow to movement in net funds/(debt)
for the year ended 31 December 2006

	Note	**Year ended 31 December 2006 £000**	Year ended 31 December 2005 £000
Increase in cash in the year		**1,614**	6,206
Cash outflow/(inflow) from movement in debt and lease financing		**68,959**	(3,861)
Change in net debt resulting from cash flows		**70,573**	2,345
Opening net debt	*23*	**(69,130)**	(71 475)
Closing net funds/(debt)		**1,443**	(69,130)

Notes

(Information 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

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account

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

Freehold buildings	- 2% straight line
Leasehold premises and improvements	- written off over the life of the lease
Plant, machinery, tools and equipment	- 20% of reducing balance
Motor vehicles	- 25% of reducing balance
Fixtures, fittings and office equipment	- 20% of reducing balance

No depreciation is provided until the assets are brought into use

Depreciation is not provided on freehold land, historic cars and museum pieces, as in the directors opinion the residual value exceeds cost

Intangible fixed assets

Intangible fixed assets represent development costs capitalised in accordance with SSAP13 Research and Development' These are stated at historical cost and will be amortised over the period which revenue is expected to be generated (four to five years) Development costs include materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity

Fixed assets – motor vehicles

Motor vehicles include £5,221,787 (2005 £5,221,787) 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

Deferred capital funding

Capital based funding is treated as deferred income and is credited to the profit and loss account in annual instalments over the estimated useful lives of the fixed assets concerned

Fixed asset investments

Investments are stated at cost less any provision for impairment in value

Stocks, work in progress and expenditure on racing cars

Stocks are valued at the lower of cost and net realisable value

Notes *(continued)*

1 Accounting policies *(continued)*

Racing cars have an expected life of one year and all expenditure on the production and maintenance of such cars is charged to 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

The directors consider this policy to be appropriate because the considerable and valuable effort expended in preparing a racing car is recognised as an asset and charged in the period in which the corresponding racing arises and benefit is therefore derived

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

Turnover

Turnover represents sponsorship fees, other motor racing revenue receivables and sales by the group to external customers, excluding value added tax

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

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

Long-term contracts

Long-term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover, less foreseeable losses and payments on account not matched with turnover Contract work in progress is recorded as turnover on the following bases On contracts which provide for delivery of own manufactured units or components, turnover is recorded when deliveries are made to customers In respect of initial research and development contracts, turnover is determined by reference to the value of work carried out to date No profit is recognised until the contract has advanced to a stage where the total profit can be assessed with reasonable certainty Provision is made for the full amount of foreseeable losses on contracts

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies and financial instruments

Foreign currency transactions are translated into sterling at the rates ruling at the beginning of the month in which the transactions took place, unless matching forward foreign exchange contracts have been entered into Foreign currency assets and liabilities are translated into sterling at the period-end rates All foreign currency differences are dealt with through the profit and loss account

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

Pensions

The group operates a defined contribution pension scheme 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

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

Rentals under operating leases are charged on a straight-line basis over the lease term

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period

Provisions

Provisions are made for liabilities where, in the opinion of the directors, present obligations exist and it is probable, that outflows of funds will be required to settle the liabilities in the future and that the amount of these funds can be reasonably measured Where material, future cash flows are discounted in arriving at amounts to be provided

Notes *(continued)*

2 Turnover, (losses)/profits and net assets

Turnover	Year to 31 December 2006 £000	Year to 31 December 2005 £000
Analysis by class of business		
Racing car constructor - Formula 1	**133,343**	135,107
Marketing	**13,629**	14,353
Motor vehicle manufacturing and sales	**79,963**	111,402
Engine management systems and manufacture	**8,440**	7,668
Motor racing circuit	**136**	133
Supporters club	**1,460**	1,982
Catering services	**7,999**	6,580
Application of developed technologies	**865**	2,912
	245,835	280,137
Less intercompany trading	**(39,199)**	(39,043)
	206,636	241,094

Profit/(Loss) before taxation	Year to 31 December 2006 £000	Year to 31 December 2005 £000
Analysis by class of business		
Racing car constructor - Formula 1	(7,908)	3,761
Marketing	(943)	1,355
Motor vehicle manufacturing and sales	8,970	11,829
Engine management systems and manufacture	525	206
Motor racing circuit	(64)	(42)
Supporters club	172	525
Catering services	89	101
Application of developed technologies	(153)	1,039
	688	18,774
Elimination of minority interest and central charges	(5,962)	(9,863)
	(5,274)	8,911

