



BENETTON FORMULA LIMITED

Report and Financial Statements

31 December 1998

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



**REPORT AND FINANCIAL STATEMENTS 1998**

| CONTENTS | Page |
|---|-------------|
| Directors' report | 1 |
| Statement of directors' responsibilities | 3 |
| Auditors' report | 4 |
| Profit and loss account | 5 |
| Balance sheet | 6 |
| Notes to the accounts | 7 |



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

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 financial result for the year to be satisfactory and hope for further improvement in 1999.

Turnover during the year, comprising principally sponsorship income and prize money, amounted to £54,501,550 (1997 - £51,307,897) and the profit after taxation for the financial year was £33,446 (1997 - £52,692).

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend. Profit for the year of £33,446 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
D Richards (resigned 16 October 1998)
G Zoppas
G Gilardi

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.

YEAR 2000

The "Millennium bug" or "Year 2000 issue" refers to potential problems in the processing of data or operation of electronic equipment affected by the transition from 1999 to 2000.

The directors fully recognise that there are other potential risks associated with this issue and are taking all reasonable steps to ensure that the company is prepared for this transition. It is estimated that revenue costs of changing systems in respect of the identified Year 2000 problems is not expected to be significant.

EMPLOYEES

Applications for employment of disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of a person who does not suffer from a disability.

The company has arrangements for providing information to employees, involving employees in the company's performance and achieving an awareness amongst employees of the factors affecting the company's performance.



DIRECTORS' REPORT

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 1985. 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.



AUDITORS' REPORT TO THE MEMBERS OF

BENETTON FORMULA LIMITED

We have audited the financial statements on pages 5 to 12 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

21 April 1999

Chartered Accountants and Registered Auditors


PROFIT AND LOSS ACCOUNT
Year ended 31 December 1998

| | Note | 1998 £ | 1997 £ |
|---|------|---------------------|---------------------|
| TURNOVER | 1 | 54,501,550 | 51,307,897 |
| Operating expenses (net) | | <u>(53,839,623)</u> | <u>(51,289,447)</u> |
| OPERATING PROFIT BEING PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST | | 661,927 | 18,450 |
| Investment income | 4 | 75,419 | 155,786 |
| Interest payable and similar charges | 5 | <u>(374,416)</u> | <u>(121,544)</u> |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 6 | 362,930 | 52,692 |
| Tax on profit on ordinary activities | 7 | <u>(329,484)</u> | <u>-</u> |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR | 16 | <u>33,446</u> | <u>52,692</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 1998

| | Note | £ | 1998 £ | £ | 1997 £ |
|---|------|---------------------|--------------------|---------------------|--------------------|
| FIXED ASSETS | | | | | |
| Tangible assets | 8 | | 6,897,232 | | 5,535,784 |
| CURRENT ASSETS | | | | | |
| Stocks | 9 | 3,488,261 | | 3,882,908 | |
| Debtors | 10 | 12,745,757 | | 11,132,484 | |
| Cash at bank and in hand | | 614,295 | | 88,464 | |
| | | <u>16,848,313</u> | | <u>15,103,856</u> | |
| CREDITORS: amounts falling due within one year | 11 | <u>(22,019,544)</u> | | <u>(18,947,085)</u> | |
| NET CURRENT LIABILITIES | | | <u>(5,171,231)</u> | | <u>(3,843,229)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | <u>1,726,001</u> | | <u>1,692,555</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 14 | | 3,900,000 | | 3,900,000 |
| Profit and loss account | 15 | | <u>(2,173,999)</u> | | <u>(2,207,445)</u> |
| EQUITY SHAREHOLDERS' FUNDS | 16 | | <u>1,726,001</u> | | <u>1,692,555</u> |

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

13 April 1999

R Benetton
Director

**NOTES TO THE ACCOUNTS**
Year ended 31 December 1998**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 | 2 - 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 1998
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

| | 1998 £ | 1997 £ |
|---|-----------|-----------|
| Directors' emoluments | | |
| Remuneration | 207,909 | 196,070 |
| Remuneration of the highest paid director | 207,909 | 191,784 |
| Compensation payment | - | 2,827,723 |

No pension contributions were paid in respect of any director (1997 - £Nil).

