



ANNUAL RESULTS

McLARENGROUPLIMITED

Annual report and consolidated financial statements

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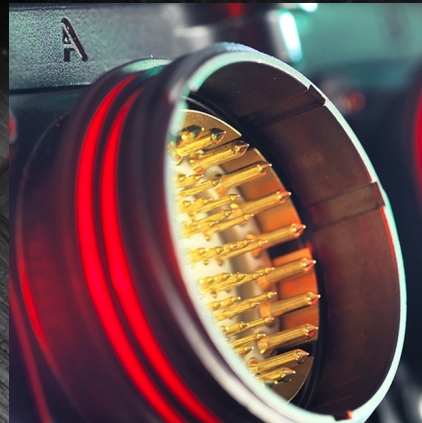


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Strategic report

Principal Activities

McLaren Group Limited (the “Group”) is a luxury automotive, motorsport and technology company. The Group is constituted of three key divisions: McLaren Automotive, McLaren Racing and McLaren Applied (formerly McLaren Applied Technologies).

Founded in 1963, the Racing division has been one of the most successful teams in motorsport history. Since its foundation, the team has won 20 Formula 1 World Championships, the Indy 500 three times and the Le Mans 24 Hour race.

Having produced the iconic McLaren F1 road car in 1992, McLaren Automotive launched its first products in 2011 starting with the 12C. Today, Automotive has a range of luxury high performance cars across four defined product families: Sports Series, Super Series, Ultimate and GT Series. It has produced further ground-breaking cars such as the McLaren P1™, the 600LT and the McLaren Senna. 2018 was an extraordinary year for Automotive, not least because it reached the production rates required to achieve the c5,000 units per year originally promised in the Track22 business plan. 2019 has been another strong year, not only because it included the launches of Spider versions of the 600LT and the 720S but also because the new GT is now in production. Further, McLaren built and sold all 75 examples of the McLaren Senna GTR. Finally, the Elva (the next Ultimate Series car), has been announced. All current and future models continue to command premium pricing and a strong order bank.

The Applied division focuses on the application of McLaren’s technological know-how in a wide variety of fields. The business showcases in motorsport, where to this day it is still a significant supplier of electronic components and software to Formula 1, NASCAR, Indycar and Formula E. However, it now drives for scale in more market segments beyond the current four by focusing on three key technology pillars across all markets. These technology pillars are: 1) virtual product development, 2) telemetry, control and analytics and 3) electrification. These three pillars are where McLaren can significantly differentiate itself in the market and draw on the knowhow developed by McLaren over the last half century.

The development of the new McLaren Group Limited

The Group has continued to develop during 2019, a process that started in 2017 with the consolidation of the McLaren Technology Group (holding the Racing and the Applied divisions) and McLaren Automotive under the ownership of McLaren Holdings Limited. This transaction was completed on 20 July 2017. At the same time, the Group issued a sterling Bond of £370m and a dollar Bond of \$250m traded on The International Stock Exchange.

The Group is now managed along the three business lines of Automotive, Racing and Applied and the Group’s legal structure has been changed to reflect this. During 2018 and completed on 2 January 2019, the assets and liabilities of McLaren Marketing Limited and Team McLaren Limited were hived into McLaren Racing Limited to form one single racing company. The ownership of McLaren Racing Limited and McLaren Applied Limited were also transferred to McLaren Holdings Limited from McLaren Technology Group Limited. McLaren Technology Group Limited was then renamed McLaren Services Limited and continues to provide IT, facilities management and similar services to the operating entities.

On the 18 March 2020, the Group announced Paul Walsh had been appointed as Executive Chairman to help guide the next phase of its strategic development. Paul brings a wealth of business experience to McLaren having been Chief Executive Officer of FTSE 100 listed drinks company Diageo for 13 years following over three decades with the company. After successfully leading the reintegration of the McLaren Group, Shaikh Mohammed Bin Essa Al Khalifa, will become non-executive director and continue to support the Group’s ambitions.

The Impact of COVID-19

The Covid-19 pandemic has had an enormous impact on the global economy. Social distancing measures, while being necessary to tackle and contain the outbreak, have caused mass disruption to social and economic activities across the globe.

Strategic report (continued)

The Impact of COVID-19 (continued)

The Group is a major employer in the UK in the South East and Sheffield region, with a workforce of around 4,000 people and a diverse supply chain of over 500 companies. Our priority is our people and due to the global Coronavirus pandemic, the Group swiftly took the following actions to protect the health and safety of our people and to ensure the company is well placed to resume operations as smoothly as possible in the future:

- Withdrew from the Formula 1 Australian Grand Prix following a positive test of a team member.
- Request employees work from home where possible to protect their wellbeing and to comply with Government guidelines.
- Announced the suspension of operations at the McLaren Production Centre and closed all other McLaren Group sites to employees in line with Government guidance.
- Temporarily furloughed employees in line with Government guidance
- Asked those employees who are not furloughed to take a temporary reduction in pay.

The Group is strengthened by the appointment of Paul Walsh, Executive Chairman, who brings a wealth of experience providing strong leadership and guidance through the current crisis. Further, shareholder support has very recently been demonstrated through a £300m equity injection in early March 2020.

The £300.0m equity injection (£290.7m net receipt after the repayment of a shareholder loan) was provided by the existing shareholders prior to COVID-19 in order to fund an updated five-year business plan. This plan, among other things, allowed for an intentional softening of sales volumes in Q1 2020. The plan, which was delivered on in Q1 2020 despite COVID-19, was to bring supply well below demand and drive stock out of retailers. This would then strengthen McLaren's position as a luxury automotive manufacturer as well as set the Group up for the second half of 2020 in a strong position ahead of what has historically been one of the strongest sales periods.

In the event, COVID-19 has resulted in significant operational and financial disruption which has put pressure on the liquidity of the Group. The management team acted swiftly at the end of Q1 2020 to reduce the cost base of the Group in response to the pandemic. The steps taken were:

- CAPEX expenditure has been reduced by c£110m by cancelling or moving out programmes. Expenditure in 2020 will only focus on programmes that deliver a return in 2020 (such as Speedtail, 765LT and Elva) or on the new platform that will launch this year but with deliveries to customers for the first vehicle based on it now delayed until 2021.
- c£45m of savings found in staff costs utilising the UK Government's Job Retention Scheme. A significant number of the Group's employees were furloughed and those that remained working agreed to take a temporary cut in pay.
- c£30m of annual savings found from other overheads including sales and marketing, events, motorsport, travel, racing costs, IT and facilities management savings.

COVID-19 has resulted in the management team and the Board re-assessing the entire five-year business plan following the investment reprofiling. In putting together this plan, the Group will continue to reflect these savings across all five years of the plan; the annual salary savings will be found through the recently announced restructuring programme where the Group intends to reduce headcount by 1,200.

However, the first year of this new five-year plan (2020) showed that the Group had a further funding requirement as a result of the pandemic. Q2 2020, in particular, was hardest hit as volumes were predicted (and have turned out) to be significantly weaker than normal leading to lower revenues. Unfortunately, the impact of the cost saving measures outlined above will not be seen until Q3 and Q4 2020 as the Group had to settle the pre-COVID commitments made in Q1 2020 which fell due in Q2 2020.

Strategic report (continued)

The Impact of COVID-19 (continued)

This is because the Group operates on end-of-month plus 60-day payment terms with suppliers and therefore the expenditure is unavoidable.

Short-term working capital funding has been secured to support the Group's liquidity requirements. The Group recently announced that:

- A 12 month, £150m loan from the National Bank of Bahrain, an associate of the ultimate parent company of the Group, Bahrain Mumtalakat Holding Company, had been secured. This loan has been provided to McLaren Group Limited.
- This loan had been provided with support from the existing shareholder Group.
- The loan proceeds have then been injected into McLaren Holdings Limited by way of an equity subscription.

Covenant waivers have also been secured on the Super Senior Revolving Facility Agreement and the Group wishes to thank its banking partners for their continued support in granting these waivers.

This additional short-term financing is part of a three-phase strategy which will strengthen the balance sheet in the aftermath of COVID-19. The Group now intends to raise equity in the near future in order to take out this short-term financing and then intends to refinance both the bond and RCF debt.

Operationally, McLaren has already begun to recover operations following the suspension of production and the closure of retailers globally in March. The McLaren Production Centre is already open and has returned to one-shift production across both manufacturing lines. The global retailer network is also opening up, and demand is returning, and cars are once again beginning to be sold to customers.

Racing expects to return to the race track following Formula 1's announcement of their intention to start the season in Austria at the beginning of July, with 8 races in Europe currently confirmed. Further races are expected to be added with the season expected to run until December to maximise the calendar. McLaren brought the racing team back from furlough at the beginning of June to be ready for the first race.

However, despite re-writing the five-year plan, addressing the immediate liquidity need and putting in place a three-phase plan to restructure the balance sheet, the Directors' acknowledge that there is uncertainty around the timing and execution of this plan. Additional financing will be required by the Group to meet its liabilities as they fall due over the next 12 months and this financing may not ultimately be obtained. This represents a material uncertainty which may cast significant doubt over the group's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Overall, uncertainty around the scale, timing and impact of the pandemic means it is not possible to determine with any degree of precision the potential future impact on our liabilities and assets at this time.

Group results

Turnover for the year ended 31 December 2019 stands at £1,485.8m an increase of 18% over the £1,256.6m achieved in the comparative period. In addition, the Group reported an operating profit of £24.9m in 2019 versus an operating loss of £4.8m in 2018. Overall losses for the Group before tax are significantly lower, with a loss of £29.2m reported in 2019 versus the £69.5m loss reported in the same period in 2018.

The improvement in the 2019 results is driven by the Automotive division which has built on the success of 2018 by not only continuing to build cars at a rate of around 20 units per day, but also improving the product mix with the launches of the McLaren Senna GTR and the 720S and 675LT Spider variants. Further, the losses from the Racing division have begun to reduce, largely reflecting the improved finishing position in the 2018 Formula 1 World Constructors' Championship, which impacts prize money the following year, plus some cost savings.

Strategic report (continued)

McLaren Automotive

The Automotive division forecast sales growing to c5,000 units per annum within the seven-year Track22 business plan, which was first announced at the Geneva motor show in 2015. 2018 saw 4,829 vehicles delivered, which proved the attainability of this objective. 2019 was about consolidating this. Total wholesales for the year ended 31 December 2019 were 4,662, only marginally down in total on 2018, but part of McLaren's strategy to focus on improving margin rather than volume growth – something it has demonstrated with the 2019 results.

Wholesale volumes by region are:

Region	FY 2019 Units	FY 2018 Units	YoY Growth
Europe	1,355	1,599	-15%
North America	2,051	1,748	17%
Asia Pacific	811	843	-4%
China	276	354	-22%
RoW	169	285	-41%
Global	4,662	4,829	-3%

The mix of products delivered in 2019 versus 2018 was also stronger; having delivered 259 Ultimate Series cars in 2018, Automotive delivered the McLaren Senna GTR in addition to the balance of the McLaren Senna orders. In the Sports and Super Series segments, the mix of product is also richer with LT and 720S Spider product being delivered in 2019 as opposed to the 570S and 720S Coupe product delivered in 2018. The mix difference is the key driver behind the improved financial performance versus 2018 in the Automotive division as Ultimate Series products are higher margin.

McLaren Automotive continued to announce and launch new products in 2019. Having revealed the 720S Spider to the world in December 2018, it announced a second Spider in Q1 2019: the 600LT Spider. Both cars were reviewed by the world's press in February 2019 and both received numerous five-star accolades from the global media. These vehicles are now in production and being delivered to customers.

Following this, in May 2019, the GT was revealed. Sleek, elegant and muscular, the superlight new GT challenges the conventions of the Grand Tourer category with a compelling blend of beautiful design, high-quality innovative materials, true supercar performance and McLaren driving dynamics and engagement. Positioned alongside the established Sports, Super and Ultimate Series families, this is a new McLaren for a new audience and provides an alternative to existing products in an expanding market segment. This vehicle went into production in Q3 2019, with the first production units now with customers.

In November 2019, the previously teased new Ultimate Series Speedster, was named as the Elva. The open-cockpit two-seater celebrates the Bruce McLaren-designed 1960s McLaren-Elva sportscars and will be the lightest road car ever from McLaren Automotive. The car incorporates the McLaren Active Air Management System (AAMS) which is a world-first; this aero-device shelters occupants by manipulating air flow while retaining their connection to the elements. Limited to enhance exclusivity, and homologated for all major markets, the vehicle is priced at £1.425m (Inc VAT) but the final price will depend upon level of MSO customisation. The Elva already has a solid order bank with deposits now being collected.

Strategic report (continued)

McLaren Automotive (continued)

Further emphasising the rapid growth in Automotive, the division also announced that it had produced its 20,000th car in May 2019. This milestone represented a further significant achievement for the British marque coming only eight years after the first McLaren road car left the McLaren Production Centre in July 2011.

Looking into 2020, McLaren has already revealed the next LT product – the 765LT. Adding to the products in the Super Series, it is lighter, more powerful and with even higher levels of performance on both road and track, the 765LT is the latest in a line of ‘Longtail’ McLarens and the most dynamically advanced and engaging LT model ever from McLaren Automotive. Only 765 examples of the car will be built.

