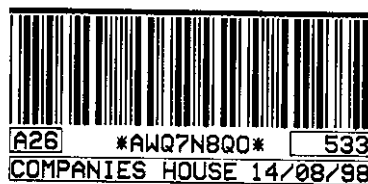


BENETTON FORMULA LIMITED

Report and Financial Statements

31 December 1997



**Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN**



REPORT AND FINANCIAL STATEMENTS 1997

CONTENTS	Page
Directors' report	1
Statement of directors' responsibilities	2
Auditors' report	3
Profit and loss account	4
Balance sheet	5
Notes to the accounts	6

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company continues to be that of running a Formula One Grand Prix racing team. The directors consider the result for the year to be satisfactory and hope for further improvement in 1998.

Turnover during the year, comprising principally sponsorship income and prize money, amounted to £51,307,897 (1996 - £47,126,740) and the profit before taxation for the financial year was £52,692 (1996 - £2,686,136).

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend. Profit for the year of £52,692 has been deducted from the deficit on the profit and loss account.

RESEARCH AND DEVELOPMENT

Information relating to research and development expenditure is given in note 1 to the financial statements.

DIRECTORS AND THEIR INTERESTS

The following served as directors during the year:

A Benetton	
R Benetton	(appointed 16 December 1997)
D Richards	(appointed 22 September 1997)
G Zoppas	(appointed 4 September 1997)
F Briatore	(resigned 16 December 1997)
D M D Mills	(resigned 20 May 1997)
P Panizzo	(resigned 22 September 1997)
T D T Walkinshaw	(resigned 26 June 1997)

No directors held any beneficial interest in the shares of the company during the year which is required to be disclosed by Schedule 7(2) of the Companies Act 1985.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



M Boon
Joint Secretary

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 as at the end of the financial year and of the profit or loss of the company 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
- 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Chartered Accountants

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AUDITORS' REPORT TO THE MEMBERS OF

BENETTON FORMULA LIMITED

We have audited the financial statements on pages 4 to 12 which have been prepared under the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

27 July 1998

Chartered Accountants and Registered Auditors



PROFIT AND LOSS ACCOUNT
Year ended 31 December 1997

	Note	1997 £	1996 £
TURNOVER	1	51,307,897	47,126,740
Operating expenses (net)		<u>(51,289,447)</u>	<u>(44,283,441)</u>
OPERATING PROFIT BEING PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		18,450	2,843,299
Investment income	4	155,786	148,874
Interest payable and similar charges	5	<u>(121,544)</u>	<u>(306,037)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	52,692	2,686,136
Tax on profit on ordinary activities	7	<u>-</u>	<u>(695,529)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR	16	<u>52,692</u>	<u>1,990,607</u>

All activities derive from continuing operations.

There are no recognised gains and losses other than the profit for the financial year. Accordingly, no statement of total recognised gains and losses is given.

BALANCE SHEET
31 December 1997

	Note	£	1997 £	£	1996 £
FIXED ASSETS					
Tangible assets	8		5,535,784		3,486,188
CURRENT ASSETS					
Stocks	9	3,882,908		2,868,449	
Debtors	10	11,132,484		6,193,480	
Cash at bank and in hand		88,464		1,271,364	
			<u>15,103,856</u>	<u>10,333,293</u>	
CREDITORS: amounts falling due within one year	11	(18,947,085)		(12,167,299)	
NET CURRENT LIABILITIES			<u>(3,843,229)</u>	<u>(1,834,006)</u>	
TOTAL ASSETS LESS CURRENT LIABILITIES			1,692,555		1,652,182
CREDITORS: amounts falling due after more than one year	12		-		(12,319)
			<u>1,692,555</u>	<u>1,639,863</u>	
CAPITAL AND RESERVES					
Called up share capital	15		3,900,000		3,900,000
Profit and loss account	16		(2,207,445)		(2,260,137)
EQUITY SHAREHOLDERS' FUNDS	17		<u>1,692,555</u>	<u>1,639,863</u>	

These financial statements were approved by the Board of Directors on
Signed on behalf of the Board of Directors

D Richards
Director

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention and on the going concern basis.

Turnover

Turnover principally comprises sponsorship income and prize money. Sponsorship receipts are credited to the profit and loss account over the period of the sponsorship agreements. Prize money is credited to the profit and loss account as it is won.

