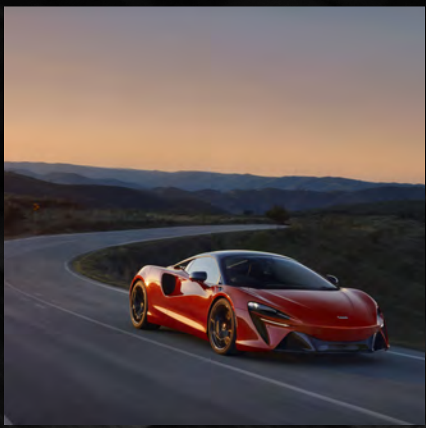
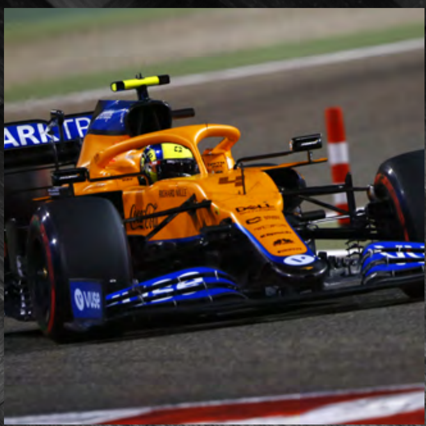
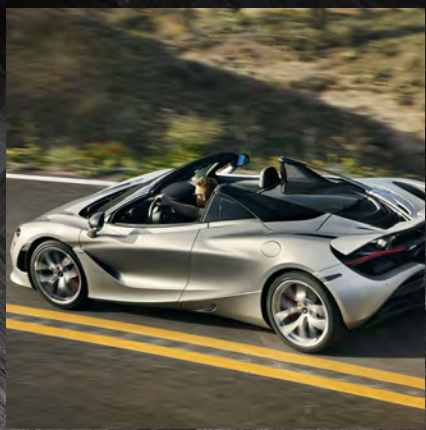


ANNUAL RESULTS

McLAREN GROUP LIMITED
Annual Report and Consolidated Financial Statements
Registered number 10720174
31 December 2020





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Strategic report

McLaren Group Limited (the "Group") is a global leader in luxury automotive, motorsport and technology. The Group is constituted of three key divisions: Automotive, Racing and Applied.

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 Indianapolis 500 three times and the prestigious Le Mans 24 Hour race. During December 2020, McLaren Racing received new third-party investment from which point it is accounted as a joint venture subject to equity method accounting.

Having produced the iconic McLaren F1 road car in 1992, McLaren Automotive launched its first products in 2011 starting with the 12C. Today, McLaren has a range of luxury high performance supercars across four product families: GT, Super Series, Motorsports and Ultimate Series. It has produced ground-breaking cars such as the iconic McLaren P1™, the 600LT and the McLaren Senna. 2019 was a strong year not only because it included the launches of Spider versions of the 600LT and the 720S but also because the new GT went into production. Further, McLaren built and sold all 75 examples of the McLaren Senna GTR. Moving into 2020 McLaren commenced production of the Elva (the next Ultimate Series car) and the 765LT. 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 virtual product development, telemetry, control and analytics and electrification. These three pillars are where Applied can significantly differentiate itself in the market and draw on the knowhow developed by the brand over the last half century.

The impact of COVID-19 and the first global lockdown

The Group is a major employer in the UK in the South East and Sheffield region and supports a diverse supply chain of over 500 companies. Our priority is our people and due to the global pandemic, which began to impact in March 2020, the Group swiftly took the following actions to protect the health and safety of our people and to ensure the company was well placed to resume operations as smoothly as possible:

- Withdrew from the Formula 1 Australian Grand Prix following a positive test of a team member.
- Requested 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 as part of wider cost control measures due to the impact of the Coronavirus pandemic on the business.
- Asked those employees who were 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 was demonstrated through a £300.0m injection in Q1 2020 through subscription to convertible preference shares.