In 2020, McLaren Automotive intended to take a year to consolidate its position. A key pillar of the future strategy is to grow the brand in the premium luxury space to enable it to maintain a price premium and therefore grow margin rather than volume. In order to protect the brand for the future, McLaren had chosen to reduce volumes to around 4,000 in order to increase scarcity in the market place and drive demand. However, the division is now guiding towards a conservative volume of c1,500 units for the year as a result of COVID-19. The plan reflects the difficulty in forecasting in the current climate but is built around the return to one shift in the factory from June 2020 and delivery of units for which there is currently a customer order. The mix of products will, however, be rich as a significant proportion of this plan includes Speedtails, Elvas and the 765LT.

McLaren Racing

Such has been the performance gains of the 2019 package over the previous season’s that McLaren Racing secured fourth in the 2019 Constructors’ World Championship. The points haul of 145 was the team’s highest total since 2014.

The team also benefited from appointing the experienced Carlos Sainz to drive alongside Lando Norris for 2019. Carlos Sainz was placed third in Brazil, marking McLaren’s first return to the podium step since Australia 2014. The drivers have impressed to such a degree that McLaren will continue with the pairing in 2020. Carlos also managed to finish 6th in the Formula 1 World Drivers’ Championship, an outstanding performance given McLaren only had the fourth fastest car of the season.

The team will continue the positive momentum into the 2020 season. The new car has already hit the track with one of the best pre-season tests in recent memory. The new car completed 802 laps in testing (the third highest of the ten teams participating). With the postponement of the start of the season, McLaren Racing is looking forward to the season getting underway in the second half of the year.

Off the track, the 2019 revenue targets were achieved with more sponsor partnerships than any other F1 team in the year. Petrobras and McLaren Racing concluded their technical and sponsorship agreement by mutual consent, with neutral impact to the Racing business plan.

Going into 2020, McLaren Racing had already exceeded its sponsorship target meaning that it expected to not only have year-on-year growth in Formula 1 prize money (from the 4th place finish in 2019) but also in sponsorship. However, once again the COVID-19 crisis has led to some uncertainty in the revenues in Formula 1, particularly around prize money. Accurate revenue predictions can only be made once the full revised calendar is finalised and the season is finally underway. However, the current plan is that the season will begin in Austria in July 2020 behind closed doors and it will then travel through Europe, Asia, and then on to the Americas before finishing the season in the Middle East in December.

The sport’s governing body, the FIA, also unveiled its sporting regulations for 2021 and beyond in October 2019. This included the new cost cap regulations, which will apply from the start of 2021 and will last for at least five seasons. However, following the postponement of the start of the 2020 Formula 1 season, several changes have been agreed to reduce the impact of the COVID-19 crisis on Formula 1 teams. The new technical regulations for 2021 have now been postponed to 2022, with the current cars being used in 2021 instead. In addition, the 2021 cost cap will be \$145m, down from the original agreed \$175m. McLaren welcomes these changes, and these will contribute to a lower racing cost in 2020 and 2021.

Strategic report (continued)

McLaren Racing (continued)

Finally, McLaren Racing was pleased to announce in August 2019 that the brand is returning to Indy Car racing in the USA from the 2020 season. McLaren has an impressive history in Indy Car, winning three Indy 500 titles and last competing in the championship in 1979. This new venture will give Racing a significant commercial advantage over other Formula 1 teams, none of which have such a significant racing presence in North America.

McLaren Racing is entering through a strategic partnership with an existing team, Arrow Schmidt Peterson Motorsports (Arrow SPM), and Chevrolet. Under the partnership, the team has been renamed Arrow McLaren Racing SP and will field two Chevrolet-powered cars in the 2020 NTT IndyCar Series, reflecting the continuing status of Arrow Electronics as the team's title partner, as well as a new manufacturer partnership with Chevrolet. This will allow McLaren Racing to be competitive almost immediately. While the commercial opportunities are significant, the cost of competing are not expected to be material due to the low cost (compared to Formula 1) of competing in Indy Car and the sponsorship arrangements the team already have in place. Similar to the Formula 1 season, the IndyCar season was delayed due to the Coronavirus pandemic but the season has now already begun with the first race completed in Texas during June 2020.

The Group's strategy is to build performance of the Formula 1 team. The Group plans to reduce the net cost of competing in Formula 1 over the next five years but at the same time take advantage of the new regulations to improve the competitiveness of the team. This, alongside the commercial advantage of Indy Car, should see the costs of the Racing division falling over the next two to three years, although the impact of COVID-19 on the near-term forecasts still needs to be assessed.

McLaren Applied

In Q2 2019, McLaren appointed Anthony Murray as the CEO of McLaren Applied. Following his appointment, McLaren Applied has undertaken a strategic review. It announced in Q4 2019 that, while the business would still showcase in motorsport, it would now drive for scale by focusing on three key technology pillars across all markets. These technology pillars are: 1) virtual product development, 2) telemetry, control and analytics and 3) electrification. As a result, a restructure of McLaren Applied was undertaken in Q4 2019 in order to shape the business around this new strategy. This resulted in one-off charges to the profit and loss of £6.4m in December 2019.

New equity issued

In 2018, the Group announced investment from a new shareholder, Nidala BVI Limited a company controlled by Michael Latifi, which was delivered in several instalments over two years.

As a result McLaren Holdings Limited issued new shares to McLaren Group Limited as the proceeds were received by McLaren Group Limited. On the 14 May 2018, McLaren Holdings issued £100m of new shares to McLaren Group Limited. On the 16 November 2018, McLaren Holdings issued £50m of new shares to McLaren Group Limited. On the 1 February 2019, McLaren Holdings issued £49.3m of new shares to McLaren Group Limited. In the final tranche, McLaren Holdings issued £3.8m of new shares to McLaren Group Limited on 14 May 2019, which was settled in the December.

The new capital, which was part of the Group's simplification over the last 12 months, significantly strengthened the Group's balance sheet and underpins its ambitious growth plans laid out in its five-year business plan.

Strategic report (continued)

Issue of debt and increase in Revolving Credit Facilities

On the 12 July 2019 the Group announced that McLaren Finance plc had entered into financing arrangements in an amount equal to \$150m (equivalent), consisting of: (i) a private placement of an additional \$100m in aggregate principal amount of the Group's 5.750% senior secured notes due 2022 (the "Notes"); (ii) incremental commitments under its existing super senior revolving credit facility of £20m The \$24.9m in the form of commitments under a separate US dollar-denominated short-term credit facility expired on the 31st December 2019.

Intangible investment

The Group continued to invest in new products and services, investing £297.9m in 2019. The majority of this was invested by the Automotive division in new road car projects including new Ultimate, Super and Sports Series models. The spend includes investment in the new McLaren platform, although due to the impact of COVID-19, the first deliveries of vehicles based on this platform will now commence in 2021.

Post Balance Sheet Event

By the end of Q1 2020, the Group had received £300m by way of new shares issued by McLaren Group Limited. The source of funding for this investment were the existing, long-standing shareholders to support investment across McLaren's three businesses divisions as part of their commitment to the Group's growth strategy. From these proceeds, an outstanding shareholder loan of £9.3m was settled.

Due to the impact of the Covid-19 crisis, at the end of Q2 2020, the Group secured additional financing in the form of a £150m loan from the National Bank of Bahrain. During Q2 2020 the Group also announced a restructuring programme with the intention to reduce headcount by 1,200. The consultation process is currently ongoing and expected to conclude at the end of July.

Key performance indicators

The directors consider turnover, sales, production and retail volumes, position in the FIA Formula 1 World Championship, earnings before interest and tax, profit before tax, cash flow and performance against engineering programme milestones to be the principal Key Performance Indicators (KPIs). These are used to assess progress towards achieving the Group's strategies over the medium term and performance against these measures is reviewed regularly.

Principal risks and uncertainties

The risks associated with the manufacture of luxury road cars relate primarily to the costs associated with the development of future vehicles, the ability of McLaren Automotive to leverage a competitive advantage or technological advantage, demand for the brand and also the economic position of key markets into which cars are sold.

Further, the Group is exposed to the performance of Formula 1 as a global sports entertainment business and on-track performance. On-track performance impacts income from prize money and the renewal and acquisition of sponsorship.

As with any company active on a global stage, foreign exchange volatility presents a risk. Currency exposure will remain high as 70 per cent of worldwide sales revenues are denominated in non-Sterling currencies. The Group operates in an international environment with revenues denominated primarily in US dollars, Japanese Yen, Chinese Yuan and Euros. Purchases are transacted primarily in Sterling and Euros. The principal risks, however, are exposure to the US Dollar and Euro. The Group operates under a treasury policy and accordingly has a hedging portfolio in place to cover a proportion of these cash flows. Interest exposure is governed by the rate at which long-term loans are agreed and the rate contracted with high-yield bond holders and the banking group supporting the revolving credit facility. The interest rate on the revolving credit facility is linked to LIBOR whereas the rate contracted with the high-yield bond holders is fixed.

Strategic report (continued)

Brexit considerations

The UK has now left the European Union (“EU”) but, while little is changed in the transition period, there is uncertainty around the type of deal that the trade negotiations will produce with the EU at the end of 2020. The Group continues to keep the progress of the negotiations under close review but considers the impact of the UK’s exit on the financial results of the Group to be low. The management team, however, has considered the risks that exiting the EU poses and established that the following risks exist:

- The Group sources approximately 50% of supplies from the EU, in terms of value, and is therefore dependent on the movement of goods into the UK to maintain production. The Group could be required to hold additional stocks of parts or slow production during the Brexit period which would have a short, temporary impact on cash flow.
- The Group’s imports could become subject to tariffs due to the cessation of free trade arrangements as a result of Brexit. This could have an impact on the Group’s input costs.
- There is uncertainty over the rights of EU nationals to work in the UK which could increase the risk of hiring talent.
- Exchange rate volatility could impact the Group’s revenues, profits and cash flows.

The management team has, however, undertaken several actions in order to mitigate any potential impact. These actions include:

- Establishing a cross-functional team of subject matter experts to monitor the impact of Brexit and report their findings to the management team and, ultimately, the Board.
- The Group has ensured that it has sufficient cash reserves forecast to be in place through the end of 2020 in order to allow additional stocks to be held or production to be slowed or to cover any additional costs. This has been further helped by the additional debt raise.
- Through the Group’s Government Affairs department, the Group has strong engagement with Government through bodies such as the Automotive Council and the Society of Motor Manufacturers and Traders.
- The Automotive division has obtained AEO accreditation.
- The Group has continued to follow its hedging policy, as described elsewhere in these financial statements, in order to mitigate any short-term volatility in exchange rates.
- The Group have been working with immigration agents to assist employees in mitigating potentially significant visa costs and managing the availability of labour in future years.

Section 172 Companies Act 2006

This sets out how the Directors comply with the requirements of Section 172 Companies Act 2006 and how these requirements have impacted the Board’s decision making throughout 2019.

In June 2018 the Government introduced secondary legislation that requires all companies that meet specified size requirements to provide a corporate governance statement. Corporate Governance refers to the way that the Group is governed as well as the interaction between its managerial bodies, its shareholders and other stakeholders. The purpose is to adopt appropriate rules and procedures to support and improve the internal controls systems. The Group has always maintained strong governance procedures and welcomes the opportunity to make a formal disclosure.

The Group has reviewed the available Codes and decided that it will apply the Wates Corporate Governance Principles for large Private Companies which were issued in December 2018. The disclosures which provide support for how the directors meet the requirements of Section 172 Companies Act 2006 is included in the Governance Report on pages 16 to 20 and is also available on the Group’s website www.mclaren.com.

Strategic report (continued)

Section 172 Companies Act 2006 (continued)

Section 172 Decisions

a) *The likely consequence of any decision in the long-term*

The Board approves a 5-year plan annually, or where the need arises (i.e. COVID-19), against which it monitors both operational and financial performance. The Board has agreed a set of performance indicators and reviews the Group's forecast funding requirements, debt capacity and financing options against these. In approving the strategy, the Directors also consider external factors including the performance of the automotive industry together with the global economic and market conditions.

b) *The interest of the company's employees*

The Board understand the importance and benefit of having a broad range of skills, experiences, perspectives and backgrounds in our teams and continuously strives to attract, engage and retain a diverse range of talented people. Understanding the importance of the Group's employees to the long-term success of the business, the Board regularly communicates to its employees through presentations, internal group-wide emails and newsletters. The Group's intranet and structure give our employees the opportunity to interact with members of the Board and other key management personnel. The individual businesses have annual presentations, open to all employees, at which the Chief Executives inform and update employees on the Group's performance, plans and outlook. Employees are encouraged to ask questions about the Group's purpose, goals and direction. Employee surveys are undertaken to receive feedback about the employee experience at McLaren, the results of which are carefully analysed and discussed by the Board. Employees are offered a range of development opportunities including formal programmes, mentoring, coaching and e-learning that enable the Board to identify and develop the skills and knowledge it needs to succeed now and in the future.

c) *The need to foster the company's business relationships with suppliers, customers and others*

The Board regularly reviews how the Group maintains positive relationships with all its stakeholders. It understands the importance of the Group's supply chain in delivering the long-term plans of the Group and the CEO's of all businesses bring a wealth of key industry knowledge in their respective fields. The Group's principal risks and uncertainties set out risks that can impact the long-term success of the Group and how these risks interact with our stakeholders. The Directors actively seek information on the interaction with stakeholders to ensure that they have enough information to reach appropriate conclusions about the risks faced by the Group and how these are reflected within the long-term plans.

d) *The impact of the company's operations on the community and environment*

McLaren's environmental policy outlines the Group's commitment to protect against the long-term critical depletion of natural resources and lasting damage to species, habitats, biodiversity and climate. The McLaren campus was designed with energy efficiency and biodiversity in mind. Water management was also planned carefully with hydrocarbon interceptors. Since the site's development, the Group has achieved several environmental awards including the Carbon Trust Certificate, Edison Awards 'Green award' for innovation, and FIA Institute Environmental Award – the first recipient and gold standard. Applied has ISO 14001 environmental accreditation. The environmental policy statement commits McLaren to preventing and reducing pollution including CO₂ emissions of 2.5% year on year and zero waste to landfill. The Board ensures that all stakeholders are aware of the Environmental Policy and that high standards are promoted through suppliers, partners, customers and encourages others to implement environmental measures in their business. The facilities team periodically evaluates activities to identify significant environmental concerns and establish relevant management action plans.

