McLaren Automotive Limited

Directors' report and financial statements

Registered number 01967717

31 December 2006

Contents

Officers and professional advisers

Directors

R Dennis
A Myers
A Ojjeh (Saudi Arabian)
A Sheriff (American)
D Vitoux (Swiss)
T Weber

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

Enhanced Business Review

The principal activity of the company is the design, development and manufacture of high performance sports cars The primary product is the Mercedes SLR McLaren for which the sole customer is DaimlerChrysler

The directors consider turnover, profit before tax and cash flow to be the principal KPIs to assess progress towards achieving the company's strategies over the medium term and performance against these measures is reviewed regularly

Overall turnover has fallen from £111m to £80m largely as a result of falling orders for the SLR (2005 650 units, 2006 261 units) However, Engineering project revenues have increased by £5m to £21m following successful programme approval for the Mercedes SLR McLaren 722 Edition and subsequent projects Engineering revenues now make up 28% of total turnover (2005 14%) and demonstrate that the company is able to maintain sources of revenue other than car production

In the year, the company made a profit before tax of £8 97m, representing a net profit margin of 11 2% Despite a fall in turnover, this compares favourably to the net profit margin of 10 6% (£11 83m) achieved in 2005 and is attributed to improvements in overhead cost control and strong performance within Engineering and F1 Customer Care programmes

The company also generated positive cash flows during the year which were enhanced through a continuing focus on optimisation of working capital and a critical review of all capital expenditure

In 2007 the company expects to build a similar number of vehicles to that built in 2006 and will continue with its Engineering programmes, both contracted and internally funded The market for SLRs remains buoyant and the company believes the recent launch of the "722 Edition" has re-invigorated interest in the vehicle A major launch is planned for 2007 and this is likely to further strengthen sales

As the mix of Engineering programmes moves from externally to internally funded, the company predicts that turnover will fall in the short term from its current position For the same reason the company expects profit before tax to fall over the short term planning period

The company operates in an international environment with sales denominated primarily in Sterling (£59m) with the balance in Euros Purchases are transacted primarily in sterling and Euros All treasury operations are carried out by McLaren Group Limited with whom we contract at a fixed dollar and Euro exchange rate annually

Principal risks and uncertainties

The business's results are significantly affected by SLR sales volume Future volumes represent both risk and opportunity for the company

Additionally, at the end of the financial year the company was continuing to invest in internal development programmes, designed to secure future vehicle production At the time of writing, the Company had not taken a firm decision as to whether it wished to continue this level of investment in those programmes

As the company operates principally in two currencies (Sterling & Euro) there is inherent exposure to exchange risk

Interest exposure is limited to the internal borrowing rate set by the Group

Directors report *(continued)*

Directors and Directors' interests

The directors who held office during the year were

Mr R Dennis
Mr A Sheriff
Mr A Myers
Mr A Ojjeh
Mr D Vitoux
Mr T Weber

The Company Secretary is Mr T Murnane

At the end of 2006, Mr R Dennis held 30% of the shares of the McLaren Group, the parent company of McLaren Automotive None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of the company

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 to auditors

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 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

T Murnane
Company 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 Automotive Limited

We have audited the financial statements of McLaren Automotive Limited for the year ended 31 December 2006 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 2006 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
Chartered Accountants
Registered Auditor

1 Forest Gate
Brighton Road
Crawley,
RH11 9PT

29/10/07

Profit and loss account
for the year ended 31 December 2006

	Note	**2006** **£000**	2005 £000
Turnover	*1*	**79,963**	111,402
Cost of sales		**(42,427)**	(72,741)
Gross profit		**37,536**	38,661
Administrative expenses		**(27,172)**	(24,453)
Operating profit		**10,364**	14,208
Interest receivable and similar income	*3*	**-**	19
Interest payable and similar charges	*4*	**(1,394)**	(2,398)
Profit on ordinary activities before taxation	*5*	**8,970**	11,829
Tax on profit on ordinary activities	*6*	**(1,713)**	(1,966)
Profit on ordinary activities after taxation	*14*	**7,257**	9,863

The company made no acquisitions in the year

In both the current year and preceding period, the company 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 2006