The £300.0m capital injection (£290.7m net receipt after the repayment of a shareholder loan) was provided by the existing shareholders prior to COVID-19 to fund an updated five-year business plan. This plan, which was delivered on in Q1 2020 despite COVID-19, allowed for an intentional softening of sales volumes in the first quarter with the aim of bringing supply well below demand and driving 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. It would have then seen liquidity of over £200m at the end of Q1 2020, which would have put the Group in a strong position ahead of what has historically been one of the strongest sales periods.

Strategic Report *(continued)*

The impact of COVID-19 and the first global lockdown (continued)

COVID-19 really began to impact the Group at the end of Q1 2020 and the management team acted swiftly to reduce the cost base of the Group in response to the pandemic. The steps taken were:

- Capital expenditure was reduced by c£83m compared to prior year by cancelling or moving out programmes. Expenditure in 2020 only focussed on programmes that delivered a return in the year (such as Speedtail, 765LT and Elva) or on the new vehicle architecture that launched in 2020 but with deliveries to customers for the first vehicle based on it (McLaren Artura) delayed until 2021.

- c£70m of savings compared to prior year found in staff costs and other overheads including sales and marketing, events, motorsport, travel, racing costs, IT and facilities management savings. This includes the grant received from utilising the UK Government's Job Retention Scheme. A significant number of the Group's staff were furloughed and those that remained working agreed to take a temporary cut in pay.

Operationally, throughout April 2020 the global retailer network was closed (apart from China) along with all production and development facilities. Through May 2020, McLaren's retailers, production and development facilities began to re-open. The Formula 1 team also began to return to work in June 2020 in preparation for the season. All of McLaren's facilities fully re-opened with both the Ultimate Series and series production lines operating at one shift per day from June 2020; in addition, McLaren's retailers were also able to reopen.

COVID-19, however, 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 continues to reflect the 2020 savings across all five years of the plan; the annual salary savings have been found through a resizing and restructuring programme completed at the end of July 2020 and for which a £14.7m cost has been recognised in profit and loss.

The plan delivered on in 2020 was part of this new five-year business plan and was drawn up at a time when the recovery of markets was not easy to predict. It focused on the premium vehicles (765LT, 620R, Elva and Speedtail) to ensure robust delivery. McLaren also delayed the launch of a new supercar (Artura) from Q3 2020 to Q1 2021. Despite strong retail demand, and because of the delayed Artura launch, McLaren did not alter production and therefore delivered 1,659 wholesale units for 2020. The mix of products was, however, rich as a significant proportion of the deliveries were Speedtails, Elvas and the 765LT. These vehicles as well as strong demand for other products drove a strong recovery from COVID 19 in Q4 2020. Retail volumes for the Group significantly outstripped wholesales in 2020, with retail volumes of 2,831 reported. While this is a strong forward indicator of market demand, it also helped the Group to over-deliver on the stock reduction plan that it started pre-COVID.

Nevertheless, the Group still worked to improve liquidity in response to the pandemic. Short-term working capital funding was secured to support the Group's liquidity requirements. The Group announced in June 2020 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 was provided to McLaren Group Limited.

- This loan was provided with support from the existing shareholder Group.

- The loan proceeds were then injected into McLaren Holdings Limited by way of an ordinary equity subscription.

Strategic Report *(continued)*

The impact of COVID-19 and the first global lockdown (continued)

Covenant waivers were also 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 completed the second phase in December 2020 by securing a deal to sell a stake in McLaren Racing - an investment that now covers all future cash requirements for that business. The final phase of the strategy, which is now well underway, includes the Sale and Leaseback transaction on the McLaren Technology Centre and McLaren Production Centre, and sees the Group raising further capital to repay the short-term financing and then refinance both the bond and Super Senior Revolving Credit Facility resulting in a much improved net leverage.

The impact of COVID-19 and the second and third UK lockdowns

During Q4 2020 and Q1 2021, Europe implemented several national lockdowns and the UK was no exception. Despite this, McLaren continues to operate the McLaren Production Centre and McLaren Composites Technology Centre and deliver vehicles to retailers all over the world. The Group's retailer network continues to operate while adhering to national COVID regulations. McLaren is, however, experiencing some localised supply chain disruption because of lockdowns, plus some retailers remain closed, but is managing this and has not stopped production or wholesales as a result.