Strategic report (continued)

Section 172 Companies Act 2006 (continued)

Section 172 Decisions

d) The impact of the company's operations on the community and environment (continued)

McLaren supports communities in several ways and aims to make a positive contribution to improving people's life chances, especially those of young people. Developing the next generation of automotive expertise is vitally important to McLaren. As the company continues to grow, the need for a skilled workforce to design, develop, build and sell its cars is also expanding. McLaren Automotive backs the UK STEM Awards (which has seen previous winners secure permanent roles at McLaren) and has partnered with the BBC on educational science programming for primary school age groups and above. The Group continually strives to improve, innovate and contribute towards a better future. In addition to actively supporting several local causes for decades, McLaren designed and built an accessible rickshaw for The One Show's annual fundraising effort for BBC Children in Need.

e) The desirability of the company maintaining a reputation for high standards of business conduct

The Directors take the reputation of the Group seriously which is not limited to only operational and financial performance. The Board follows and approves a suite of controls that include adherence to anti-corruption, bribery, anti-slavery and Dealing Code. The Board has committed to having a workforce that reflects society as a whole. It has considered the data, and narrative, relevant to the Group's Gender Pay Reporting in preparation for external publication, including proposed improvement plans to enhance performance.

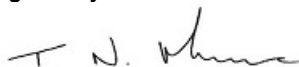
f) The need to act fairly as between members of the company

McLaren is nearly 60 years old and remains privately owned. The Group is supported by its shareholders and providers of debt funding in providing the capital to further its business objectives. They rely on the Board to protect and manage their investment in a responsible and sustainable way that generates value for them. The Group hold quarterly meetings for all investors to dial into at which the Group Executive present the current financial and operational results. Investors are invited to ask questions and seek clarification from the Executive. The Group interfaces with the shareholders on a regular basis through corporate events and the Group Board meetings, held at the Woking office, which contains independent non-executives alongside the executive directors.

Directors

There were 11 directors during the year of which 9 were male and 3 were female. There were 4 employees of the entity in the year of which were all male.

Signed by order of the Board



T Murnane

Company secretary, McLaren Group Limited

29 June 2020

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Directors' report

The Directors present their Annual report and the audited financial statements of the Group and Company for the year ended 31 December 2019.

Results

The consolidated loss for the financial year after taxation amounted to £34.1m (2018: £61.8m).

Future developments and post balance sheet events

The future developments and important events affecting the Group since the year end, are explained in the Strategic report on pages 3 to 12.

Research and development

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

Existence of branches outside of the UK

The Group has branches, as defined in section 1046(3) of the Companies Act 2006, outside of the UK as follows:

- Bahrain
- Spain
- Japan

Going concern

While pre-COVID the Group was well funded, particularly following the injection of £300m of equity by the existing shareholders in Q1 2020, the pandemic has resulted in significant operational and financial disruption which has put pressure on the liquidity of the Group. This has led to the five-year plan being re-assessed in order to account for the impact of COVID-19 and to reflect significant cost saving measures that have since been implemented.

The Group has therefore had to seek short-term liquidity. This has been secured by way of a 12 month £150m loan from the National Bank of Bahrain supported by the existing shareholders. Covenant waivers have also been secured on the Super Senior Revolving Credit Facility Agreement.

This additional short-term financing is part of a three-phase strategy which will strengthen the balance sheet in the aftermath of COVID-19. The Group now intends to raise equity in the near future in order to take out this short-term financing and then intends to refinance both the bond and RCF debt.

However, despite re-writing the five-year plan, addressing the immediate liquidity need and putting in place a three-phase plan to restructure the balance sheet, the Directors' acknowledge that there is uncertainty around the timing and execution of this plan. Additional financing will be required by the Group to meet its liabilities as they fall due over the next 12 months and this financing may not ultimately be obtained. This represents a material uncertainty which may cast significant doubt over the group's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

More detail is set out on this issue in the Strategic report on pages 3 to 12.

Further details regarding the adoption of the going concern basis can be found in note 3b on page 35.

Directors' report (continued)

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including foreign exchange risk, credit risk, and liquidity risk.

Foreign exchange risk

The Group is exposed to currency exchange rate risk due to a significant proportion of its receivables and operating expenses being denominated in non-Sterling currencies. The Group uses a mixture of foreign exchange forward contracts and interest rate swap contracts to hedge this exposure based on forecast cash inflows and outflows over a 36 month period.

The Group aims to reduce the magnitude of foreign currency exposures, operationally offset the impact of foreign currency volatility and ultimately use its hedging strategies to smooth the profit and cash effects of foreign currency. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Credit risk

The Group's principal financial assets are bank balances and cash and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The Group is at risk to the extent that a customer may be unable to pay the debt as it is due. The risk is mitigated by the strong on-going customer relationships with a dealership network carefully selected by McLaren. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. In addition, the majority of our Automotive customers have supplied bank guarantees.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of long-term and short-term debt finance. The objective of the Group in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due.

More detail is included in the Strategic report on pages 3-12, and the section on Going concern on page 13.

Heritage Assets

Over the last 50 years McLaren Racing Limited has established a large collection of heritage race cars and other vehicles which chronicle our racing heritage and have been used to serve as promotional vehicles for the brand within the McLaren Technology Centre (MTC) and also at museums, dealerships and heritage track days around the world. Each year, 3 vehicles are typically added to this collection which are the cars that have run in that season's Formula 1 World Championship.

Directors' report (continued)

Heritage Assets (continued)

As at 31 December 2019 the collection numbered some 159 vehicles which were held at a deemed cost of £60.9m, of which £5.7m were held in inventory. McLaren Automotive also held 2 P1™ vehicles at deemed cost of £0.4m, and 2 Sennas at deemed cost of £0.3m.

Managing such a large collection takes significant resource and during 2017 Executive management of the Group made the decision to establish a programme to sell a specific and limited number of these cars to specialist collectors from around the world.

Dividends

The Directors do not propose a dividend for the year ended 31 December 2019 (2018: £nil).

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

M Al Khalifa
M Alkooheji – resigned 04 09 19
M OjjeH – resigned 12 06 20
S OjjeH – appointed 12 06 20
H Al Saie
R Aguirre
L Chan – resigned 25 06 20
P Lim – resigned 25 06 20
R Al Masri
W Griffiths
M Latifi
K Al Rumaihi – appointed 04 09 19
P S Walsh – appointed 18.03.20

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Political donations

No political donations were made during the current or previous year.

Disabled employees

The policy of the Company and its subsidiaries is to give full and fair consideration to employment applications by disabled persons and to ensure that disabled employees receive appropriate training and career development opportunities. Employees who become disabled during their working life will be retained in employment wherever possible, with appropriate retraining being given if necessary.

Directors' report (continued)

Employee engagement

The Group 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 Group 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.

Statement of engagement with suppliers, customers and others in a business relationship with the company

Please refer to statement of corporate governance arrangements – principle 6 Stakeholders, for further details.

Statement of corporate governance arrangements

In June 2018 the Government introduced secondary legislation that requires all companies that meet specified size requirements to provide a corporate governance statement.

Corporate Governance refers to the way that the Group is governed as well as the interaction between its managerial bodies, its shareholders and other stakeholders. The purpose is to adopt appropriate rules and procedures to support and improve the internal controls systems. The Group has always maintained strong governance procedures and welcomes the opportunity to make a formal disclosure.

The Group has reviewed the available Codes and decided that it will apply the Wates Corporate Governance Principles for large Private Companies which were issued in December 2018. They provide a framework for the Group to demonstrate how the Board makes decisions for the long-term success of its stakeholders together with a disclosure as to how they ensure compliance with the requirements of Section 172 of the Companies Act 2016.

The Board recognises that 2019 saw the start of a formalising the existing processes in a rigorous fashion and will continue to review and challenge the ways in which the Group can improve the relationship with its stakeholders. This has been most clearly demonstrated in the formation of two new Committees – the Audit and Risk Committee and Remuneration and Nominations.

Principle 1 – Purpose and leadership

The McLaren Group was founded by Bruce McLaren and his ethos still permeates the organisation to date. Bruce worked his way up through club races in and around his native Auckland and won his first grand prix at just 22. The youngest-ever winner at the time, he had the mind of an engineer and formed a racing team in 1963 to build his own cars. Years later, we have won 20 Formula 1 World Championships and established our luxury road car division where his spirit continues to inspire every car that we build today. Thriving in the summit of the luxury automotive and motorsport world has bred a spirit of dedication. Our people maintain that commitment, courage and creativity throughout the business in the unremitting search for excellence.

McLaren exists to win, and it is this philosophy that has driven the company to its current position as one of the world's most illustrious luxury automotive, motorsports and technology brands. In Formula 1, if you're not innovating you're going backwards, and McLaren's leadership are constantly thinking of ways to improve performance for all our stakeholders.

We do everything for a reason; before we embark on any activity, we must know why we are doing it and then be able to measure its impact and evaluate its success. If we can't measure something, we don't know if we have improved.

Directors' report (continued)

Statement of corporate governance arrangements (continued)

Principle 1 – Purpose and leadership (continued)

We do not compromise. McLaren Group Limited operates in the three distinct areas of Automotive, Racing and Applied, the “operating companies”, and perpetuates stakeholder engagement through a formal shareholder agreement and by shareholder representation on the Board. Through concurrent meetings of the operating companies Management with the Board achieve a consistent approach and governance. The Group is committed to investing in its people and charities, including Woking & Sam Beare Hospices, White Lodge Centre, and Children With Special Needs Foundation as detailed on the McLaren group website. We support the communities we are proud to be part of and aim to make a positive contribution to improving people's life chances, especially those of young people.

We understand the importance and benefit of having a broad range of skills, experiences, perspectives and backgrounds in our teams and that's why we continuously strive to attract, engage and retain a diverse range of talented people across our companies. Our purpose is communicated to the people through the intranet, weekly updates and regular Town Hall briefings led by the CEOs and Executive Directors. To sustain our high level of engagement we regularly conduct surveys to understand employee insights to better appreciate what our people value most about working at McLaren. We also offer a range of development opportunities, including formal programmes, mentoring, coaching and e-learning that enable us to identify and develop the skills and knowledge we need to succeed now and in the future.

Principle 2 – Board Composition

The Group has a two-tier management structure where powers and responsibilities are distributed between the Group Board of Directors and the Executive Management.

The Board of McLaren Group Limited reflects the interest and ambitions of our stakeholders and introduces perspectives originating in businesses outside those in which the Group operates. The Board of Directors supervise the work of the Executive Management and is responsible for the overall management and strategic direction while the Executive Management handles the day-to-day management.

As noted above, this Board was recently strengthened with the appointment of Paul Walsh as the Executive Chairman. Paul's Executive role will see him maintain the strong link between the Group Board of Directors and the Executive Management.

Each of our Operating entities has a Chief Executive Officer with skills that complement that company's activities. They come together at regular intervals to ensure that our values, approach and decision making across the Group is consistent and sustained. A biography for the Group Board of Directors can be found on the Group's website: www.mclaren.com/group/about/people. The Group believe that the size and composition of the Boards with their breadth of experience is appropriate to our business.

The Remunerations and Nominations Committee has a planned Board Effectiveness review as part of their remit.

Principle 3 – Director Responsibilities

The Board has always maintained strong levels of corporate governance in the form of regular Board meetings of McLaren Group Limited where the board actively engages with the process. As noted above each operating company has an Executive who makes key decisions with the advice of his management team and advisors using his specific industry experience. The roles of the directors are clearly established, and each has a clear understanding of his accountability and responsibilities.

Directors' report (continued)

Statement of corporate governance arrangements (continued)

Principle 3 – Director Responsibilities (continued)

The Group Board has a formalised programme of meetings that is established at the start of each year and allows for time with each Executive and his team to understand the decisions made and devote the necessary time to strategic planning.

The Directors are subject to a formal Dealing Policy that ensures that they do not abuse, and do not place themselves under suspicion of abusing, Inside Information. The Company Secretary is responsible for ensuring that annually the Directors disclose that they do not have any conflicts of interest.

The Board receive monthly data on the main business activities for each of the Group Companies including the financial performances, legal and operational matters. The information is collated by the Group's finance team who are recruited with the skills and expertise to safeguard the quality of the data produced.

The Group does not currently have an internal audit function. Where understanding of control deficiencies is required, the Group will establish a project team with the requisite skills or request that an independent advisor review the area in detail.

Principle 4 – Opportunity and Risk

The responsibility for maintaining sufficient and effective internal controls and risk management systems in relation to financial reporting is secured by Executive management. The Group has an Audit and Risk Committee that consists of Executive Committee members. The Committee's remit is to ensure that the inherent risks in all the business units are identified and managed appropriately, consistently and in a timely manner.