	Note	£000	2006 £000	£000	2005 £000
Fixed assets					
Tangible assets	*7*		**12,243**		12,225
Current assets					
Stocks	*8*	**8,240**		12,885	
Debtors	*9*	**10,952**		22,900	
Cash at bank and in hand		**14**		426	
		19,206		36,211	
Creditors amounts falling due within one year	*11*	**(30,708)**		(54,952)	
Net current liabilities			**(11,502)**		(18,741)
Net assets/(liabilities)			**741**		(6,516)
Capital and reserves					
Called up share capital	*13*		**10**		10
Profit and loss account	*14*		**731**		(6,526)
Equity shareholders' funds/(deficit)	*15*		**741**		(6,516)

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

R Dennis
Director

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

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)

Turnover

Turnover represents the value of goods sold and services provided in the year, exclusive of value added tax Revenue recognition is explained in the Long-term contracts accounting policy below The company operates one class of business based in the United Kingdom

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

Research and development

Research and development expenditure is written off in the period it is incurred

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
Motor vehicles	- 25% of reducing balance
Plant, machinery, tools and equipment	- 20% of reducing balance
Fixtures, fittings and office equipment	- 20% of reducing balance

No depreciation is provided until the assets are brought into use

Stocks

Stocks are valued at the lower of cost and net realisable value Cost is determined on a first in first out basis and includes expenditure incurred to bring the stock to its current location and condition For work in progress and finished goods manufactured by the Company, cost is taken as production cost which includes an appropriate proportion of attributable overheads based on normal operating capacity

Leases

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the lease term

Notes *(continued)*

1 Accounting policies *(continued)*

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 and financial instruments

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 derivate contracts All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the company in line with the company's risk management policies

Pensions

The company pays contributions to personal pension schemes of certain employees, with the costs being charged to the profit and loss account

2 Information regarding directors and employees

	Year to 31 December 2006 £000	Year to 31 December 2005 £000
Directors emoluments		
Highest paid director s emoluments	-	350

R Dennis and A Myers are also directors of the holding company McLaren Group Limited and their remuneration for services to the group have been borne by the holding company A Sheriff is an employee of McLaren Group Limited The share of the total emoluments of these directors allocated in respect of services to this company is £916,000 *(2005 £836,000)* £611,000 has been charged to McLaren Automotive Limited in a management charge

Notes *(continued)*

2 Information regarding directors and employees *(continued)*

	Year to 31 December 2006 £000	Year to 31 December 2005 £000
Employees costs during the period (including directors)		
Wages and salaries	**12,243**	13,696
Social security costs	**1,293**	1,535
Other pension costs	**231**	214
	13,767	15,445
	Number	Number
Average number of persons employed		
Production	**189**	264
Engineering	**83**	69
Administration	**133**	115
	405	448

3 Interest receivable and similar income

	Year to 31 December 2006 £000	Year To 31 December 2005 £000
Other interest receivable	-	19

4 Interest payable and similar charges

	Year to 31 December 2006 £000	Year to 31 December 2005 £000
Group company loans	**1,394**	2,397
Bank loans and overdrafts	-	1
	1,394	2,398

Notes *(continued)*

5 Profit on ordinary activities before taxation

		Year to 31 December 2006 £000	Year to 31 December 2005 £000
Profit/Loss on ordinary activities before taxation is stated after charging/(crediting)			
Depreciation	- owned	**2,174**	3,472
Operating lease rentals	- other	**2,890**	2,763
Auditors' remuneration	- audit of company	**30**	25
	- tax services	**7**	13
(Profit)/Loss on disposal of fixed assets		**(2)**	26

6 Tax on profit on ordinary activities

	Year to 31 December 2006 £000	Year to 31 December 2005 £000
United Kingdom corporation tax at 30% *(2005 30%)*	**(2,878)**	(3,252)
Adjustments in respect of prior years	**(301)**	-
Total current tax	**(3,179)**	(3,252)
Deferred taxation		
Origination and reversal of timing differences	**662**	433
Adjustments in respect of prior years	**804**	853
	(1,713)	(1,966)

Notes *(continued)*

6 Tax on profit on ordinary activities *(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
Profit on ordinary activities before taxation	**8,970**	11,829
Tax at 30% thereon	**(2,691)**	(3,549)
Effects of		
Expenses not deductible for tax purposes	**(7)**	(59)
Depreciation in excess of capital allowances	**(677)**	(610)
Utilisation of tax losses	-	469
Movement in short term timing differences	-	(1)
Tax Incentives	-	450
Credits not taxable	**497**	48
Prior period adjustments	**(301)**	-
Total actual amount of current tax	**(3,179)**	(3,252)