Notes *(continued)*

2 Turnover, (losses)/profits and net assets *(continued)*

Net assets	Year to 31 December 2006 £000	Year to 31 December 2005 £000
Analysis by class of business		
Racing car constructor - Formula 1	**66,511**	65,710
Marketing	**33,144**	33,845
Motor vehicle manufacturing and sales	**1,010**	(5,199)
Engine management systems and manufacture	**7,307**	5,424
F1 GTR racing	**(813)**	(813)
Motor racing circuit	**2,629**	2,705
Supporters club	**2,914**	2,793
Catering services	**399**	340
Race participation - Formula 3000	**7**	7
Application of developed technologies	**917**	1,018
	114,025	105,830
Intercompany net assets and minority interest	**(1,951)**	3,999
	112,074	109,829

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements The result for the year after taxation included a profit after taxation of £4,503,104 *(2005 profit of £4,923 437)* which is dealt with in the financial statements of the parent company

Notes *(continued)*

3 Information regarding directors and employees

	Year to 31 December 2006 £000	Year to 31 December 2005 £000
Directors emoluments		
Emoluments (excluding pension contributions)	**1,992**	2,572
Highest paid director s emoluments	**2,300**	2,368
Aggregate of emoluments (excluding pension contributions)	**4,292**	4,940
Pension contributions	**142**	68
Highest paid director s contributions	-	-
	142	68
	Number	Number
Number of directors who are members of a defined contribution scheme	**3**	3

Group	Year to 31 December 2006 £000	Year to 31 December 2005 £000
Employees costs during the year (including directors)		
Wages and salaries	**57,166**	61,516
Social security costs	**6,505**	7,236
Other pension costs	**1,379**	1,091
	65,050	69,843
	Number	Number
Average number of persons employed		
Production	**566**	620
Engineering	**270**	265
Administration	**454**	404
	1,290	1,289

The Company	**Year to 31 December 2006 £000**	Year to 31 December 2005 £000
Employees costs during the year (including directors)		
Wages and salaries	**7,768**	7,225
Social security costs	**958**	891
Other pension costs	**208**	118
	8,934	8,234
	Number	Number
Average number of persons employed		
Administration	**68**	60

4 Other operating income

In 2005 the company received £10,000,000 in settlement of a dispute with a supplier

5 Interest receivable and similar income

	Year to 31 December 2006 £000	Year to 31 December 2005 £000
Other interest receivable	**165**	482

6 Interest payable and similar charges

	Year to 31 December 2006 £000	Year to 31 December 2005 £000
Bank loans and overdrafts	**1,614**	3,156
Other interest payable and finance charges	**298**	35
Net exchange losses	**1,279**	2,711
	3,191	5,902

Notes *(continued)*

7 (Loss) / Profit on ordinary activities before taxation

		Year to 31 December 2006 £000	Year to 31 December 2005 £000
(Loss)/Profit on ordinary activities before taxation is stated after charging/(crediting)			
Depreciation *		**10,062**	12,445
Operating lease rentals	- land and buildings	**1,471**	1,494
	- plant and machinery	**1**	1
	- other	**56**	38
Auditors remuneration	- audit of these financial statements	**13**	11
	- audit of the company s subsidiaries pursuant to the legislation	**87**	83
	- other services relating to tax	**196**	65
Leased income		**(136)**	(133)
(Profit) on disposal of fixed assets		**(329)**	(26)

* Depreciation is shown net of the amortisation of deferred capital funding (note 17)

8 Tax on (loss) / profit on ordinary activities

	Year to 31 December 2006 £000	Year to 31 December 2005 £000
United Kingdom corporation tax at 30% *(2005 30%)*	**41**	44
Adjustments in respect of prior years	**14**	145
Total current tax	**55**	189
Deferred taxation		
Origination and reversal of timing differences	**(1,021)**	(1,571)
Adjustments in respect of prior years	**(6,553)**	(1,935)
	(7,519)	(3,317)

Notes *(continued)*

Factors affecting tax charge for the current year

The current tax charge for the year is higher *(2005 lower)* than the standard rate of corporation tax in the UK of 30% *(2005 30%)* The differences are explained below

	Year to 31 December 2006 £000	Year to 31 December 2005 £000
(Loss)/Profit on ordinary activities before taxation	**(5,274)**	8,911
Tax at 30% thereon	**(1,582)**	2,673
Effects of		
Expenses not deductible for tax purposes	**117**	230
Capital allowances in excess of depreciation	**2,702**	2,135
Movement in short term timing differences	**134**	(19)
Tax losses carried forward	**3,090**	(518)
Credits not taxable	**(842)**	(139)
Tax incentives	**(3,578)**	(4,318)
Adjustment in respect to prior year	**14**	145
Total actual amount of current tax	**55**	189