The Formula 1 season concluded as planned in 2020 with McLaren finishing third in the F1 World Constructors' Championship, its best result since 2012. Development of the 2021 car continued unabated and the season began in March 2021 with McLaren achieving a strong double-points finish at the first two races.

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 the final phase of the plan. In particular, successful completion of the capital raise will be required by the Group in order to meet its liabilities as they fall due over the next 12 months and this financing may not ultimately be obtained. Whist the Directors are confident that this process, already underway at the date of these accounts, will conclude successfully they acknowledge that 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.

Group results

Turnover for the year end 31 December 2020 was £771.7m, a decrease of £714.1m or 48.0% on the prior year. In addition, the Group reported an operating loss of £50.1m in the year to December 2020 versus an operating profit of £204.5m for 2019. Overall losses for the Group before tax are £685.8m versus the £29.2m loss reported in the prior year, although this includes a finance charge of £310.7m for the appreciation in the fair value of the liability of preference shares in the Group, which are convertible to equity and never settled in cash. The key cause of this decrease to last year is the impact of COVID-19.

As expected, volumes were much weaker than in previous years caused by the closure of our factory and our retailers for much of April 2020 and May 2020 in addition to the closure of our manufacturing facilities. Wholesales for 2020 are just 1,659 in comparison to 4,662 in 2019. Despite this the Group saw a strong EBITDA profit in the last quarter of the year demonstrating that the recovery from COVID-19 has begun.

Strategic report *(continued)*

McLaren Automotive

The Automotive division had a successful 2019 delivering 4,662 wholesale units. The division entered 2020 with an updated plan designed to stimulate demand by restricting supply. This plan would have seen the division deliver around 4,000 units in 2020 but, because the mix would have been skewed towards higher margin Ultimate and LT products, it would have seen financial growth year-over-year.

However, the division then saw a significant impact from COVID-19 in H1 2020. Initially, while the supply chain issues during February and March were managed across most vehicle lines, deliveries of Speedtail components delayed the planned production of Ultimate units. This was then magnified in March 2020 as retailers began to close around the world and neither Speedtails nor other production units could be delivered.

This resulted in a further significant fall in volumes. Throughout April 2020 the global retailer network was closed (except for China) along with all production and development facilities. In May 2020, the retailers and production and development facilities began to re-open. While all facilities are now open and most retailers trading, this shut down in the first half of the year had a significant impact on the results.

The plan followed for 2020 was instead part of a new five-year business plan implemented post-COVID, and one that was drawn up at a time when the recovery of markets was not easy to predict. It focused on the premium vehicles (765LT, 620R, Elva and Speedtail) to ensure robust delivery. McLaren also delayed the launch of a new supercar (Artura) from Q3 2020 to Q1 2021. Despite strong retail demand, and because of the delayed Artura launch, McLaren did not alter production and therefore delivered 1,659 wholesale units for 2020 (in line with guidance).

Wholesale volumes by region are:

Region	FY 2020 Units	FY 2019 Units	YoY
Europe	500	1,355	-63%
North America	595	2,051	-71%
Asia Pacific	271	811	-67%
China	182	276	-34%
Rest of World	111	169	-34%
Global	**1,659**	**4,662**	**-64%**

The mix of products was, however, rich as a significant proportion of the deliveries were Speedtails, Elvas and the 765LT. These vehicles, as well as excellent demand for other products, drove a strong recovery from COVID 19 in Q4 2020. Retail volumes for the Group significantly outstripped wholesales in 2020, with retail volumes of 2,831 reported. While this is a strong forward indicator of market demand, it also helped the Group to over-deliver on the stock reduction plan that it started pre-COVID.

Despite the cancellation of the Geneva Motorshow, McLaren unveiled the new 765LT in an event at the UK headquarters in March 2020. 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.

The 765LT opens a new chapter in the ‘Longtail’ story that began with the McLaren F1 GTR race car in the 1990s and since 2015 has seen road-legal LT models introduced. The new car elevates to new levels the attributes that underpin every LT: driver engagement, track-focused dynamics, minimised weight, optimised aerodynamics and increased power are all amplified.