Tangible fixed assets

Fixed assets are stated at historical cost.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Leasehold improvements	Term of the lease or 10 years, whichever is the shorter
Motor vehicles	4 years
Plant, machinery, furniture and fittings	4 - 5 years

Foreign currency translation

Transactions in foreign currencies are translated at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Foreign exchange gains and losses are reflected in the profit and loss account.

Expenditure on racing cars

The 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 car is used.

The Board considers that research continues to play a vital role in the company's success. Certain development costs are carried forward to the following year.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Stocks and work in progress

The company has carried forward to the following year certain development costs relating to the production of next season's racing cars.



NOTES TO THE ACCOUNTS

Year ended 31 December 1997

2. SEGMENTAL INFORMATION

Segmental information has not been presented as the directors are of the opinion that this would be seriously prejudicial to the company.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1997 £	1996 £
Directors' emoluments		
Remuneration	196,090	196,375
Remuneration of the highest paid director	191,784	196,375
Compensation payment	2,827,273	-

No pension contributions were paid in respect of any director (1996 - £Nil).

Average number of persons employed

The average number of persons employed by the company during the year was 243 (1996 - 239).

	1997 £	1996 £
Staff costs during the year (including directors)		
Wages and salaries	11,015,487	7,959,623
Social security costs	1,794,139	814,620
	12,809,626	8,774,243

4. INVESTMENT INCOME

	1997 £	1996 £
Interest receivable on bank deposits	35,051	99,246
Other interest received	120,735	49,628
	155,786	148,874

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £	1996 £
On bank loans and overdrafts, and other loans, repayable within five years	121,544	290,137
On inter company loans, repayable within five years	-	15,900
	121,544	306,037


NOTES TO THE ACCOUNTS
Year ended 31 December 1997
6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:	1997 £	1996 £
Compensation paid to former director	2,827,273	-
Depreciation and amortisation		
Owned assets	643,512	324,265
Leased assets	47,855	198,613
Rentals under operating leases		
Land and buildings	586,904	586,904
Plant and machinery	139,582	266,088
Auditors' remuneration		
Audit services	10,300	10,000
Non audit services	23,952	16,427

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1997 £	1996 £
United Kingdom corporation tax at 33%	-	835,000
Adjustment relating to prior year	-	(139,471)
	-	695,529

There is no tax charge for the year due to deferred tax movements and the non-provision of a deferred tax asset.

8. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Plant, machinery, furniture and fittings £	Motor vehicles £	Assets under construction £	Total £
Cost					
At 1 January 1997	352,286	8,663,508	726,356	1,589,906	11,332,056
Additions	205,579	520,391	-	2,111,798	2,837,768
Disposals	-	-	-	(96,805)	(96,805)
At 31 December 1997	557,865	9,183,899	726,356	3,604,899	14,073,019
Accumulated depreciation					
At 1 January 1997	345,227	6,844,275	656,366	-	7,845,868
Charge for the year	4,837	651,731	34,799	-	691,367
At 31 December 1997	350,064	7,496,006	691,165	-	8,537,235
Net book value					
At 31 December 1997	207,801	1,687,893	35,191	3,604,899	5,535,784
At 31 December 1996	7,059	1,819,233	69,990	1,589,906	3,486,188

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

8. TANGIBLE FIXED ASSETS (continued)

Included in the net book value figures above are finance leases in respect of plant and machinery and motor vehicles for £186,760 (1996 - £234,615).

Assets under construction represent a wind tunnel facility which is expected to be operational mid 1998.