During 2019 the Committee focussed on ensuring that Governance was in place to ensure that the Group was compliant with the Wates Principles.

The Group has systems and controls in place that manage, rather than eliminate, the risk of failure to achieve its annual plan. The Committee has endorsed a formal process for the collection and mitigation of risks which promotes a consistent risk register across all businesses to assess commonality in risks and trends. The output provides reasonable but not an absolute assurance against a risk materialising. The Committee has a stated desire to enhance the risk management framework as the results are collected and consolidated. Once the risks are analysed based on likelihood and impact of occurrence they are debated by senior management and the intention is to deep dive into the key and recurring items. Similarly, data collection will allow presentations to the committee that will focus on the changes to those measures over time.

Once considered by the Committee, the risk register is presented to the Group Audit and Risk Committee and the Group Board. Any points raised by the Board will be discussed in the subsequent Committee meeting.

The risk management process is broken into six key stages. This process complements the various risk management processes around the Group and aims to ensure that McLaren effectively identifies, manages and reports on risk across the organisation. All McLaren employees have a responsibility for the management of risk. The Group promotes a culture of risk awareness and as such all employees should have the ability to identify key risks. The risks themselves remain the responsibility of the relevant process owner. The McLaren processes focusses on net risk.

Directors' report (continued)

Statement of corporate governance arrangements (continued)

Principle 4 – Opportunity and Risk (continued)

The six steps to determine this measure and related actions are as follows: -

- 1. Risk Identification:** To gain a full understanding of any risk that McLaren faces which might create, prevent, accelerate or delay the Group's achievements,
- 2. Current Control Identification:** To establish whether our existing controls environment adequately mitigates the risk,
- 3. Prioritising Risks:** To rank risks in order of their potential impact and likelihood of occurring,
- 4. Risk response Planning:** proactive management of those risks which are at an unacceptably high level and which require additional treatment,
- 5. Risk Reporting:** To inform decisions and ensure that McLaren's risk profile is adequately managed,
- 6 Monitor and Review:** - To ensure that the planned risk response actions are put into place and continue to be effective.

The Group has an Audit and Risk Committee comprised of three Non-Executive Directors to ensure that the interest of the shareholders is properly protected in relation to financial reporting and internal control. The Committee has clearly defined terms of reference. Specific responsibilities include reviewing and recommending for approval the annual financial statements, reviewing the Group's accounting policies and reviewing the effectiveness of internal controls and risk.

PricewaterhouseCoopers LLP were re-appointed as the Groups' external auditors in 2019. The Board assesses the effectiveness of their performance every year after completion of the annual audit.

Principle 5 – Remuneration

The Remuneration and Nominations Committee's primary objective is to establish that remuneration is established in such a way that the Group secures and retains quality senior management who can deliver the Group's strategy in a manner consistent with both its purpose and the interests of its shareholders. The Committee has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Group's remuneration strategy and recruitment framework. Remuneration is aligned to the Group's divisional performance targets. The directors' remuneration is disclosed in the Group and subsidiary financial statements.

In 2018, the Group reported its Gender Pay Reporting for the first time. We are confident that men and women are paid equally for doing equivalent jobs. McLaren operate in the innovation, manufacturing, engineering and motorsports industries which all have historically higher proportions of male employees. Our gender pay gap is driven by the high proportion of men we employ within our business – within our most senior roles – coupled with the relative scarcity of women within our sector's talent pipelines. Each of our businesses has developed their own action plans to address their gender pay gaps but also pool resources and share best practice across the Group where appropriate.

Directors' report (continued)

Statement of corporate governance arrangements (continued)

Principle 6 – Stakeholders

The Board supports good governance practices within our businesses to deliver our Business Plan and to protect the Group's brand, reputation and dealings with all our stakeholders including, but not limited to, our shareholders, customers, employees, suppliers, Government bodies and the local communities in which we work. The Board approves an annually updated Business Plan that aligns the company's strategy with the shareholders' long-term objectives for sustainability and growth.

The Board is committed to social responsibility, community engagement and environmental sustainability. The Group has a sustainable business strategy with mature and well- designed sites and processes, a suite of measures, external accreditations and a number of environmental awards. Measuring and managing our environmental impact is essential for the financial sustainability of our supply chain and business. We are committed to winning races and Championships and minimising our environmental impact across the full range of our operations.

We are also working to extend environmental standards through our supply chain. McLaren assigns key individuals with the responsibility for implementation and provides the necessary management support and resources to enable these individuals to carry out their role. We encourage employee contributions, views, involvement and dialogue in all environmental matters. We will provide suitable training and support to all employees in relation to this policy, giving them ownership and pride in achieving our objectives and goals and recognising contribution as part of a fulfilling career at McLaren.

The Board promotes transparency in the Group's dealing with external stakeholders and representatives of government supported by an active engagement across industry bodies and our stakeholder community. The Racing team maintains an active engagement with Formula 1 management and the way in which the sport is managed for the benefit of its Partners and the viewing public. Automotive customers expect the service from a luxury car company that is met by a dedicated retailer network, after sales events and on-going customer satisfaction engagement.

Together with the Executive Committee, the Board has overseen several initiatives to improve employee relations by encouraging more flexible working practices and updating the Group's intranet platform to share information, best practice, achievements and success.

In addition to regular town hall briefings, half-yearly employee briefings delivered by senior management and recorded for delivery to all employees provides an awareness of the Group's performance and allows individuals to raise questions and concerns. The Executive is aware of the results which are used to assess and react to workforce issues including corporate culture, employee engagement and satisfaction.

The Group operates a defined contribution scheme in conjunction with advisors who are independent of the Group. The Pensions Committee meets regularly to ensure that the decisions made in relation to the Scheme reflect the interest of all stakeholders.

The Group has a formal whistleblowing policy to support any employee who wishes to report any concern that they have while remaining anonymous

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulation.

Directors' report (continued)

Statement of directors' responsibilities (continued)

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006.

Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

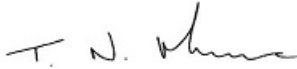
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution that they be reappointed will be proposed at the annual general meeting.

Directors' report *(continued)*

The financial statements on pages 28 to 69 were approved by the Board of Directors on 29 June 2020 and signed by order of the board:



T Murnane
Company secretary, McLaren Group Limited

29 June 2020

Registered Office:
McLaren Technology Centre
Chertsey Road
Woking
Surrey
GU21 4YH

Independent auditors' report to the members of McLaren Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, McLaren Group Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2019; the Consolidated profit and loss account and Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinions on the financial statements, which are not modified, we have considered the adequacy of the disclosure made in Note 3b to the financial statements concerning the group's and company's ability to continue as a going concern. The COVID-19 pandemic which has developed in 2020 has had a significant impact on the group and the global automotive industry more broadly. This pandemic has resulted in significant operational and financial disruption which has put pressure on the liquidity of the group. As a result of the challenges posed by the COVID-19 pandemic, the group and company will require additional funding in order to be able to meet their liabilities as they fall due over the next 12 months; however, this additional funding has not been secured at this time. This indicates the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group or company were unable to continue as a going concern.

What audit procedures we performed

Our audit procedures included the following:

- we considered the adequacy of the disclosures in the financial statements, particularly Note 30, Events after the end of the reporting period, and Note 3b, Summary of significant accounting policies - going concern.
- we considered the extent to which the group's and company's future cash flows might be adversely affected by COVID-19; reviewing management's cash flow forecasts, assessing the existing sources of finance and considering the overall impact on liquidity, concluding that there was a material uncertainty related to going concern.

Our audit approach

Overview



- Overall group materiality: £14.8m (2018: £12.6), based on 1% of revenue.
- Overall company materiality: £2.2m (2018: £1.6m), based on 1% of total assets.
- The locations included and work performed were:
- Full scope audits of McLaren Automotive Limited and McLaren Automotive Incorporated in the UK.
- Audit of certain financial statement line items of McLaren Group Limited, McLaren Finance plc, McLaren Services Limited, McLaren Racing Limited and McLaren Automotive Asia Pte Limited in the UK.
- Capitalisation and amortisation of research and development costs (group)
- Management’s consideration of the potential impact of COVID-19 (group and company)
- Going concern (group and company) – Refer to “Material uncertainty related to going concern” above

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p>Capitalisation and amortisation of research and development costs (group)</p> <p>As noted in Note 10 to the consolidated financial statements, the group has £769 million of capitalised research and development costs incurred on new production programmes as at 31 December 2019 (£624 million as at 31 December 2018). In some instances, there is judgement involved in determining whether or not such research and development costs meet the relevant criteria for capitalisation under FRS 102 and this increases the risk of error or misstatement. Management consider the most appropriate basis of amortisation of capitalised car programme costs to be over the anticipated sales life-cycle volumes of the associated car programmes. Management’s projections of sales volumes over the life-cycle of each car programme contain a number of judgements and estimates and changes to these assumptions could materially alter the carrying value of these intangible assets.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none">• reviewed and tested management’s capitalisation criteria of research and development costs on new car programmes against the requirements of FRS 102;• understood and evaluated the design of management’s control and tested its operating effectiveness whereby all car programme related costs are reviewed and approved for capitalisation appropriateness;• verified the existence and accuracy of capitalised car programme costs by substantively testing a sample of costs capitalised in the year back to supporting documentation and confirmed that they met the criteria for capitalisation;• agreed the sales life-cycle volumes for each car programme back to Board approved business plans and recalculated the amortisation expense for the year; and• performed a benchmark exercise of the amortisation policy against those used by other automotive businesses. <p>Based on the procedures performed, we noted no material issues from our work.</p>

Key audit matter**How our audit addressed the key audit matter**

Management's consideration of the potential impact of COVID – 19 (group and company):

The COVID-19 outbreak, which was declared a global pandemic by the World Health Organization on 11 March 2020, and the social distancing measures implemented in 2020 by governments around the World have materially affected the operations of the group, its customers, suppliers and other stakeholders. Management has considered the impact of COVID-19 to be a non-adjusting post-balance sheet event.

Our procedures included the following:

- We considered management's conclusion that COVID-19 represented a non-adjusting post-balance sheet event as at 31 December 2019.

Please see the Material uncertainty related to going concern presented earlier in this report. Based on the procedures performed, we noted no other material issues from our work.

Please see the Material uncertainty related to going concern presented earlier in this report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£14.8m (2018: £12.6m).	£2.2m (2018: £1.6m).
How we determined it	1% of revenue.	1% of total assets.
Rationale for benchmark applied	The group's principal focus is selling luxury sports cars, winning races and developing the McLaren brand and reputation using its high technology skills and knowledge to build the world's finest sports and supercars. The business plan reiterates a commitment to invest in research and development for future products and technology. As a result, revenue rather than profit or loss is considered to be the most relevant measure of performance.	The company is the ultimate parent company of the group's investments and is not in itself profit-oriented. The strength of the balance sheet is the key measure of financial health that is important to the shareholders, since the primary focus for the company is on the payment of dividends. As a result, total assets are considered to be the most relevant benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £5.6m and £13.2m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £740,000 (group audit) (2018: £628,250) and £112,250 (company audit) (2018: £84,950) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained

in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Gregory Briggs (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
29 June 2020

Consolidated profit and loss account

for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Turnover	5	1,485,785	1,256,555
Cost of Sales		(1,033,817)	(897,049)
Gross profit		451,968	359,506
Administrative expenses		(276,090)	(238,016)
Other operating income		28,606	27,865
Operating profit before depreciation and amortisation		204,484	149,355
Depreciation		(27,527)	(21,175)
Amortisation		(152,098)	(132,972)
Operating profit/(loss)	6	24,859	(4,792)
Interest receivable and similar income	8	17,811	308
Interest payable and similar expenses	8	(71,827)	(64,978)
Loss before taxation		(29,157)	(69,462)
Tax on loss	9	(4,955)	7,683
Loss for the financial year		(34,112)	(61,779)

All items dealt with in arriving at the loss before taxation relate to continuing operations.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Company profit and loss account. The loss for the year is presented in the Company balance sheet on page 31.

References in the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated balance sheet, company balance sheet, consolidated statement of changes in equity, company statement of changes in equity and consolidated statement of cash flows relate to notes on pages 35 to 69, which form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

<i>for the year ended 31 December 2019</i>	Note	2019 £000	2018 £000
Loss for the financial year		(34,112)	(61,779)
Other comprehensive income/(expense):			
Deferred tax credit on revaluation reserve	9	2,011	795
Cash flow hedges:			
- Change in value of hedging instrument		(1,365)	(30,661)
- Reclassifications to profit and loss		26,152	3,560
(Loss)/gain on foreign currency translation reserve		(5,277)	7,718
Total comprehensive expense for the year		<u>(12,591)</u>	<u>(80,367)</u>

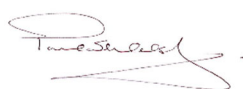
References in the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated balance sheet, company balance sheet, consolidated statement of changes in equity, company statement of changes in equity and consolidated statement of cash flows relate to notes on pages 35 to 69, which form an integral part of the consolidated financial statements.