Strategic report *(continued)*

McLaren Automotive *(continued)*

The LT promise of being ‘limited to the few’ is also fulfilled, with just 765 individually numbered cars available globally for customer order. This vehicle went into production in Q3 2020 and the order book for this limited series model is full. Q4 2020 also saw the McLaren Elva go into production, with 25 vehicles delivered before the close of the year.

2021 has also begun with the launch of a new product; the McLaren Artura. This is a very significant launch in the history of Automotive, as this is the first vehicle to benefit from the new McLaren electrified architecture that has been under development for the last four years. Management has invested heavily in McLaren’s move to electrification via the development of a world-class hybrid platform, which will lead to a significant reduction in investment over the next cycle. Future capital expenditure for the Group will be between £150m and £200m annually, compared to the £245m additions in 2020. With Artura, we started with a clean sheet. The McLaren Carbon Fibre Lightweight Architecture (MCLA) at its core is all-new. As is the High-Performance Hybrid powertrain. Our relentless pursuit of lightness reaches another level. Aerodynamic efficiency is more advanced than ever. Helping to shape a minimal, beautiful new design. From the rear suspension to the advanced E-differential, every new element contributes to a uniquely intense driving experience.

McLaren Racing

McLaren Racing secured fourth in the 2019 Constructors’ World Championship with a points haul of 145, the team’s highest total since 2014.The team also benefited from appointing the experienced Carlos Sainz to drive alongside Lando Norris for 2019, with the same impressive driver pairing continuing for 2020.

The team continued its positive momentum into the 2020 season with the new car performing well. The much-delayed season finally got underway in July 2020 and McLaren finished third in the Formula 1 World Constructors’ Championship with 202 points. This is McLaren’s highest Championship position since 2012 and demonstrates the continued recovery of the on-track performance of the team. On top of this, Lando Norris was able to secure his first podium in Formula 1 at the first race of the season in Austria and Carlos Sainz achieved a second place in Italy.

Off the track, sponsorship income continued to perform well despite COVID 19. Sponsorship revenues held up well following the pandemic, helped by the successful completion of a 17-race season in the second half of 2020. Going into 2021, McLaren Racing has already exceeded the sponsorship target meaning that it expected to not only have year-on-year growth in Formula 1 prize money (from the fourth place finish in 2019) but also in sponsorship. However, as the calendar was significantly altered and most of the 2020 events were behind closed doors, there was a significant impact on prize money.

Despite this, the team was able to cut costs and absorb the loss of revenue. The team posted an EBITDA loss (excluding sale of heritage assets to McLaren Services Limited) of £52.1m, which was better than the 2019 loss of £69.1m.

McLaren was also proud to be the first team to announce that it has signed up to the new Concorde agreement – the contract between the teams, the commercial rights holder and the FIA that will govern Formula 1 for the next five years. This includes a new set of technical and financial regulations, which should ensure a more competitive future to the sport and a more level competition. While the new technical regulations do not apply until 2022 (the 2020 cars were carried over into 2021 to save costs post-COVID), the financial regulations apply from 2021. The financial regulations include a cost cap of $145m, down from the original proposal of $175m. McLaren welcomes these changes, and these contribute to a lower racing cost in 2020 and 2021.

McLaren Racing have also welcomed 7-time winner Daniel Riccardo to race alongside Lando Norris in 2021.

Strategic report *(continued)*

McLaren Racing *(continued)*

Finally, McLaren had a very successful first year in IndyCar during 2020. McLaren SP's driver Pato O'Ward finished fourth in the NTT Indy Car Championship, which is a great achievement in McLaren SP's debut year in the championship.

Investment in Racing

Despite the continued positive momentum on the track, the Group recognised that McLaren Racing has been a source of historic financial volatility for the Group. It also recognised that, while McLaren Racing was on a trajectory to break even, this would take a further three years. As a result, the Group secured a new £185m investment in McLaren Racing over three years from a consortium of investors. The investment is in the form of convertible loan notes and warrants. These warrants are convertible at any time at the option of the warrant holders, for £0.01, into equity shares of McLaren Racing. The warrants have given the investors voting and dividend rights on an 'as-converted' basis. As at 31 December 2020, the investors cumulatively held 21.05% in the subsidiary on a diluted basis.