Average number of persons employed

The average number of persons employed by the company during the year was 285 (1997 - 243).

| | 1998 £ | 1997 £ |
|--|------------|------------|
| Staff costs during the year (including directors) | | |
| Wages and salaries | 10,822,520 | 11,015,487 |
| Social security costs | 1,096,723 | 1,794,139 |
| | 11,919,243 | 12,809,626 |

4. INVESTMENT INCOME

| | 1998 £ | 1997 £ |
|--------------------------------------|-----------|-----------|
| Interest receivable on bank deposits | 23,165 | 35,051 |
| Other interest received | 52,254 | 120,735 |
| | 75,419 | 155,786 |

5. INTEREST PAYABLE AND SIMILAR CHARGES

| | 1998 £ | 1997 £ |
|---|-----------|-----------|
| On bank loans and overdrafts, and other loans, repayable within five years | 275,478 | 121,544 |
| On inter company loans, repayable within five years | 98,938 | - |
| | 374,416 | 121,544 |


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| Profit on ordinary activities before taxation is stated after charging: | 1998 £ | 1997 £ |
|--|-------------------|-------------------|
| Compensation paid to former director | - | 2,827,723 |
| Depreciation and amortisation | | |
| Owned assets | 920,207 | 643,512 |
| Leased assets | 40,291 | 47,855 |
| Rentals under operating leases | | |
| Land and buildings | 632,829 | 586,904 |
| Plant and machinery | 169,327 | 139,582 |
| Auditors' remuneration | | |
| Audit services | 10,750 | 10,300 |
| Non audit services | 69,434 | 23,952 |
| | <u> </u> | <u> </u> |

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 1998 £ | 1997 £ |
|----------------------------|-------------------|-------------------|
| Prior year corporation tax | (329,484) | - |
| | <u> </u> | <u> </u> |

There is no taxation in the current period due to movements in deferred taxation which have not been provided.

8. TANGIBLE FIXED ASSETS

| | Leasehold improvements £ | Plant, machinery, furniture and fittings £ | Motor vehicles £ | Assets under construction £ | Total £ |
|---------------------------------|--------------------------------|--|------------------------|-----------------------------------|-------------------|
| Cost | | | | | |
| At 1 January 1998 | 557,865 | 9,183,899 | 726,356 | 3,604,899 | 14,073,019 |
| Additions | 472,526 | 1,556,490 | 174,000 | 2,307,045 | 4,510,061 |
| Transfers | - | 2,511,890 | - | (2,511,890) | - |
| Inter group transfers | - | - | - | (2,140,594) | (2,140,594) |
| Disposals | - | (77,643) | (31,500) | - | (109,143) |
| At 31 December 1998 | <u>1,030,391</u> | <u>13,174,636</u> | <u>868,856</u> | <u>1,259,460</u> | <u>16,333,343</u> |
| Accumulated depreciation | | | | | |
| At 1 January 1998 | 350,064 | 7,496,006 | 691,165 | - | 8,537,235 |
| Charge for the year | 35,471 | 884,839 | 40,188 | - | 960,498 |
| On disposals | - | (59,653) | (1,969) | - | (61,622) |
| At 31 December 1998 | <u>385,535</u> | <u>8,321,192</u> | <u>729,384</u> | <u>-</u> | <u>9,436,111</u> |
| Net book value | | | | | |
| At 31 December 1998 | <u>644,856</u> | <u>4,853,444</u> | <u>139,472</u> | <u>1,259,460</u> | <u>6,897,232</u> |
| At 31 December 1997 | <u>207,801</u> | <u>1,687,893</u> | <u>35,191</u> | <u>3,604,899</u> | <u>5,535,784</u> |


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
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 £146,470 (1997 - £186,760).