9 Intangible fixed assets

Group	**Development Cost £000**
Cost	
At 1 January 2006	-
Additions	581
At 31 December 2006	581
Amortisation	
At 1 January 2006	-
Charge for the year	-
At 31 December 2006	-
Net book value	
At 31 December 2006	**581**
At 31 December 2005	-

Notes *(continued)*

10 Tangible fixed assets

Group	Freehold land and buildings £000	Leasehold premises and improvements £000	Assets in the course of construction £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 2006	216,530	4,371	-	65,075	12,624	45,425	344,025
Transfers	-	-	-	287	-	(287)	-
Additions	103	180	1,725	3,068	163	1,580	6,819
Disposals	(84)	(472)	-	(596)	(325)	(432)	(1,909)
At 31 December 2006	216,549	4,079	1,725	67,834	12,462	46,286	348,935
Accumulated depreciation							
At 1 January 2006	9,837	1,850	-	20,522	5,134	29,657	67,000
Reclassifications*	-	-	-	282	-	(282)	-
Charge for the year	3,999	176	-	6,745	576	6,232	17,728
Disposals	-	(472)		(590)	(253)	(429)	(1,744)
At 31 December 2006	13,836	1,554	-	26,959	5,457	35,178	82,984
Net book value							
At 31 December 2006	**202,713**	**2,525**	**1,725**	**40,875**	**7,005**	**11,108**	**265,951**
At 31 December 2005	206,693	2,521	-	44,553	7,490	15,768	277,025

Included above are assets held under finance leases with net book values of £139,937 *(2005 £141,392)*

* Depreciation on fixtures, fittings and office equipment has historically been recorded as depreciation on plant and machinery, tools and equipment The directors consider this presentation to be more appropriate

Notes *(continued)*

10 Tangible fixed assets *(continued)*

The company	**Freehold land and buildings £000**	**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 2006	211,659	326	22,956	18	23,713	258,672
Additions	103	-	2	-	52	157
Disposals	(84)	-	-	-	-	(84)
At 31 December 2006	211,678	326	22,958	18	23,765	258,745
Accumulated depreciation						
At 1 January 2006	8,961	231	3,086	8	13,976	26,262
Charge for the year	3,919	22	1,575	2	4,866	10,384
At 31 December 2006	12,880	253	4,661	10	18,842	36,646
Net book value						
At 31 December 2006	**198,798**	**73**	**18,297**	**8**	**4,923**	**222,099**
At 31 December 2005	202,698	95	19,870	10	9,737	232,410

Notes *(continued)*

11 Investments held as fixed assets

Company	Shares in group Undertakings £000
Cost	
At 31 December 2005 and 31 December 2006	**82**

In the directors opinion, the aggregate net value of the subsidiaries is not less than their aggregate cost Further information on the subsidiaries is contained in note 24

12 Stocks

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Racing car development costs	**17,458**	18,200	**-**	-
Raw materials and consumables	**6,435**	7,698	**8**	8
Work in progress	**3,374**	6,760	**-**	-
Finished goods	**1,375**	358	**-**	-
	28,642	33,016	**8**	8

13 Debtors

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Trade debtors	**5,622**	24,085	**64**	111
Amounts owed by group undertakings	**-**	-	**15,381**	60,350
Amounts owed by related parties	**24,621**	36,025	**116**	342
Other debtors	**2,722**	19,364	**1,356**	3,122
Prepayments and accrued income	**6,237**	2,646	**879**	687
Deferred tax asset (See Note 16)	**4,668**	-	**-**	-
	43,870	82,120	**17,796**	64,612

Notes *(continued)*

14 Creditors amounts falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Bank loans and overdrafts	**9,999**	51,546	**9,915**	51,529
Obligations under finance leases and hire purchase contracts	**-**	44	**-**	-
Trade creditors	**12,675**	15,285	**1,620**	1,875
Amounts owed to group companies	**-**	-	**20,530**	26,595
Amounts owed to related parties	**9,384**	3,670	**245**	-
Taxation and social security	**4,881**	4,963	**514**	499
Corporation tax payable	**41**	49	**-**	-
Other creditors	**1,090**	96	**411**	520
Accruals and deferred income	**50,323**	44,232	**3,200**	4,444
	88,393	119,885	**36,435**	85,462