Although the Group owns a majority share of the issued capital of the subsidiary as at the reporting date, the directors have determined that, due to other factors in the framework governance agreement, in particular the substantive rights held by the investor, the Company no longer have unilateral control of McLaren Racing and instead hold joint control with the third party investor. McLaren Racing is now reported as a joint venture and subject to equity method accounting from the date control was lost.

The third-party investors, MSP Sports Capital and its partners will invest a total of £150m into McLaren Racing, acquiring an initial 15% stake that will increase to a maximum of 27% shareholding by the end of 2022, UBS O'Connor LLC & Caspian will invest £35m acquiring an initial 7% stake that will adjust to a maximum of a 6% shareholding by the end of 2022. These investments have allowed all remaining intercompany debt to be cleared.

Therefore, overall this investment gives them an initial 13.7% stake (21.05% at 31 December 2020 with £100m invested), with this growing to a 33% stake when McLaren Racing draws down on all the funds available.

Most significantly, this investment means that McLaren Racing is well funded to cover its activities in the future and gives McLaren Racing the capital it needs to compete at the highest level in Formula 1.

Moreover, with the expertise offered by MSP who have a history of creating value in sports franchises, the Group hopes to benefit from the value appreciation in McLaren Racing over time through the retention of its 67% stake.

Intangible investment

The Group continued to invest in new products and services, investing £222m in 2020. The majority of this was invested by the Automotive division in new road car projects including new Ultimate and Super Series models. The spend includes investment in the first vehicle to be based on the all-new architecture (Artura), although due to the impact of COVID-19, the first deliveries of Artura were delayed to Q1 2021.

Following the completion of the new platform, based on the five year business plan to 2025, the Group will now invest £175m on average over the next five years.

New preference shares issued

By the end of Q1 2020, the parent company (McLaren Group Limited) received an injection of £300m from the existing shareholders. From these proceeds, £9.3m were used to repay a shareholder loan. During July 2020 an additional £37.4m of preference shares were issued, £29.9m on conversion of the remaining balance of shareholder loans, and £7.5m in settlement of costs.

Strategic report *(continued)*

Key performance indicators

The directors consider the data listed below 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.

i) Financial performance indicators

KPI	FY 2020 £m	FY 2019 £m	YoY
Turnover	771.7	1,485.8	-48%
EBITDA	(49.1)	181.9m	-127%
Profit before tax	(685.8)	(29.2)	-2,249 %
Cashflow	11.0	(38.3)	129%

Turnover - 2020 declined by 48% due to reduced wholesale volumes

EBITDA – 2020 decline impacted by wholesale volumes, although some of the decline was offset by an improvement in the mix, as Speedtails, Elvas and 765LTs were delivered in 2020. While a proportion of direct costs reduce in line with revenue, there is a significant fixed element relating to labour and commercial costs. Operating costs were reduced year on year as a result of significant cost saving measures put in place to react to the impact of COVID-19. 2020 also includes an impairment charge on assets under the course of construction where projects are no longer expected to complete, and from the reassessment of business strategy within McLaren Applied on capitalised costs of projects that are no longer being pursued.

Profit before tax - aside from the impact of COVID-19, 2020 largely impacted by the £310.7m appreciation in fair value on the preference share liability.

Cashflow – cashflow from operations was significantly impacted by COVID-19 as seen through the profit and loss account. However, investing cashflows were improved by cancelling or moving out programmes to only focus on those that delivered a return in the year. In addition, the liquidity position was supported through issuance of £300.0m convertible preference shares and the short term loan from the National Bank of Bahrain.

ii) Non-financial performance indicators

Volumes	FY 2020 Units	FY 2019 Units	YoY
Production	1,642	4,765	-66%
Wholesales	1,659	4,662	-64%
Retail sales	2,831	4,311	-34%

Production volumes – Production was impacted by the closure of the facilities during Q2 2020 and the decision to re-open at one shift per day in H2 2020, compared to two shifts in prior years. The production plan for the year was set in Q2 2020 when there was considerable uncertainty in respect of the economic consequences and timing of the recovery from COVID-19.

Wholesale volumes – Aligned with production volumes, with a rich product mix as a significant proportion of the deliveries were Speedtails, Elvas and the 765LT.