Consolidated balance sheet

as at 31 December 2019

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	10	834,162	693,424
Tangible assets	11	290,543	288,034
Heritage assets	12	55,665	58,186
Investments	13	1,738	-
		<u>1,182,108</u>	<u>1,039,644</u>
Current assets			
Inventories	14	151,656	155,393
Debtors	15	396,755	296,577
Cash at bank and in hand		56,252	97,347
		<u>604,663</u>	<u>549,317</u>
Creditors: Amounts falling due within one year	16	<u>(747,523)</u>	<u>(671,470)</u>
Net current liabilities		<u>(142,860)</u>	<u>(122,153)</u>
Total assets less current liabilities		1,039,248	917,491
Creditors: Amounts falling due after more than one year	17	(657,250)	(590,760)
Provisions for liabilities	20	(26,796)	(8,413)
Deferred capital funding	22	(96,493)	(100,150)
Net assets		<u><u>258,709</u></u>	<u><u>218,168</u></u>
Capital and reserves			
Called up share capital	25	89	87
Share premium account		203,123	149,993
Revaluation reserve		44,219	52,804
Capital contribution reserve		2,039	2,039
Merger reserve		218,547	218,547
Other reserves		4,880	(14,630)
Accumulated losses		<u>(214,188)</u>	<u>(190,672)</u>
Total equity		<u><u>258,709</u></u>	<u><u>218,168</u></u>

The financial statements on pages 28 to 69 were authorised for issue by the Board of Directors on 29 June 2020 and signed on its behalf by:



P S Walsh
Director

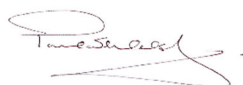
Registered number: 10720174

Company balance sheet

as at 31 December 2019

	Note	2019 £000	2018 £000
Fixed assets			
Investments	13	<u>205,251</u>	<u>152,119</u>
		<u>205,251</u>	<u>152,119</u>
Current assets			
Debtors	15	19,514	17,685
Cash at bank and in hand		<u>38</u>	<u>131</u>
		19,552	17,816
Creditors: Amounts falling due within one year	16	<u>(1,405)</u>	<u>(556)</u>
Net current assets		<u>18,147</u>	<u>17,260</u>
Total assets less current liabilities		223,398	169,379
Creditors: Amounts falling due after more than one year	17	<u>(37,098)</u>	<u>(35,172)</u>
Net assets		<u>186,300</u>	<u>134,207</u>
Capital and reserves			
Called up share capital	25	89	87
Share premium account		203,123	149,993
Capital contribution reserve		2,039	2,039
Accumulated losses at the beginning of the year		(17,912)	(16,330)
Loss for the Year		<u>(1,039)</u>	<u>(1,582)</u>
Total equity		<u>186,300</u>	<u>134,207</u>

The financial statements on pages 28 to 69 were authorised for issue by the Board of Directors on 29 June 2020 and signed on its behalf by:



P S Walsh
Director

Registered number: 10720174

Consolidated statement of changes in equity
for the year ended 31 December 2019

	Called up share capital	Share premium account	Merger reserve	Capital redemption reserve	Capital contribution reserve	Other reserves	Revaluation reserve	Accumulated Losses	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2018	80	-	218,547	-	2,039	4,753	56,109	(132,993)	148,535
Loss for the financial year	-	-	-	-	-	-	-	(61,779)	(61,779)
Total other comprehensive expense for the year	-	-	-	-	-	(19,383)	*(3,305)	4,100	(18,588)
Total comprehensive expense	-	-	-	-	-	(19,383)	(3,305)	(57,679)	(80,367)
Share Issue	7	149,993	-	-	-	-	-	-	150,000
At 31 December 2018	87	149,993	218,547	-	2,039	(14,630)	52,804	(190,672)	218,168
At 1 January 2019	87	149,993	218,547	-	2,039	(14,630)	52,804	(190,672)	218,168
Loss for the financial year	-	-	-	-	-	-	-	(34,112)	(34,112)
Total other comprehensive income for the year	-	-	-	-	-	19,510	*(8,585)	10,596	21,521
Total comprehensive expense	-	-	-	-	-	19,510	(8,585)	(23,516)	(12,591)
Share Issue	2	53,130	-	-	-	-	-	-	53,132
At 31 December 2019	89	203,123	218,547	-	2,039	4,880	44,219	(214,188)	258,709

In Feb 2019 McLaren Group Limited issued 206,313 ordinary 1p shares at a consideration of £239.07 per share and in May 2019 McLaren Group Limited issued 15,721 ordinary 1p shares at a consideration of £242.30 per share.

The Other reserves represents a combination of the movement on the effective portion of cash flow hedges and the impact of foreign exchange movements on the consolidation of foreign subsidiaries.

*Deferred tax- relates to the release of revaluation reserve on the sale of heritage assets.

Company statement of changes in equity
for the year ended 31 December 2019

	Called up share capital £000	Share Premium account £000	Capital contribution reserve £000	Accumulated losses £000	Total equity £000
At 1 January 2018	80	-	2,039	(16,330)	(14,211)
Share issue	7	149,993	-	-	150,000
Loss for the financial year	-	-	-	(1,582)	(1,582)
At 31 December 2018	87	149,993	2,039	(17,912)	134,207
	Called up share capital £000	Share Premium account £000	Capital contribution reserve £000	Accumulated losses £000	Total equity £000
At 1 January 2019	87	149,993	2,039	(17,912)	134,207
Share issue	2	53,130	-	-	53,132
Loss for the financial year	-	-	-	(1,039)	(1,039)
At 31 December 2019	89	203,123	2,039	(18,951)	186,300

Consolidated statement of cash flows
for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Net cash flows from operating activities	26	235,697	188,674
Taxation paid		(5,128)	(9,054)
Net cash inflow from operating activities		230,569	179,620
Cash flow from investing activities			
Addition of intangible assets		(297,930)	(252,231)
Addition of tangible assets		(21,453)	(37,917)
Proceeds from disposal of tangible assets		49	386
Interest received		204	308
Net cash outflow from investing activities		(319,130)	(289,454)
Cash flow from financing activities			
Repayments of obligations under finance lease		(1,048)	(847)
Receipts from revolving loan facility		216,144	60,000
Repayments of revolving loan facility		(216,144)	(70,019)
Interest paid		(34,016)	(32,619)
Proceeds from issue of ordinary share capital		53,132	150,000
Proceeds from Bond issuance		72,382	-
Transaction fees on Bond issuance		(1,470)	-
Revolver loan facility arrangement fee		(1,214)	-
Buyout of shareholder		(37,500)	-
Net cash inflow from financing activities		50,266	106,515
Net decrease in cash and cash equivalents		(38,295)	(3,319)
Cash and cash equivalents at beginning of year		96,869	99,336
Effect of foreign exchange rate changes		(2,322)	852
Cash and cash equivalents at end of year		56,252	96,869
Cash and cash equivalents consists of:			
Cash at bank and in hand		56,252	97,347
Overdraft		-	(478)
Cash and cash equivalents		56,252	96,869

Notes to the financial statements

1. General information

McLaren Group Limited (“the Company”) and its subsidiaries (together “the Group”) is privately owned and incorporated in the United Kingdom. The address of the registered office is given on page 22. The nature of the Group’s operations and its principal activities are set out in the Strategic report on pages 3 to 12.

The Company is a private company limited by shares and is incorporated in the United Kingdom and registered in England. The address of its registered office is McLaren Technology Centre, Chertsey Road, Woking, Surrey, GU21 4YH.

2. Statement of compliance

The Group and individual financial statements of McLaren Group Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (FRS 102) and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented.

a. Basis of preparation

The consolidated and separate financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s and Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

The Company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual profit and loss account.

b. Going concern

The COVID-19 pandemic which has developed in 2020 has had a significant impact on the Group and the global automotive industry more broadly. This pandemic has resulted in significant operational and financial disruption which has put pressure on the liquidity of the Group. This disruption has included the temporary suspension of operations at the McLaren Production Centre and other Group sites in line with Government guidance and the cancellation of a number of races in the Formula 1 season. This has led to the five-year plan being re-assessed in order to account for the impact of COVID-19 and to reflect significant cost saving measures that have since been implemented. The Group has also had to seek incremental short-term liquidity. This has been secured by way of a 12 month £150m loan from the National Bank of Bahrain supported by the existing shareholders. Covenant waivers have also been secured on the Super Senior Revolving Credit Facility Agreement from the period commencing on 16 June 2020 and ending on the date on which the Company notifies the Agent in writing that the Waiver Period is terminated. During this period the current financial covenant test is replaced by additional reporting requirements and liquidity tests.

This additional short-term financing is part of a three-phase strategy which will strengthen the balance sheet in the aftermath of COVID-19. The Group now intends to raise equity in the near future in order to take out this short-term financing and then intends to refinance both the bond and the Super Senior Revolving Credit Facility debt. However, despite re-writing the five-year plan, addressing the immediate liquidity need and putting in place a three-phase plan to restructure the balance sheet, the Directors’ acknowledge that there is uncertainty around the timing and execution of this plan.

Notes to the financial statements *(continued)*

3. Summary of significant accounting policies *(continued)*

b. Going concern *(continued)*

Additional financing will be required by the Group to meet its liabilities as they fall due over the next 12; however, this additional funding has not been secured at this time.

This represents a material uncertainty which may cast significant doubt over the group's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

c. Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity, certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions:

- (i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flow;
- (ii) from the financial instrument disclosures, required under FRS 102 paragraphs 11.42 to 11.48C and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statements disclosure;
- (iii) from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7.

d. Basis of consolidation

The consolidated financial statements include the financial statements of the Company, all of its subsidiary undertakings and associate undertaking.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Any subsidiary undertakings sold or acquired during the year are included up to, or from, the dates of change of control.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the group holds a long-term interest and where the group has significant influence. The group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate. The results of associates are accounted for using the equity method of accounting.

Any subsidiary undertakings or associates sold or acquired during the year are included up to, or from, the dates of change of control or change of significant influence respectively.

Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated profit and loss account. The cumulative amounts of any exchange differences on translation, recognised in equity, are not included in the gain or loss on disposal and are transferred to retained earnings. The gain or loss also includes amounts included in other comprehensive income that are required to be reclassified to profit or loss but excludes those amounts that are not required to be reclassified.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit or loss arising on transactions with associates to the extent of the group's interest in the entity.

Notes to the financial statements *(continued)*

3. Summary of significant accounting policies *(continued)*

e. Foreign currency

The Group's financial statements are presented in pound sterling and rounded to thousands. The Company's functional and presentational currency is the pound sterling.

Foreign currency transactions are translated into the functional currency at the rates ruling at the beginning of the month in which the transactions took place, unless they are deemed to be materially different to the spot rate, in which case spot exchange rates are used.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within interest receivable/(payable). The trading results of overseas undertakings are translated into sterling at the average exchange rates for the year. The assets and liabilities are translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of opening net investments and from the translation of the profits and losses at average rates are recognised in 'Other comprehensive income/(expense)'.

f. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed

by the Group and value added taxes. The Group bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue represents sponsorship fees, sale of vehicles and other goods to external customers, supply of services, and other motor racing revenue receivables, excluding value added tax. The Group recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Group retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the Group's sales channels have been met, as described below.

- (i) Income from the sale of goods, including income associated with heritage cars, is recognised when the risks and rewards of the goods have passed to the customer. On the sale of vehicles, International Commercial Terms (INCO) are agreed with each dealer and revenue is recognised at the point of which risk and reward transfers. This will differ based on terms of agreement, of which the majority will either be the point of despatch to the dealer, when the car is imported into the destination country, or when the vehicles are received by the dealer.
- (ii) Where a customer has purchased a package including race events, revenue for the vehicle is recognised when the car is made available to the customer. Revenue for each event is recognised once the event has taken place.
- (iii) Sponsorship income is deferred and recognised over the period in which the Group performs its obligations under the sponsorship contract.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

f. Revenue recognition (continued)

- (iv) Revenue from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date, turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.
- (v) Other motor racing revenue is recognised when the Group has performed its obligations in order to earn the revenue.

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

g. 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:

- (i) On contracts which provide for delivery of own manufactured units or components, turnover is recorded when deliveries are made to customers.
- (ii) 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.

h. Research and development

Research expenditure is recognised to the profit and loss account in the period it is incurred.

Development expenditure is capitalised only where there is a clearly defined project, the expenditure is separately identifiable, the outcome of the project can be assessed with reasonable certainty, aggregate costs are not expected to exceed related future sales and adequate recourses exist to enable the project to be completed.

Research and development tax credit is treated as grant income per section 24 of FRS 102 and recognised as other income in the Profit and loss account.

Any withheld portion to be treated as Deferred tax asset and to be offset against future taxable profit.

Notes to the financial statements *(continued)*

3. Summary of significant accounting policies *(continued)*

i. Employee benefits

(i) Defined contribution pension plans

The Group operates a defined contribution pension scheme and also pays contributions to personal pension schemes of certain employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

(ii) Short-term benefits

Short term benefits, including holiday pay and other similar monetary benefits, are recognised as an expense in the period in which the service is rendered.

(iii) Annual bonus plan

The Group operates a number of annual bonus plans for employees. An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

(iv) *Termination benefits*

The Group recognises termination benefits as a liability and an expense when it is able to demonstrate a detailed formal plan for the termination without realistic possibility of withdrawal from the plan. The termination benefit is measured at the best estimate of the expenditure that would be required to settle the obligation at the reporting date

j. Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax, including UK corporation tax and foreign tax, is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from inclusion of income and expenses in the tax assessments of different periods than those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences that have originated but not reversed at the reporting date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the reporting date.

Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes to the financial statements *(continued)*

3. Summary of significant accounting policies *(continued)*

j. Taxation (continued)

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

k. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Research expenditure is written off in the period it is incurred. In accordance with section 18 of FRS 102, development expenditure is capitalised only where there is a clearly defined project, the expenditure is separately identifiable, the outcome of the project can be assessed with reasonable certainty, aggregate costs are not expected to exceed related future sales and adequate resources exist to enable the project to be completed.

Intangible fixed assets representing development costs incurred on new car programmes are capitalised at historical cost and amortised over the lifecycle of the car programme to which they relate. Development costs include materials, direct labour and the cost of work outsourced to third parties.

Development costs on each programme are capitalised up to the point at which the vehicle is formally handed over to production, which normally occurs 90 days following the first production vehicle being produced. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit and loss account as it is incurred.

IT Infrastructure expenditure is capitalised and amortised over 10 years from the date of implementation.

For all other intangible assets, amortisation is calculated using the straight-line method to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, up to 10 years for development costs.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

l. Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided over the estimated useful lives of the assets at the following rates:

Freehold buildings	- 2% - 10% straight line
Leasehold premises and improvements	- written off over the life of the lease
Plant, machinery, tools and equipment	- 5 - 20% of reducing balance or 5 years straight line
Motor vehicles	- 25% of reducing balance or 4 years straight line
Fixtures, fittings and office equipment	- 20% of reducing balance or 3-5 years straight line

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

l. Tangible assets (continued)

Land is not depreciated.

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

The assets residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the profit and loss account.

Repairs, maintenance and minor inspection costs are expensed as incurred.

m. Deferred capital funding

Capital based funding received for the construction of the McLaren Technology Centre 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.

n. Heritage assets

McLaren Racing Limited and McLaren Automotive Limited have a collection of heritage vehicles, made up of 133 racing cars, 4 F1 road cars, 4 historic vehicles, 18 spare F1 racing car monocoques, 2 P1™ vehicles and 2 McLaren Sennas. Under previous UK GAAP the Group had a policy of revaluing Heritage assets every 5 years. On transition to FRS 102 the Group elected to follow the cost model and use the previous revaluation at 31 December 2013 as the deemed cost for the assets. Heritage assets are stated at cost less accumulated impairment losses. Cost includes any costs that are directly attributable to bringing the asset to its working condition for its intended use.

The vehicles are maintained by the business on a regular basis with maintenance costs being charged to the profit and loss account when incurred. The cars are deemed to have indeterminate lives and therefore depreciation is charged at 0%. The Directors do not consider that an impairment loss is required for the year.

In addition, McLaren Racing Limited has a collection of racing memorabilia, including trophies and helmets, which the Directors have not sought to value and is therefore not recognised on the balance sheet

o. Borrowing costs

All borrowing costs are recognised in profit and loss in the period in which they are incurred.

Notes to the financial statements (*continued*)

3. Summary of significant accounting policies (*continued*)

p. Leased assets

At inception the Group assesses agreements that transfer the right to use assets.

The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

(i) Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the Group's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

(ii) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(iii) Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of minimum lease payments. Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

q. Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset. The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as

a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

Notes to the financial statements *(continued)*

3. Summary of significant accounting policies *(continued)*

r. Investments

- (i) Investment in an associate is held at cost less accumulated impairment losses
- (ii) Investments in subsidiary companies are held at cost less accumulated impairment losses.

s. Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimating selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate. Standard costs are used to value stock.

Racing cars are expected to be used for one season. All expenditure on the production and maintenance of such cars is charged to the profit and loss account during the racing season in which the racing car is used. The board considers that research and development continue 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 racing car.

Heritage assets are reclassified to inventory once they have been identified for sale.

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.

t. Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank overdrafts.

Bank overdrafts are shown within borrowing in current liabilities.

u. Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

In particular:

- restructuring provisions are recognised when the Group has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring.
- provision is not made for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

For warranties, an estimated provision is made against all vehicles based on the historical average warranty claims made on the vehicles by the customers, together with the average amount reclaimed from the customers. The estimates and underlying assumptions are reviewed on an ongoing basis.

Notes to the financial statements *(continued)*

3. Summary of significant accounting policies *(continued)*

v. *Financial instruments*

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables (except for prepayments) and cash and bank balances are initially recognised at transaction price. Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the assets original effective interest rate.

The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables (except for deferred income), bank loans and loans from fellow Group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Trade Finance liabilities are recognised at the present value of future cash flows. On the raising of an invoice, the debt is settled by the lender, to which the Group will repay the original invoice amount plus an agreed interest rate on approved terms with the lender. In the meantime, the dealer base will settle the invoice at the maturity of the original invoice due date and in the full invoice amount.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Notes to the financial statements *(continued)*

3. Summary of significant accounting policies *(continued)*

v. *Financial instruments (continued)*

(iii) Derivative financial instruments

Derivatives, including forward foreign exchange contracts, are not basic financial instruments.

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the profit and loss in finance costs or finance income as appropriate.

(iv) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

(v) Offsetting

Financial assets and liabilities are offset, and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

w. *Hedge accounting*

The Group designates certain derivatives as hedging instruments in cash flow hedges.

At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Group determines, and documents causes for hedge ineffectiveness.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

Notes to the financial statements *(continued)*

3. Summary of significant accounting policies *(continued)*

x. Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

y. Related party transactions

The Group discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

The Company does not disclose transactions with members of the same Group that are wholly owned.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The judgements, estimates and assumptions which are of most significance in preparing the Group's financial statements are:

(a) Critical judgements in applying the Group's accounting policies:

(i) Impairment of intangible assets

The Directors regularly consider factors that could indicate that the carrying amount of intangible assets could be impaired, including comparing actual cash flow generation with that in the business plan, and relevant economic factors.

(ii) Capitalisation of research and development costs

The Directors assess whether all the criteria for capitalisation of research and development costs have been met. This includes determining whether there is a clearly defined project, whether the expenditure is separately identifiable, the outcome of the project can be assessed with reasonable certainty, aggregate costs are not expected to exceed related future sales and adequate resources exist to enable the project to be completed.

(iii) Valuation and recoverability of deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business.

Based on the business plans of the Group's subsidiaries, the recoverability of tax losses is determined.

Notes to the financial statements (continued)

4. Critical accounting judgements in applying the Group's accounting policies (continued)

(b) Key accounting estimates and assumptions

(i) Impairment of intangible assets

If there are events or changes in circumstances that indicate that the carrying amount of the intangible assets will not be recovered, there is a need to estimate recoverable amount by determining future cash flows and applying an appropriate discount rate (refer to Note 3k and 3q for further details).

(ii) Capitalisation of research and development costs

In determining the development expenditure to be capitalised, the Directors make estimates and assumptions based on expected future economic benefits (forecasted revenue less costs) generated by products that are the result of these development expenditures, and the expected useful economic life.

Notes to the financial statements *(continued)*

5. Segment information

Description of business segments and principal activities

The group's Board of Directors examine the group's performance from through four identifiable business segments:

Automotive – a global leader in the design and manufacture of luxury high performance sports and supercars across four defined product families: Sports Series, Super Series, Ultimate and GT Series

Racing – participates in Formula 1 motor racing events throughout the world. This includes the design, development, manufacture and racing of Formula 1 cars. In addition, sells its own heritage cars as part of its business activities.

Applied – this division focuses on the application of McLaren's technological know-how in a wide variety of fields, by focusing on three key technology pillars across all markets. These technology pillars are: 1) virtual product development, 2) telemetry, control and analytics and 3) electrification.

Corporate services - provides shared management services to all McLaren Group Limited companies covering facilities management, IT and corporate services. These costs are recharged out to the other Group companies as appropriate.

Turnover by business segment

	2019	2018
	£000	£000
Automotive	1,248,969	1,066,064
Racing	185,740	132,784
Applied	54,009	64,634
Corporate services	91,842	75,018
	1,580,560	1,338,500
Less inter-segmental turnover	(94,775)	(81,945)
	1,485,785	1,256,555

An analysis of geographical location has not been included as it is deemed by the Directors that such information would lead to a competitive advantage to the Company's key competitors.

	2019	2018
	£000	£000
EBITDA by business segment		
Automotive	263,059	228,648
Racing	(69,127)	(98,502)
Applied	(16,427)	1,664
Corporate services	4,391	3,032
	181,896	134,842

Notes to the financial statements (continued)

6. Operating profit/(loss) is stated after charging/(crediting)	2019	2018
	£000	£000
Wages and salaries	212,332	175,727
Social security costs	22,552	25,261
Pension costs	8,434	6,549
Staff costs charged to profit and loss	243,318	207,537
Loss on disposal of tangible assets	25	31
Depreciation of tangible assets	27,527	21,175
Amortisation of intangible assets	155,755	136,629
Amortisation of deferred capital funding	(3,657)	(3,657)
Impairment of trade receivables	732	231
Inventory recognised as an expense	472,547	440,221
R&D tax credits	(20,166)	(19,182)
Operating lease charges	8,211	6,120
Fees payable to the Company's auditors and its associates for the audit of the Company's and the Group's consolidated financial statements	123	93
Fees payable to the Company's auditors and its associates for other services:		
- The audit of the Company's subsidiaries	358	320
- Audit-related assurance services	66	86
Total amount payable to the Company's auditors and its associates	547	499

Included within the staff costs charged to the profit and loss are non-recurring costs in relation to restructuring of £4,896k (2018: £7,400k).

Notes to the financial statements *(continued)*

7. Employees and Directors

Group

Employees

The average monthly number of persons (including executive Directors) employed by the Group during the year was:

	2019	2018
	Number	Number
Production	1,646	1,326
Design & Engineering	1,367	1,362
Administration	1,456	1,110
	4,469	3,798

Directors

The Directors are considered to be the only Key Management Personnel of the Group. No Directors, employed by the Group, received any emoluments in the year (2018: no directors). Details of transactions with Directors and members during the year are disclosed in note 27.

Company

Employees

The average monthly number of persons employed by the company during the year was:

	2019	2018
	Number	Number
Administration	4	-
	4	-

Employee costs

	2019	2018
	£000	£000
Wages and salaries	3,525	-
Social security costs	497	-
Pension costs	28	-
	4,050	-

8. Net interest expense

	2019	2018
	£000	£000
(a) Interest receivable and similar income		
Bank interest received	204	240
Other interest received	-	68
Net exchange gain	17,607	-
	17,811	308

Notes to the financial statements (continued)

8. Net interest expense (continued)

	2019	2018
	£000	£000
(b) Interest payable and similar expenses		
Interest payable on related party loans	(1,925)	(778)
Finance lease interest	(257)	(75)
Interest payable on bank loans and overdrafts	(3,237)	(1,850)
Interest payable on senior secured notes	(36,923)	(33,219)
Other interest payable and finance charges	(2,762)	(3,813)
Net exchange losses	-	(21,248)
Losses on derivative financial instruments	(26,723)	(3,995)
	(71,827)	(64,978)

9. Tax on loss

	2019	2018
	£000	£000
(a) Tax expense /(credit) included in profit or loss		
Current tax:		
- UK corporation tax on loss for the period	3,355	3,991
- Foreign corporation tax on loss for the year	6,337	5,361
- Adjustments in respect of prior years	561	119
Total current tax	10,253	9,471
Deferred tax:		
- Origination and reversal of timing differences	(8,527)	(18,188)
- Adjustments in respect of prior years	1,933	(525)
- Impact of change in tax rate	1,298	1,559
Total deferred tax (note 20)	(5,298)	(17,154)
Tax charge/(credit) on loss	4,955	(7,683)
(b) Tax credit included in other comprehensive income/(expense)		
	2019	2018
	£000	£000
Deferred tax:		
- Origination and reversal of timing differences	(2,011)	(795)
Tax credit included in other comprehensive income/(expense)	(2,011)	(795)

Notes to the financial statements *(continued)*

9. Tax on loss *(continued)*

(c) Reconciliation of tax charge/ (credit):

The tax assessed for the year is higher (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £000	2018 £000
Loss before taxation	<u>(29,157)</u>	<u>(69,462)</u>
Loss before taxation multiplied by the standard rate of tax in the UK of 19% <i>(2018: 19%)</i>	(5,540)	(13,198)
Effects of:		
- Income not subject to tax	(695)	(695)
- Unrecognised deferred tax	552	376
- Expenses not deductible for tax purposes	5,422	2,634
- Impact of overseas tax rates	1,341	2,312
- Adjustments in respect of prior years	2,493	(406)
- Withholding tax suffered	84	76
- Tax incentives	-	(341)
- Re-measurement of deferred tax	1,298	1,559
Total tax charge/(credit) for year	<u>4,955</u>	<u>(7,683)</u>

(d) Tax rate changes

The current UK corporation tax rate is 19%. The UK Finance Act 2016 was enacted during the year ended 31 March 2017, which included provisions for a reduction in the UK corporation tax rate to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2019 are measured at the rate at which they are expected to reverse.

On 11th March 2020 the UK Government announced that legislation will be introduced in Finance Bill 2020 to amend the main rate of corporation tax to 19% for financial year 2020. Subject to Royal Assent the Company's deferred tax asset will increase by £7.5m. This will be recognised in 2020.