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Bank loans	**155**	20,000	**155**	20,000
Other creditors	**-**	8	**-**	-
	155	20,008	**155**	20,000

Notes *(continued)*

15 Creditors amounts falling due after more than one year *(continued)*

	Group and Company 2006 £000	2005 £000
Bank loans are repayable as follows		
In less than one year	**155**	49,070
Between one and two years	-	10,000
Between two and five years	-	10,000
	155	69,070

The bank loans are unsecured and incur interest at a rate of LIBOR plus 1%

	Group 2006 £000	2005 £000
Finance lease are repayable as follows		
In less than one year	-	44
Between one and two years	-	-
	-	44

Finance leases are secured on the related assets

16 Provisions for liabilities and charges

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Provision for charges relating to leased premises	**1,555**	1,555	**1,555**	1,555
Provision for deferred tax	-	2,906	**3,378**	4,759
	1,555	4,461	**4,933**	6,314

	Group £000	Company £000
Provision for charges relating to leased premises		
At 1 January 2006	1,555	1,555
Charged during the year	-	-
At 31 December 2006	**1,555**	**1,555**

Notes *(continued)*

16 Provisions for liabilities and charges *(continued)*

The provision for charges relating to leased premises is to meet rental obligations on vacant premises and the contractual obligation to reinstate the leased premises to their original condition upon cessation of the lease The provision is expected to be utilised as follows

	Group and Company	
	2006	2005
	£000	£000
Within one year	**50**	50
Within one and two years	**1,505**	1,505
	1,555	1,555

	Group	Company
	£000	**£000**
Provision for deferred tax		
At 1 January 2006	2,906	4,759
Credit to profit and loss	(7,574)	(1,381)
At 31 December 2006	**(4,668)**	**3,378**

The Group

	2006	2005
	£000	£000
The deferred tax asset consists of		
Capital allowances in excess of depreciation	**(4,189)**	3,213
Short term timing differences	**(206)**	(308)
Losses carried forward	**(273)**	-
	(4,668)	2,906

A deferred tax asset has not been recognised in respect of timing differences relating to losses carried forward in a number of group companies as there is insufficient evidence that the asset will be recovered The amount of the asset not recognised is £5,235,792 (*2005 £1,376 668)* The asset should be recovered if sufficient taxable profits are generated in future periods in the appropriate companies

It has been announced that the corporation tax rate applicable to the company is expected to change from 30% to 28% from 1 April 2008 The deferred tax asset recognised above has been calculated at 30% in accordance with FRS 19 Any timing differences which reverse before 1 April 2008 will be relieved at 30%, any timing differences which exist at 1 April 2008 will reverse at 28% The group expects that there will be a charge to the profit and loss account in the region of £311,000

The Company

	2006	2005
	£000	£000
The deferred tax asset consists of		
Capital allowances in excess of depreciation	**3,390**	4,850
Short term timing differences	**(12)**	(91)
	3,378	4,759

Notes *(continued)*

A deferred tax asset has not been recognised in respect of timing differences relating to losses carried forward as there is insufficient evidence that the asset will be recovered The amount of the asset not recognised is £982,248 *(2005 £366,080)* The asset should be recovered if sufficient taxable profits are generated in future periods in the appropriate companies

It has been announced that the corporation tax rate applicable to the company is expected to change from 30% to 28% from 1 April 2008 The deferred tax liability recognised above has been calculated at 30% in accordance with FRS 19 Any timing differences which reverse before 1 April 2008 will be relieved at 30%, any timing differences which exist at 1 April 2008 will reverse at 28% The group expects that there will be a credit to the profit and loss account in the region of £225,000

17 Deferred capital funding

Group and Company	**£000**
At 1 January 2006	140,438
Contributions received	15,692
Amortisation credit for the year	(7,666)
At 31 December 2006	**148,464**

18 Called up share capital

	2006	2005
	£000	£000
Authorised, called up and fully paid		
100,310 ordinary shares of 50p each	**50**	50

19 Profit and loss account

	Group	**Company**
	£000	**£000**
At 1 January 2006	109,626	45,445
Profits retained for the year	2,218	4,503
At 31 December 2006	**111,844**	**49,948**