Strategic report *(continued)*

Key performance indicators (continued)

Retail volumes – although retailer sales do not impact the financials of the Group, they are a key indicator of demand on the product. Retail volumes significantly outstripped wholesales in 2020, which demonstrates the demand for the product is strong.

Engineering programme milestones - related to the research and development phases of new car models or variants, to the point they are approved to be launched and go into production. Key measures need to be achieved before the project is passed to proceed to the next key milestone for review.

Post Balance sheet Events

McLaren Group announced on 22nd January 2021 the appointment of Kate Ferry as Group Chief Financial Officer, effective 1 April following the decision of Paul Buddin to step down from the role. Kate will lead the Group's financial strategy and investor relations, as well as supporting the broader strategic development of the company.

In April 2021, the Group announced it had entered into a Sale & Leaseback transaction with Global Net Lease to sell the McLaren Technology Centre and McLaren Production Centre for proceeds of £170.0m, entering a 20-year lease.

Principal risks and uncertainties

The risks associated with the manufacture of luxury supercars 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 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, although with the new investment into McLaren Racing, this exposure is now reduced. 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.

During 2020, the operations of the business were significantly impacted by COVID-19 as discussed from page 3. Clearly while the pandemic is ongoing there is a risk that retailers or the factory could be forced to close again due to increased COVID restrictions. However, currently the business is managing to operate the factory and wholesale cars, despite the current restrictions in place around the globe.

The Group does not perceive a significant risk from recent announcements regarding the ban of the sale of diesel and petrol cars by 2030. The Group is actively looking at and considering the technology approach for our products including our pioneering McLaren Carbon Lightweight Architecture. Our fleet will be hybrid by 2026, with ambitions for a fully electric car by the end of the decade. Further detail on the assessment of climate change and sustainability is discussed from page 21.

Strategic report *(continued)*

Brexit considerations

The UK has now left the European Union ("EU") and a Free Trade Agreement ("FTA") has been obtained which was of significant benefit to the Group as a whole. Most significantly, the FTA negated any tariffs that could have applied on vehicle sales to the EU or parts imported from the EU.

However, the Group has been preparing for Brexit for some time. In response to the Brexit vote, the management team undertook several actions to mitigate any potential impact. These actions included:

- 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.
- Through the Group's Government Affairs department, the Group had strong engagement with Government through bodies such as the Automotive Council and the Society of Motor Manufacturers and Traders.
- The Automotive division obtained AEO accreditation.
- The Group has continued to follow its hedging policy, as described elsewhere in these financial statements, to mitigate any short-term volatility in exchange rates.
- The Group worked with immigration agents to assist employees in mitigating potentially significant visa costs and managing the availability of labour in future years.

The plans that were established have meant that there has been no material impact to date of Brexit on McLaren, with parts continuing to flow into the McLaren Production Centre and vehicles continuing to be delivered into the EU (albeit under a new regime).

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 2020.

The Companies (Miscellaneous Reporting) Regulations 2018 require 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 continued to 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 17 to 21 and is also available on the Group's website www.mclaren.com .

Section 172 Decisions

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

The Board approves a five 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.

Strategic report *(continued)*

Section 172 Decisions (continued)

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. These strong relationships have resulted in our stakeholders being in a position to support us when the impact of COVID-19 took effect.

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

Effective communication with our stakeholders is important to building strong relationships, understanding external dynamics, earning and maintaining trust, enhancing business performance and evolving our Environmental Social and Governance approach. Failure to manage ESG risks could expose the organisation to commercial, reputational and regulatory impacts and affect our communities, the environment and other external parties. McLaren's policy towards the climate, environment and sustainability are fully explained on pages 21 to 24 to the financial statements.

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 Telegraph 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, when car production was suspended by the covid-19 pandemic, McLaren answered the UK Government's urgent call for industry to save lives by playing a pivotal role in the production of more than 13,000 medical ventilators to treat Covid-19 patients. McLaren Group deployed its capabilities in design, rapid prototyping, electronics, production and high-value manufacturing, via a joint effort from McLaren Racing, McLaren Automotive and McLaren Applied, to scale up production of desperately needed ventilator equipment in record time.