9. STOCKS

	1997 £	1996 £
Work in progress	3,882,908	2,868,449

10. DEBTORS

	1997 £	1996 £
Amounts falling due within one year		
Trade debtors	4,787,187	4,060,108
Amounts due from group undertakings	225,969	563,485
Value added tax	63,151	233,390
Other debtors	50,627	155,183
Prepayments and accrued income	6,005,550	1,181,314
	<u>11,132,484</u>	<u>6,193,480</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £	1996 £
Bank loans and overdrafts	3,041,683	724,472
Obligations under finance leases	12,319	12,218
Trade creditors	2,828,089	534,968
Amounts owed to parent company	119,172	62,502
Corporation tax	331,516	1,051,516
Social security and PAYE	547,468	285,472
Accruals and deferred income	12,066,838	9,496,151
	<u>18,947,085</u>	<u>12,167,299</u>

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1997 £	1996 £
Obligations under finance leases	-	12,319



NOTES TO THE ACCOUNTS
Year ended 31 December 1997

13. BORROWINGS

	1997 £	1996 £
Analysis of bank loans and overdraft repayments:		
Within one year or on demand	3,041,683	724,472
Analysis of finance lease repayments:		
Within one year	12,319	12,218
Between two and five years	-	12,319
	<u>3,054,002</u>	<u>749,009</u>

Obligations under finance leases are secured on the related fixed asset.

14. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

The amounts provided in the accounts and the amounts not provided are as follows:

	Provided 1997 £	Provided 1996 £	Not provided 1997 £	Not provided 1996 £
Accelerated capital allowances	-	-	(76,643)	(114,415)
Other timing differences	-	-	(13,749)	(146,350)
Potential assets	<u>-</u>	<u>-</u>	<u>(90,392)</u>	<u>(260,765)</u>

15. CALLED UP SHARE CAPITAL

	1997 £	1996 £
Authorised		
6,000,000 Ordinary shares of £1 each	<u>6,000,000</u>	<u>6,000,000</u>
Called up, allotted and fully paid		
3,900,000 Ordinary shares of £1 each	<u>3,900,000</u>	<u>3,900,000</u>



NOTES TO THE ACCOUNTS
Year ended 31 December 1997

16. PROFIT AND LOSS ACCOUNT

	£
Balance at 1 January 1997	(2,260,137)
Profit for the financial year	52,692
	<u> </u>
Balance at 31 December 1997	<u>(2,207,445)</u>

17. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	1997 £	1996 £
Profit for the financial year	52,692	1,990,607
Opening shareholders' funds/(deficit)	<u>1,639,863</u>	<u>(350,744)</u>
Closing shareholders' funds	<u>1,692,555</u>	<u>1,639,863</u>

18. FINANCIAL COMMITMENTS

	1997 £	1996 £
Capital commitments		
Contracted for but not provided	<u>1,580,513</u>	<u>3,761,461</u>

Operating lease commitments

At 31 December 1997, the company was committed to making the following payments during the next year in respect of operating leases:

	1997		1996	
	Land and buildings £	Other £	Land and buildings £	Other £
Leases which expire:				
Within one year	-	150,974	-	99,415
Within two to five years	-	15,837	-	10,866
After five years	586,904	-	586,904	-
	<u>586,904</u>	<u>166,811</u>	<u>586,904</u>	<u>110,281</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

19. RELATED PARTY TRANSACTIONS

- (a) The following transactions took place with Formula FB Business Limited a company of which Mr F Briatore is an employee:
- Benetton Formula Limited made a payment of £110,840 (1996 - £151,140) to Formula FB Business Limited.
 - Benetton Formula Limited received a payment of £130,688 (1996 - £51,783) from Formula FB Business Limited in respect of Mr F Briatore's personal use of a helicopter and jet hired by the company.
- (b) £187,500 has been charged to the company by the Prodrive Holdings Limited group, a company of which Mr D Richards is a director and shareholder, in respect of Mr Richard's time and the recharge of other expenses. This amount was included in creditors at 31 December 1997.
- (c) During the year £171,776 (1996 - £61,789) of costs were incurred in connection with legal and litigation services from Withers, the company's solicitor. Mr D Mills is a partner in this firm.

Except as noted above no amounts connected with related party transactions were outstanding at the year end. All transactions were in the normal course of business and conducted at arm's length.

20. ULTIMATE PARENT COMPANY

The largest group of which Benetton Formula Limited is a member and for which group accounts are drawn up is that headed by Benetton Group S.p.A., incorporated in Italy. The consolidated accounts of this group are available from Villa Minilli, 31050 Ponzano, Treviso, Italy. The smallest such group is that headed by Benetton International N.V., incorporated in the Netherlands.

In accordance with Financial Reporting Standard 8, the company has not disclosed transactions with group companies as the results are consolidated into the financial statements of the group which are publicly available.