20 Reconciliation of movement in shareholders' funds

	Group		**Company**	
	2006	2005	**2006**	2006
	£000	£000	**£000**	£000
Profit for the year	**2,218**	12,197	**4,503**	4,923
Equity minority interest	**27**	31	**-**	-
Net change in shareholders funds	**2,245**	12,228	**4,503**	4,923
Opening shareholders funds	**109,829**	97,601	**45,495**	40,572
Closing shareholders funds	**112,074**	109,829	**49,998**	45,495

Notes *(continued)*

21 Reconciliation of operating profit to net cash flow from operating activities

	2006	2005
	£000	£000
Operating (loss)/profit	**(2,248)**	14,331
Depreciation	**10,062**	12,445
(Gain)/loss on sale of fixed assets	**(329)**	(26)
Decrease/(increase) in stocks and work in progress	**4,374**	515
Decrease/(increase) in debtors	**31,514**	10,841
Increase/(decrease) in creditors	**4,385**	(46,851)
(Decrease)/increase in other provisions	**-**	(2,250)
Increase/(decrease) in balances with related parties	**17,118**	(4,888)
Exchange differences	**(1,279)**	(2,711)
	63,597	(18,594)

22 Analysis of cash flows

	2006	2005
	£000	£000
Interest received	**165**	482
Interest paid	**(1,912)**	(3,191)
Returns on investments and servicing of finance	**(1,747)**	(2,709)
Payments to acquire tangible fixed assets	**(6,820)**	(3,756)
Receipts from sales of tangible fixed assets	**495**	489
Receipts of capital grants	**15,692**	24,824
Payments to acquire intangible fixed assets	**(581)**	-
Capital expenditure and financial investment	**8,786**	21,557
Repayment of bank loans	**(68,915)**	4,070
Capital element of finance lease repayments	**(44)**	(209)
Financing	**(68,959)**	3,861

Notes *(continued)*

23 Analysis of net debt

	Opening balance £000	Cash flow £000	**Closing Balance £000**
Cash at bank and in hand	2,460	9,137	**11,597**
Overdrafts	(2,476)	(7,523)	**(9,999)**
	(16)	1,614	**1,598**
Debt due within one year	(49,070)	49,070	**-**
Debt due after more than one year	(20,000)	19,845	**(155)**
Finance leases	(44)	44	**-**
Total	(69,130)	70,573	**1,443**

24 Investments

The principal investments of the company are

Name		**Principal activity**	**Holding Ordinary share capital**
McLaren Racing Limited		Racing car constructor	100%
McLaren Marketing Limited		Marketing	100%
McLaren Cars Limited		Road car design, development and manufacturing, including race car derivatives	100%
Team McLaren Limited	1	Supporters club	100%
Lydden Circuit Limited	2	Motor race circuit operator	100%
Absolute Taste Limited	2	Catering services	55%
TAG McLaren Electronics (Holdings) Limited		Non trading holding company	100%
McLaren Electronic Systems Limited	3	Engine management systems design and manufacture	100%
McLaren Components Limited		Design and manufacture of carbon fibre products	100%
McLaren Applied Technologies Limited		Application of technologies developed within the group	100%

1 Shares in Team McLaren Limited are held by McLaren Marketing Limited

2 Shares in Lydden Circuit Limited and Absolute Taste Limited are held by McLaren Racing Limited

3 Shares in McLaren Electronic Systems Limited are held by TAG McLaren Electronics (Holdings) Limited

Notes *(continued)*

25 Operating lease commitments

At 31 December 2006 the group was committed to making the following payments during the next year in respect of operating leases

	31 December 2006			31 December 2005		
	Land and buildings £000	**Motor vehicles £000**	**Equipment £000**	Land and buildings £000	Motor vehicles £000	Equipment £000
Leases which expire						
Within one year	**152**	**-**	**71**	94	-	47
Within two to five years	**764**	**30**	**60**	310	-	84
After five years	**788**	**-**	**-**	1,261	-	24
	1,704	**30**	**131**	1,665	-	155

26 Ultimate parent company

Ownership of McLaren Group Limited at 31 December 2006 was as follows 40% DaimlerChrysler AG (incorporated in Germany), 30% Mr R Dennis and 30% TAG Group (Holdings) SA (incorporated in Luxembourg)

27 Events after the balance sheet date

Change in Share Ownership - Post year end the ownership of McLaren Group Limited changed to 40% DaimlerChrysler AG (incorporated in Germany), 30% Bahrain Mumtalakat Holding Company, 15% Mr R Dennis and 15% TAG Group (Holdings) SA (incorporated in Luxembourg)