Notes to the financial statements (continued)

10. Intangible assets

Group	New production development costs £000	IT systems development costs £000	Internally developed software £000	Other development costs £000	Total £000
Cost:					
At 1 January 2019	1,087,562	67,496	9,822	14,979	1,179,859
Additions	287,409	3,374	140	7,007	297,930
Reclassification	-	-	2,248	-	2,248
Write off	-	-	-	(4,882)	(4,882)
Disposals	-	(364)	-	(1,738)	2,102
At 31 December 2019	1,374,971	70,506	12,210	15,366	1,473,053
Accumulated amortisation:					
At 1 January 2018	463,718	20,900	-	1,817	486,435
Charge for the year	142,043	6,180	996	1,732	150,951
Impairment	-	-	-	4,804	4,804
Write off	-	-	-	(4,882)	(4,882)
Reclassification	-	-	1,947	-	1,947
Disposals	-	(364)	-	-	(364)
At 31 December 2019	605,761	26,716	2,943	3,471	638,891
Net book value:					
At 31 December 2019	769,210	43,790	9,267	11,895	834,162
At 31 December 2018	623,844	46,596	9,822	13,162	693,424

The disposal of other development costs of £1,738k represent the purchase consideration made to acquire a 25% investment in EnMovi Ltd, see note 13.

Research and development costs recognised as an expense in the year were £3,637k

The Company had no intangible assets at 31 December 2019 (2018: £nil).

Notes to the financial statements (continued)

11. Tangible assets

Group	Freehold land and buildings	Short term Leasehold premises and improve- ments	Plant, machinery, tools and equipment	Motor vehicles	Fixtures, fittings and office equipment	Assets in the course of construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost:							
At 1 January 2019	279,119	19,824	111,872	8,782	79,453	7,687	506,737
Additions	-	3,701	7,336	188	18,359	831	30,415
Disposals	-	(3,103)	(2,683)	-	(690)	-	(6,476)
Reclassification	-	721	1,177	-	272	(4,418)	(2,248)
Exchange adjustment	-	-	-	-	(15)	-	(15)
At 31 December 2019	279,119	21,143	117,702	8,970	97,379	4,100	528,413
Accumulated depreciation:							
At 1 January 2019	71,276	5,354	73,286	7,113	61,674	-	218,703
Charge for the year	5,963	1,070	12,685	477	7,332	-	27,527
Disposals	-	(3,068)	(2,649)	-	(685)	-	(6,402)
Reclassification	-	-	-	-	(1,947)	-	(1,947)
Exchange adjustment	-	-	-	-	(11)	-	(11)
At 31 December 2019	77,239	3,356	83,322	7,590	66,363	-	237,870
Net book value:							
At 31 December 2019	201,880	17,787	34,380	1,380	31,016	4,100	290,543
At 31 December 2018	207,843	14,470	38,586	1,669	17,779	7,687	288,034

The net carrying amount of assets held under finance leases included in plant, machinery, tools and equipment is £465k (2018: £1,340k) and within fixtures, fittings and office equipment is £6,530k (2018: £661k).

Freehold land and buildings includes land with a net book value of £28,330k (2018: £28,330k).

The Company had no tangible assets at 31 December 2019 (2018: £nil).

Notes to the financial statements (continued)

12. Heritage assets

McLaren Racing Limited and McLaren Automotive Limited have a collection of heritage vehicles, made up of 133 racing cars, 4 F1 road cars, 4 historic vehicles, 18 spare F1 racing car monocoques, 2 P1™ vehicles and 2 McLaren Sennas. The collection is held in several locations; at the McLaren Technology Centre, most of which is on display to visitors and employees; at McLaren Automotive retailers; and the remainder is held in secure storage. These assets are held on the balance sheet at cost.

Under previous UK GAAP the Company had a policy of revaluing Heritage assets every 5 years. On transition to FRS 102 the Company elected to follow the cost model and use the previous revaluation at 31 December 2013 as the deemed cost for the assets. Heritage assets are stated at cost less accumulated impairment losses. Cost includes any costs that are directly attributable to bringing the asset to its working condition for its intended use. The vehicles are maintained by the business on a regular basis with maintenance costs being charged to the profit and loss account when incurred. The cars are deemed to have indeterminate lives and therefore depreciation is charged at 0%. The Directors do not consider that an impairment loss is required for the year.

Managing such a large collection takes significant resource and during 2017 executive management of McLaren Technology Group Limited and McLaren Racing Limited made the decision to establish a programme to sell a specific and limited number of these cars to specialist collectors from around the world, this programme has continued in 2018. Those cars highlighted for sale are reclassified from heritage assets to inventory pending recognition of the sale in line with the revenue recognition accounting policy.

In addition, McLaren Racing Limited has a collection of racing memorabilia, including trophies and helmets, which the Directors have not sought to value and is therefore not recognised on the balance sheet.

Group	Historic Cars
	£000
Cost and net book value:	
At 1 January 2019	58,186
Additions	300
Reclass to Inventory	(2,821)
At 31 December 2019	<u>55,665</u>

Five year financial summary of heritage asset transactions:

	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
Additions	300	317	1,649	225	225
Disposals:					
Carrying value	-	-	-	-	(125)
Sales proceeds	-	-	-	-	600

In 2019, disposals of Heritage assets with a carrying value of £10,885k (2018: £4,100k) were made from inventory. Preparation costs were incurred of £1,540k (2018: £1,940k). Sales proceeds on these disposals were £19,154k (2018: £16,000k).

The Company had no Heritage assets at 31 December 2019 (2018: £ nil).

Notes to the financial statements (continued)

13. Investments

Group

Investment in associates	2019	2018
	£000	£000
At 1 January	-	-
Acquired	1,738	-
At 31 December	<u>1,738</u>	<u>-</u>

On 19 December 2019, the Group made a 25% investment in EnMovi Ltd, a company incorporated in the UK. The Company's principal activity is that of Business and domestic software development. The net book value of this investment is £1,738k and it is treated as an investment in an associate. The address of the registered office of EnMovi Ltd is 13 Queen's Road, Aberdeen, United Kingdom, AB15 4YL.

There was £nil share of profit and no dividends received before year-end.

Company

Investments in subsidiaries

	2019	2018
	£000	£000
At 1 January	152,119	152,119
Acquired	53,132	-
At 31 December	<u>205,251</u>	<u>152,119</u>

In the Directors' opinion, the aggregate net value of the subsidiaries is not less than their aggregate cost.

On the 1 February 2019, McLaren Holdings issued £49.3m of new shares to McLaren Group Limited. In the final tranche, McLaren Holdings issued £3.8m of new shares to McLaren Group Limited on 14 May 2019, which was settled in the December

Further information on the investments is contained in note 31.

The company had no associates at 31 December 2019 (2018: £nil)

14. Inventories

Group

	2019	2018
	£000	£000
Raw materials and consumables	58,284	53,851
Work in progress	51,252	53,881
Finished goods and goods for resale	42,120	47,661
	<u>151,656</u>	<u>155,393</u>

The Company had no inventories at 31 December 2019 (2018: £nil).

Notes to the financial statements (continued)

15. Debtors

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Trade debtors	201,872	132,974	-	-
Amounts owed by Group undertakings	-	-	18,749	16,976
Amounts owed by related parties (note 28)	1,757	274	-	-
Taxation and social security	24,709	22,425	57	106
Other debtors	30,151	20,545	-	-
Deferred tax asset (note 21)	83,089	75,780	569	433
Derivative financial assets (notes 23 and 24)	12,872	2,803	-	-
Prepayments and accrued income	42,305	41,776	139	170
	396,755	296,577	19,514	17,685

Group

Trade debtors are stated after provisions for impairment of £779k (2018: £621k).

Trade debtors balances falling due after more than one year is nil (2018:£nil).

Amounts owed by related parties are repayable on demand and represent business transactions under normal commercial terms and conditions.

Company

Amounts owed by Group undertakings include business transactions, under normal commercial terms and conditions, and Group loans. £9,992k of the Group loans attract interest at 5.3%, are unsecured and repayable on demand. £6,205k of the Group loans are interest free (originally £7,500k discounted at a market rate of interest) and due after more than one year (repayable in July 2023).

Notes to the financial statements (continued)

16. Creditors: amounts falling due within one year

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Bank loans and overdraft	-	478	-	-
Obligations under finance leases (note 18)	2,709	862	-	-
Trade creditors	101,638	75,881	-	-
Amounts owed to Group undertakings	-	-	284	461
Amounts owed to related parties (note 28)	516	-	-	-
Other creditors	223,115	184,648	-	-
Taxation and social security	13,010	9,700	618	-
Derivative financial liabilities (note 23 and 24)	8,961	22,451	-	-
Accruals and deferred income	397,574	377,450	503	95
	747,523	671,470	1,405	556

Other Creditors includes £156,061k (2018: £109,052k) of Trade Finance which is used to support wholesales to McLaren retailers.

During 2019, the company made a final payment of £37,500k in connection with a settlement previously agreed with a former director and shareholder. This was included in Other Creditors in 2018.

Company

Amounts owed to group undertakings represent business transactions under normal commercial terms and are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

17. Creditors: amounts falling due after more than one year

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Senior secured notes (note 18)	613,857	549,653	-	-
Obligations under finance leases (note 18)	4,286	852	-	-
Amounts owed to related parties (note 28)	37,098	35,172	37,098	35,172
Derivative financial liabilities (note 23 and 24)	2,009	5,083	-	-
	657,250	590,760	37,098	35,172

As at 31 December 2019 the Group's subsidiaries had a £130,000k undrawn (2018: £90,000k, £nil drawn) committed multi-currency revolving credit facility in place that matures in more than one year. A number of the Group's subsidiaries have provided guarantees in respect of the obligations under the revolving credit facility and also the outstanding bonds issued by McLaren Finance plc due to mature in 2022.

Notes to the financial statements (continued)

18. Loans and other borrowings

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Bank loans and overdraft	-	478	-	-
Senior secured notes	613,857	549,653	-	-
Obligations under finance leases	6,995	1,714	-	-
Amounts owed to related parties	37,098	35,172	37,098	35,172
	657,950	587,017	37,098	35,172

Bank loans and Overdraft

At 31st December 2019 there was no bank overdraft drawn (2018: £478k). The Group's financing facility includes a revolving credit facility of £130,000k (2018: £90,000k) with a final maturity date of January 2022. The facility is secured by way of fixed and floating charges over the assets of the Group.

Senior secured notes

In July 2017, McLaren Finance Plc, a subsidiary of McLaren Group Limited, issued £370,000k of sterling-denominated 5% Senior Secured Notes due August 2022, and \$250,000k of dollar denominated 5.75% Senior Secured Notes due August 2022. In July 2019 McLaren Finance Plc issued a further \$100,000k of dollar denominated 5.75% Senior Secured Notes due August 2022.

Finance leases

The future minimum finance lease payments are as follows:

	2019 £000	2018 £000
Not later than one year	3,036	902
Later than one year and not later than five years	4,657	845
Total gross payments	7,693	1,747
Less finance charges	(698)	(33)
Carrying amount of liability	6,995	1,714

The finance leases primarily relate to IT equipment, data storage systems and high performance and precision cutting tools. When the cutting tools lease terminates in 2020 the title of goods will pass following final payment under the contract and settlement of a nominal option to purchase fee.

Amounts owed to related parties

Amounts owed to related parties are unsecured loans from shareholders. £30,893k of the shareholder loans attract interest at 5.3% which is added to the outstanding balance. £6,205k of the shareholder loans are interest free (originally £7,500k discounted at a market rate of interest). Repayment of these loans can only be demanded if agreed by McLaren Group Limited Board resolution.

Notes to the financial statements (continued)

19. Post-employment benefits

Defined Contribution scheme

The group provides a defined contribution scheme for its employees. The amount recognised as an expense for the defined contribution scheme was:

Group	2019	2018
	£000	£000
Current year contributions	<u>8,434</u>	<u>6,549</u>
Company	2019	2018
	£000	£000
Current year contributions	<u>28</u>	<u>-</u>

20. Provisions for liabilities

Group	Provision for charges relating to leased premises	Product Warranty Provision	Other Provisions
	£000£000	£000	£000
At Jan 2019	865	6,100	1,448
Additions	527	46,307	
Amounts Utilised		(28,322)	(129)
At Dec 2019	1,392	24,085	1,319

The provision for charges relating to leased premises relates to the contractual obligation to reinstate all leased premises to their original condition upon cessation of the lease. The provision is measured at the present value of the expenditures expected to be required to settle the obligation.

The increase in the provision due to passage of time, is recognised as a finance cost. The provision is expected to be utilised between 2020 and 2038.

The provision for product warranties relates to expected warranty claims on vehicles sold in the last three years. The Group is liable for the parts and labour costs associated with repairing manufacturing faults arising on vehicles during the warranty period. Other provisions include various legal matters where the outcome is not certain and has been estimated.

The Company had no provisions for liabilities at 31 December 2019 (2018: £nil).

Notes to the financial statements (continued)

21. Deferred tax asset

The deferred tax consists of the following deferred tax assets/ (liabilities):

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Depreciation in excess of capital allowances	2,969	1,028	-	-
Revaluation of tangible assets	(9,074)	(11,085)	-	-
Financial instruments	1,005	1,212	-	-
Other timing differences	2,533	1,876	-	-
Tax R&D incentives	18,630	14,836	-	-
Losses carried forward	67,026	67,913	569	433
	83,089	75,780	569	433

The Group deferred tax assets expected to reverse in 2020 total £5,200k. This primarily relates to fixed asset timing differences and losses carried forward.