7 Tangible fixed assets

	Leasehold premises and improvements £	**Motor vehicles £**	**Plant and machinery, tools and equipment £**	**Fixtures, Fittings and office Equipment £**	**Total £**
Cost					
At 1 January 2006	3,204	203	15,748	2,917	22,072
Additions	125	107	1,686	306	2,224
Disposals	-	(82)	-	-	(82)
At 31 December 2006	3,329	228	17,434	3,223	24,214
Accumulated depreciation					
At 1 January 2006	875	149	6,791	2,032	9,847
Charge for the year	111	22	1,852	189	2,174
Disposals	-	(50)	-	-	(50)
At 31 December 2006	986	121	8,643	2,221	11,971
Net book value					
At 31 December 2006	**2,343**	**107**	**8,791**	**1,002**	**12,243**
At 31 December 2005	2,329	54	8,957	885	12,225

Included in the above are assets held under finance leases with net book values of £nil *(2005 £nil)*

Notes *(continued)*

8 Stocks

	2006 £000	2005 £000
Raw materials	**4,852**	6,531
Work in progess	**3,000**	3,547
Finished goods	**388**	2,807
	8,240	12,885

9 Debtors

	2006 £000	2005 £000
Trade debtors	**110**	103
Amounts owed by group undertakings	**43**	123
Amounts owed by related parties	**7,798**	20,724
Other debtors	**13**	442
Deferred tax assets (note 10)	**2,579**	1,113
Prepayments and accrued income	**409**	395
	10,952	22,900

10 Deferred tax asset

	£000
Opening balance	1,113
Credit to profit and loss account	1,466
Closing balance	**2,579**

	2006 £000	2005 £000
The deferred tax asset consists of		
Depreciation in excess of capital allowances	**2,390**	925
Short term timing differences	**189**	188
	2,579	1,113

A deferred tax asset in the prior year of *£1,375,000* was not recognised in respect of timing differences relating to losses carried forward as there was insufficient evidence that the asset would be recovered In the current year, all carried forward tax losses have been utilised

Notes *(continued)*

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 £172,000

11 Creditors: amounts falling due within one year

	2006	2005
	£000	£000
Trade creditors	**4,155**	6,523
Amounts owed to group companies	**9,969**	39,343
Amounts owed to related parties	**8,059**	3,215
Taxation and social security	**2,510**	2,144
Other creditors	**393**	7
Accruals and deferred income	**5,622**	3,720
	30,708	54,952

12 Commitments

Annual commitments under non-cancellable operating leases are as follows

	2006		2005	
	Land and buildings	**Other**	Land and Buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire				
Within one year	**108**	**41**	-	47
In the second to fifth years inclusive	**115**	**59**	230	33
Over five years	**2,805**	**-**	2,446	24
	3,028	**100**	2,676	104

Notes *(continued)*

13 Called up share capital

	2006 £000	2005 £000
Authorised, allotted, called up and fully paid		
10,000 ordinary shares of £1 each	**10**	10

14 Profit and loss account

	£000
At 1 January 2006	(6,526)
Profit for the year	7,257
At 31 December 2006	**731**

15 Reconciliation of movement in shareholders' deficit

	2006 £000	2005 £000
Profit for the year	**7,257**	9,863
Dividends	**-**	-
Net change in shareholders' funds	**7,257**	9,863
Opening shareholders' deficit	**(6,516)**	(16,379)
Closing shareholders' funds/(deficit)	**741**	(6,516)

16 Contingent liability

McLaren Automotive 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 2006 the balance guaranteed was £nil *(2005 £69,200,000)*

Notes *(continued)*

17 Related party transactions

Transactions with related companies during the period were as follows

	Year to 31 December 2006 £000	Year to 31 December 2005 £000	**Balance outstanding at 31 December 2006 £000**	Balance Outstanding at 31 December 2005 £000
Related party sales				
DaimlerChrysler AG	**78,847**	110,147	**7,798**	20,724
R Dennis	**1**	1	**-**	-
A Ojjeh	**-**	(2)	**-**	-

	Year to 31 December 2006 £000	Year to 31 December 2005 £000	**Balance outstanding at 31 December 2006 £000**	Balance Outstanding at 31 December 2005 £000
Related party purchases				
DaimlerChrysler AG	**6,212**	12,876	**8,059**	3,215

There are no other directors' loans 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

18 Events after the balance sheet date

Since the 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)

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 2006 was as follows 40% DaimlerChrysler AG (incorporated in Germany), 30% Mr R Dennis and 30% TAG Group (Holdings) SA (incorporated in Luxembourg)