9. STOCKS

| | 1998 £ | 1997 £ |
|------------------|-----------|-----------|
| Work in progress | 3,488,261 | 3,882,908 |

10. DEBTORS

| | 1998 £ | 1997 £ |
|--|-------------------|-------------------|
| Amounts falling due within one year | | |
| Trade debtors | 2,555,597 | 4,787,187 |
| Amounts due from group undertakings | 1,426,400 | 225,969 |
| Value added tax | 281,169 | 63,151 |
| Other debtors | 109,741 | 50,627 |
| Prepayments and accrued income | 8,372,850 | 6,005,550 |
| | <u>12,745,757</u> | <u>11,132,484</u> |

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 1998 £ | 1997 £ |
|----------------------------------|-------------------|-------------------|
| Bank loans and overdrafts | 5,514,713 | 3,041,683 |
| Obligations under finance leases | 12,319 | 12,319 |
| Trade creditors | 3,648,874 | 2,828,089 |
| Amounts owed to parent company | 5,498,585 | 119,172 |
| Corporation tax | 661,000 | 331,516 |
| Social security and PAYE | 724,976 | 547,468 |
| Accruals and deferred income | 5,959,077 | 12,066,838 |
| | <u>22,019,544</u> | <u>18,947,085</u> |

12. BORROWINGS

| | 1998 £ | 1997 £ |
|--|------------------|------------------|
| Analysis of bank loans and overdraft repayments due within one year or on demand | 5,514,713 | 3,041,683 |
| Analysis of finance lease repayments due within one year | 12,319 | 12,319 |
| | <u>5,527,032</u> | <u>3,054,002</u> |

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


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
13. PROVISIONS FOR LIABILITIES AND CHARGES
Deferred taxation

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

| | Provided 1998 £ | Provided 1997 £ | Not provided 1998 £ | Not provided 1997 £ |
|--------------------------------|-----------------------|-----------------------|------------------------------|------------------------------|
| Accelerated capital allowances | 79,560 | - | 104,290 | (76,643) |
| Other timing differences | (79,560) | - | - | (13,749) |
| Potential liability/(assets) | - | - | 104,290 | (90,392) |

14. CALLED UP SHARE CAPITAL

| | 1998 £ | 1997 £ |
|--|-----------|-----------|
| Authorised 6,000,000 Ordinary shares of £1 each | 6,000,000 | 6,000,000 |
| Called up, allotted and fully paid 3,900,000 Ordinary shares of £1 each | 3,900,000 | 3,900,000 |

15. PROFIT AND LOSS ACCOUNT

| | £ |
|-------------------------------|-------------|
| Balance at 1 January 1998 | (2,207,445) |
| Profit for the financial year | 33,446 |
| Balance at 31 December 1998 | (2,173,999) |

16. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

| | 1998 £ | 1997 £ |
|-------------------------------|-----------|-----------|
| Profit for the financial year | 33,446 | 52,692 |
| Opening shareholders' funds | 1,692,555 | 1,639,863 |
| Closing shareholders' funds | 1,726,001 | 1,692,555 |



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

17. FINANCIAL COMMITMENTS

| | 1998 £ | 1997 £ |
|---------------------------------|-----------|-----------|
| Capital commitments | | |
| Contracted for but not provided | 1,485,000 | 1,580,513 |

Operating lease commitments

At 31 December 1998, the company was committed to making the following payments during the next year in respect of operating leases:

| | 1998 | | 1997 |
|--------------------------|----------------------------|------------|----------------------------|
| | Land and buildings £ | Other £ | Land and buildings £ |
| Leases which expire: | | | Other £ |
| Within one year | - | 89,249 | - |
| Within two to five years | - | 118,856 | 150,974 |
| After five years | 791,904 | - | 15,837 |
| | 791,904 | - | - |
| | 791,904 | 208,105 | 586,904 |
| | 791,904 | 208,105 | 166,811 |

18. RELATED PARTY TRANSACTIONS

(a) The following transactions took place with Prodrive Limited, a company of which Mr D Richards is a director and shareholder:

- Benetton Formula Limited made payments amounting to £102,284 for professional services provided by Prodrive Limited.
- Benetton Formula Limited received income amounting to £53,588 for professional services provided to Prodrive Limited.

(b) £442,500 (1997 - £187,500) has been charged to the company by Prodrive Management Limited, a company of which Mr D Richards is a director and shareholder.

All of the above balances had been settled at 31 December 1998.

All transactions were in the normal course of business and conducted at arm's length.

19. 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 Minelli, 31050 Ponzano, Treviso, Italy.

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.

20. POST BALANCE SHEET EVENTS

On 25 February 1999, the company increased its authorised share capital to £11,000,000 and issued 5,000,000 Ordinary shares of £1 each to its parent undertaking at par which were paid for in cash.