At 31 December 2019 the Group has losses amounting to £977k (2018: £977k) in respect of UK subsidiaries which are only available for offset against future capital gains and since it is uncertain whether these losses will be utilised, no deferred tax asset has been recognised, in line with the prior year. There are also £6,300k (2018: £5,400k) of unrecognised trade losses relating to overseas jurisdictions where recovery is not certain.

At the year end the Group had unrecognised deferred tax on trading losses of £1,700k (2018: £187k); The Company has £110k (2018: £nil).

22. Deferred capital funding

Group	2019 £000	2018 £000
Cost and net book value:		
At 1 January	100,150	103,807
Amortisation credit for the year	(3,657)	(3,657)
At 31 December	96,493	100,150

Notes to the financial statements (continued)

23. Financial instruments

The Group has the following financial instruments:

	Group	
	2019	2018
	£000	£000
Financial assets measured at fair value through profit or loss		
- Derivative financial assets (note 15)	12,872	2,803
Financial assets that are debt instruments measured at amortised cost		
- Trade debtors (note 15)	201,872	132,974
- Amounts owed by related parties (note 15)	1,757	274
- Other debtors (note 15)	30,151	20,545
- Accrued income (note 15)	17,877	20,948
	<u>264,529</u>	<u>177,544</u>
Financial liabilities measured at fair value through profit or loss		
- Derivative financial liabilities (notes 16 and 17)	10,970	27,534
Financial liabilities measured at amortised cost		
- Senior secured notes (note 17)	613,857	549,653
- Finance leases (note 17)	6,995	1,714
- Trade creditors (note 16)	101,638	75,881
- Amounts owed to related parties (note 16 & 17)	37,614	35,172
- Other creditors (notes 16)	223,115	184,648
- Accruals (note 16)	245,334	189,394
	<u>1,239,523</u>	<u>1,063,996</u>

24. Derivative financial instruments

Group	Current		Non-current	
	2019	2018	2019	2018
	£000	£000	£000	£000
Assets				
Forward foreign currency contracts	8,050	1,973	4,822	830
Liabilities				
Forward foreign currency contracts	(8,961)	(22,451)	(2,009)	(5,083)
	<u>(911)</u>	<u>(20,478)</u>	<u>2,813</u>	<u>(4,253)</u>

The Group enters into forward foreign exchange contracts to mitigate the exchange rate risk exposure from payments and receipts in foreign currency.

Notes to the financial statements *(continued)*

24. Derivative financial instruments *(continued)*

At 31 December 2019, the outstanding contracts mature out to December 2021.

Group companies have entered into fixed forward contracts and forward option contracts to sell various currencies, primarily USD. Group companies have also entered into fixed forward contracts and forward option contracts to purchase Euros.

Forward foreign currency contracts are valued using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The Company had no derivative financial instruments at 31 December 2019 (2018: £nil).

Forward foreign currency contracts

The following table details the forward foreign currency contracts outstanding as at the year end.

Outstanding contracts	Average contractual exchange rate		Notional value		Mark to Market	
	2019	2018	2019 £000	2018 £000	2019 £000	2018 £000
Sell						
USD	1.3098	1.3475	451,593	483,431	6,754	(19,101)
JPY	140.7696	146.0345	62,656	58,411	843	(3,100)
CNY	9.0332	9.1835	98,486	93,009	2,117	(3,234)
AUD	1.8576	1.7971	26,625	16,860	433	231
EUR	1.1175	1.0905	284,570	286,948	(8,245)	473
					1,902	(24,731)

The Group has entered into forward foreign currency contracts to hedge the exchange rate risk arising from anticipated future transactions, which are designated as cash flow hedges. The hedged cash flows are expected to occur and to affect profit or loss within the next three financial years.

Losses of £26,723k (2018: Losses of £3,995k) were recognised in profit or loss.

Notes to the financial statements (continued)

25. Called up share capital

Group and company

	2019	2018
	£000	£000
Ordinary shares of £0.01 each		
Allotted and fully paid:		
At 1 January	87	80
Shares issued in the year	2	7
At 31 December	89	87

The Company has one class of ordinary shares which carry no right to fixed income. Dividend payment requires a 75% shareholder approval.

On 1st Feb 2019 McLaren Group Limited issued 206,313, ordinary shares for £49,323k.

On 14th May 2019 McLaren Group Limited issued 15,721 ordinary shares for £3,809k.

26. Consolidated statement of cash flows

Reconciliation of loss to net cash flow from operating activities

	2019	2018
	£000	£000
Loss for the financial year	(34,112)	(61,779)
Adjustments for:		
Tax on loss	4,955	(7,683)
Net interest expense	54,016	64,670
Operating profit/(loss)	24,859	(4,792)
Depreciation and amortisation charges	179,625	154,147
Increase in heritage assets	(300)	(317)
Realised net exchange loss	(28,455)	(15,741)
Decrease/(Increase) in stocks and work in progress	6,557	(32,708)
Increase in debtors	(99,306)	(69,958)
Increase in creditors	135,118	159,441
Increase in amounts due from related parties	(967)	(100)
Increase/(decrease) in provisions	18,383	(1,402)
Trade receivables impairment losses	158	73
Loss on disposal of fixed assets	25	31
Cash generated by operations	235,697	188,674

Notes to the financial statements *(continued)*

26. Consolidated statement of cash flows *(continued)*

Non-cash transactions

During the year £6,329k (2018: £883k) in new tangible assets were acquired under finance leases and capitalised as the cost of the asset, being the present value of the minimum lease payments. In addition, £2,633k (2018: £704k) in new tangible assets were acquired but not settled, with amounts owing to third parties at year end reflected in trade creditors and accruals.

Analysis of changes in net debt

	At 1 Jan 2019	Cash flows	New finance leases	Fair value & exchange movements	Non- Cash changes	At 31 Dec 2019
	£000	£000	£000	£000	£000	£000
Cash at bank and in hand	97,347	(38,773)	-	(2,322)	-	56,252
Overdraft	(478)	478	-	-	-	-
Cash and cash equivalents	96,869	(38,295)	-	(2,322)	-	56,252
Senior loans	(549,653)	(70,912)	-	11,978	(5,270)	(613,857)
Finance Leases	(1,714)	1,048	(6,329)	-	-	(6,995)
Amounts owed to related parties	(35,172)	-	-	-	(1,926)	(37,098)
Total	(489,670)	(108,159)	(6,329)	9,656	(7,196)	(601,698)

Non-cash movements represent effective interest rate adjustments which include debt issue costs.

27. Financial commitments

At 31 December, the Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods

Group	2019 £000	2018 £000
Payments due:		
Not later than one year	10,234	5,589
Later than one year and not later than five years	22,745	17,489
Later than five years	36,321	36,781
	69,300	59,859

Notes to the financial statements *(continued)*

27. Financial commitments *(continued)*

The Group also has an Irrevocable Letter of Credit issued in favour of Ally Financial by McLaren Automotive and the credit for this is which reduces the funding available under our revolving credit facility. The balance at 31 December 2019 was \$22,000k (2018: \$14,400k).

The Company had no financial commitments at 31 December 2019 (2018: £nil)

28. Related party transactions

Transactions with related companies during the year were as follows:

	Year ended 31 December	Balance outstanding at 31 December	Year ended 31 December	Balance outstanding at 31 December
Group	2019 £000	2019 £000	2018 £000	2018 £000
Sales to related parties				
TAG Group Limited	-	-	53	-
Directors	1,755	1,755	1,181	274
Directors of subsidiaries	199	2		-
Amounts owed by related parties at 31 December		1,757		274
Split by:				
Amounts owed by related parties due < 1 year		1,757		274
Amounts owed by related parties due > 1 year		-		-
		1,757		274

Notes to the financial statements (continued)

28. Related party transactions (continued)

	Year ended 31 December	Balance outstanding at 31 December	Year ended 31 December	Balance outstanding at 31 December
	2019 £000	2019 £000	2018 £000	2018 £000
Purchases from related parties				
TAG Group Limited	154	-	34	-
Bahrain Mumtalakat Holding Company	20	14	-	-
Directors	773	502	-	-
Loans from shareholders:				
Bahrain Mumtalakat Holding Company		27,843		26,399
TAG Group Limited		9,255		8,773
Amounts owed to related parties at 31 December		37,614		35,172
Split by:				
Amounts owed to related parties due < 1 year		516		-
Amounts owed to related parties due > 1 year		37,098		35,172
		37,614		35,172
			Balance outstanding at 31 December	Balance outstanding at 31 December
Company			2019 £000	2018 £000
Loans from shareholders:				
Bahrain Mumtalakat Holding Company			27,843	26,399
TAG Group Limited			9,255	8,773
Amounts owed to related parties at 31 December			37,098	35,172
Split by:				
Amounts owed to related parties due < 1 year			-	-
Amounts owed to related parties due > 1 year			37,098	35,172
			37,098	35,172

Other than the transactions disclosed above the Company's other related party transactions were with wholly owned subsidiaries and so have not been disclosed.

Notes to the financial statements (continued)

29. Ultimate controlling party

Ownership of McLaren Group Limited at 31 December 2019 was as follows: 56.30% Bahrain Mumtalakat Holding Company, 14.30% TAG Group Limited, 10.0% Nidala (BVI) Limited, 5.76% Favorita Limited, 5.76% Perlman Investments Limited, 5.23% McKal Holdings Limited, and 2.65% Acanitt Limited.

Bahrain Mumtalakat Holding Company (incorporated in Bahrain) is the parent Company of the largest and smallest Group of undertakings which included the Company and for which Group financial statements were prepared.

30. Events after the end of the reporting period

By the end of Q1 2020, the group had received £300m by way of new shares issued by McLaren Group Limited. The source of funding for this investment were the existing, long-standing shareholders to support investment across McLaren's three businesses divisions as part of their commitment to the Group's growth strategy. From these proceeds, an outstanding shareholder loan of £9.3m was settled.

Due to the impact of the COVID-19 crisis, at the end of Q2 2020, the Group secured additional financing in the form of a 12 month £150m loan from the National Bank of Bahrain. During Q2 2020 the Group also announced a restructuring programme with the intention to reduce headcount by 1,200. The consultation process is currently ongoing and expected to conclude at the end of July.

The COVID-19 pandemic which has developed in 2020 has had a significant adverse impact on the Group and the global automotive sector more broadly. The COVID-19 pandemic is considered to be a non-adjusting subsequent event and so is not reflected in the balance sheet or operating results and cash flows of the group for the year ended 31 December 2019; however, the impact on the group's ability to continue as a going concern is addressed in Note 3b to these consolidated financial statements.

31. Subsidiaries and related undertakings

The related undertakings whose results or financial performance affect the figures shown in the consolidated financial statements are as follows:

Name	Principal activity	Holding ordinary share capital
<i>Incorporated in the UK:</i>		
McLaren Applied Limited	Engine management systems design and manufacture, and application of technologies within the Group	100%
EnMovi Ltd	Business and domestic software development	25%
McLaren Automotive Limited	Manufacture and sale of high performance sports cars	100%
McLaren Automotive Events Limited	Events Company	100%
McLaren Finance Plc	Financing Company	100%
McLaren Holdings Limited	Holding Company	100%
McLaren Marketing Limited	Marketing	100%
McLaren Racing Limited	Racing car constructor	100%
McLaren Services Limited	Managed services	100%
Team McLaren Limited	Supporters' club	100%
<i>Incorporated overseas:</i>		
McLaren Applied Inc, incorporated in the United States of America	Marketing and sales of McLaren Applied Limited products	100%

Notes to the financial statements *(continued)*

31. Subsidiaries and related undertakings *(continued)*

Name	Principal activity	Holding ordinary share capital
McLaren Automotive Inc, incorporated in the United States of America	Sports car retailer	100%
McLaren Automotive Asia Pte Limited, incorporated in Singapore	Sports car retailer	100%
McLaren Automotive Distribution (Shanghai) Company Limited, incorporated China	Sports car retailer	100%
McLaren Applied Pte Ltd, incorporated in Singapore	Marketing and sales of McLaren Applied Limited products	100%

The registered office for all UK incorporated companies is: McLaren Technology Centre, Chertsey Road, Woking, Surrey, GU21 4YH.

McLaren Applied Inc registered office is: 2711 Centerville Road, Suite 400, City of Wilmington, DE 19808.

McLaren Applied Pte Ltd registered office is: 8 Marina Boulevard, #05-02 Marina Bay Financial Centre, Singapore, 018981.

McLaren Automotive Inc registered office is: Baker & McKenzie LLP, 1114 Avenue of the Americas, New York, New York, 10036.

McLaren Automotive Asia Pte Ltd registered office is: 7 Temasek Boulevard, Suntec Tower One #27-05, Singapore 038987.

McLaren Automotive Distribution (Shanghai) Company Ltd registered office is: Unit 11-02, West Tower, 1299 Minsheng Road, Pudong District, Shanghai, 200135, P.R. China.

Two UK subsidiaries in the Group have elected to make use of the audit exemption, for non-dormant subsidiaries under section 479A of the UK Companies Act in order to fulfil the conditions set out in the regulations, the company has given a statutory guarantee of all outstanding liabilities to which the subsidiaries are subject at the end of the financial year December 31, 2019 and 2018. The companies which have made use of the audit exemption are Team McLaren Limited (Company number 00772700, registered office: McLaren Technology Centre, Chertsey Road, Woking, Surrey, GU21 4YH) and McLaren Marketing Limited (Company number 01967716, registered office: McLaren Technology Centre, Chertsey Road, Woking, Surrey, GU21 4YH)