World Motor Sport Council Ruling - The World Motor Sports Council, at a meeting on 13 September 2007, imposed sanctions on the McLaren Racing Team These sanctions will result in lower prize money being received in 2008 and first quarter 2009 They will also result in a payment being made to the FIA on 13 December 2007 The calculation of this payment has not been clearly defined and as such its quantum is not as yet known, but is estimated at £25m to £30m

28 Related party transactions

Transactions with related companies during the period were as follows

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000	**Balance Outstanding at 31 December 2006 £000**	Balance Outstanding at 31 December 2005 £000
Related party sales				
To TAG Group (Holdings) SA from				
Absolute Taste Limited	**205**	155	**17**	31
McLaren Racing Limited	**9**	16	**274**	5
Team McLaren Limited	**2**	24	**-**	-
McLaren Marketing Limited	**211**	138	**3**	1
	427	333	**294**	37

Notes *(continued)*

28 Related party transactions *(continued)*

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000	**Balance outstanding at 31 December 2006 £000**	Balance outstanding at 31 December 2005 £000
Related party sales (continued)				
To DaimlerChrysler AG from				
McLaren Automotive Limited	**78,847**	110,147	**7,798**	20,724
Team McLaren Limited	**37**	59	**-**	3
Absolute Taste Limited	**100**	44	**7**	13
McLaren Marketing Limited	**673**	849	**200**	242
McLaren Group Limited	**139**	1,002	**15**	269
McLaren Racing Limited	**42,495**	40,567	**16,026**	14,712
McLaren Electronic Systems Limited	**1,702**	-	**240**	-
McLaren Applied Technologies Limited	**11**	11	**-**	8
	124,004	152,679	**24,286**	35,971
To Absolute Taste Limited from				
McLaren Marketing Limited	**12**	10	**-**	-
McLaren Racing Limited	**354**	280	**25**	8
Team McLaren Limited	**1**	-	**-**	-
McLaren Group Limited	**78**	98	**70**	6
	445	388	**95**	14
To Greyscape from				
Absolute Taste Limited	**54**	55	**-**	1
McLaren Racing Limited	**6**	2	**-**	-
McLaren Group Limited	**14**	5	**-**	2
	74	62	**-**	3

Notes *(continued)*

28 Related party transactions *(continued)*

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000	**Balance outstanding at 31 December 2006 £000**	Balance outstanding at 31 December 2005 £000
Related party purchases				
From DaimlerChrysler AG by				
McLaren Marketing Limited	**73**	357	**1**	363
McLaren Automotive Limited	**6,212**	12,876	**8,059**	3,215
McLaren Racing Limited	**506**	896	**214**	29
McLaren Group Limited	**17**	2	**1**	-
	6,808	14,131	**8,275**	3,607
From TAG Group (Holdings) SA by				
McLaren Racing Limited	**45**	60	**964**	15
	45	60	**964**	15
From Absolute Taste Limited by				
McLaren Racing Limited	**1,878**	2,135	**6**	-
McLaren Group Limited	**1,144**	1,159	**97**	32
McLaren Marketing Limited	**339**	202	**40**	7
	3,361	3,496	**143**	39
From L'Escargot Creations Limited by				
Team McLaren Limited	-	2	-	-
From Greyscape Limited by				
McLaren Group Limited	**1,265**	1,635	**145**	9

Notes *(continued)*

28 Related party transactions *(continued)*

Transactions with directors

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000	Balance outstanding at 31 December 2006 £000	Balance outstanding at 31 December 2005 £000
Expenses were incurred on behalf of directors by the following companies				
McLaren Racing Limited on behalf of				
Mr R Dennis	**190**	26	-	-
Mr A Newey	-	4	-	-
Mr M Whitmarsh	**3**	8	-	-
McLaren Cars Limited on behalf of				
Mr R Dennis	**1**	1	-	-
Mr A Ojjeh	-	2	-	-
Absolute Taste Limited on behalf of				
Mrs L Redding	-	3	-	-
Mr R Dennis	**6**	5	-	-
McLaren Group Limited on behalf of				
Mr R Dennis	**122**	75	**31**	-
McLaren Marketing Limited on behalf of				
Mr R Dennis	-	10	**10**	1

Other related party transactions

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000	Balance outstanding at 31 December 2006 £000	Balance outstanding at 31 December 2005 £000
Capital funding received from DaimlerChrysler AG	**15,692**	24,824	-	-

Pursuant to the exemption by Financial Reporting Standard 8, Related Party Disclosures , transactions with other undertakings within the McLaren Group have not been disclosed within these financial statements