Strategic report *(continued)*

Section 172 Decisions (continued)

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 approaching 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 nine were male and two were female. There were four employees of the entity in the year of which all were male.

Signed by order of the Board

T. N. Murnane

T Murnane
Company secretary, McLaren Group Limited
27 April 2021

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

Directors' report

The Directors present their Annual report and the audited financial statements of the Group and Company for the year ended 31 December 2020.

Results

The consolidated loss for the financial year after taxation amounted to £641.2m (2019: loss £34.1m).

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 13.

Research and development

By the nature of its activities, the Group has an ongoing investment into research and development across all its motoring and engineering operations, which includes new car programmes and specialist products and services to maximise the performance and capabilities of its customers.

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 through subscription to convertible preference shares 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 (RCF).

This additional short-term financing is part of a three-phase strategy is expected to strengthen the balance sheet in the aftermath of COVID-19. The Group completed the second phase in December 2020 by securing a deal to sell a stake in McLaren Racing - an investment that now covers future cash requirements for that business. The final phase of the strategy, which is now well underway, sees the Group raising further capital to take out the short-term financing and then 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 the final phase of the plan. In particular, successful completion of the capital raise will be required by the Group in order to meet its liabilities as they fall due over the next 12 months and this financing may not ultimately be obtained. Whist the Directors are confident that this process, already underway at the date of these accounts, will conclude successfully they acknowledge that 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 13.

Further details regarding the adoption of the going concern basis can be found in note 3b on page 42.

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 funding facilities available to it, including trade finance and working capital facilities. In addition to this the group has a number of strategic options, including the sale and lease back of headquarter property assets, to provide additional liquidity to the group should it be required. As the company approaches the maturity of its borrowing facilities it will look to refinance these in the capital markets via a mix of bank lending and capital markets issuance (Senior Secured Notes) providing additional funding required for the Groups strategic plans.

More detail is included in the Strategic report on pages 3-13, and the section on Going concern on page 14.

Heritage Assets

Over the last 50 years the Group 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, retailers and heritage track days around the world.

Directors' report *(continued)*

Heritage Assets *(continued)*

As at 31 December 2020 the collection numbered some 54 vehicles which were held at a cost of £33.4m. McLaren Automotive also held 2 P1™ vehicles at a cost of £0.4m, and two McLaren Sennas at a cost of £0.3m.

There is a market for these assets, and the Group will determine as appropriate 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 2020 (2019: £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 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 Hadid – resigned 05.11.20
K Al Rumaihi
W Griffiths
M Latifi
P S Walsh – appointed 18.03.20
O Syed – appointed 07.02.21

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.

We do not support any political party, and do not partake in any activity that could be interpreted as mutual dependence / favour with any political body or person

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 applies the Wates Corporate Governance Principles for large private companies. 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.

Principle 1 – Purpose and leadership

McLaren was founded by Bruce McLaren and his ethos still permeates the organisation today. Bruce worked his way up through club races in and around his native Auckland, New Zealand, 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 bread a spirit of dedication. Our people maintain that commitment, courage and creativity throughout the business in the unremitting search for excellence.

McLaren exists to continually push the boundaries, 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 is 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.

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.

Directors' report *(continued)*

Statement of corporate governance arrangements *(continued)*

Principle 1 – Purpose and leadership (continued)

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 is 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-style 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 strengthened with the appointment of Paul Walsh as the Executive Chairman. Paul's Executive role sees 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.

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.

Directors’ report *(continued)*

Statement of corporate governance arrangements *(continued)*

Principle 3 – Director responsibilities (continued)

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 has established an internal audit function effective 2021, reporting to the Audit and Risk Committee. Prior to this, where understanding of control deficiencies is required, the Group would 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 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 Executive 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.

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.

Directors' report *(continued)*

Statement of corporate governance arrangements *(continued)*

Principle 4 – Opportunity and Risk (continued)

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 2020. 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.

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. We engage with governments, regulators, industry bodies and our stakeholder community in a constructive manner to promote good governance. We also ensure we act in accordance with the governance systems of the countries we operate in. The Racing team maintains an active engagement with

Directors' report *(continued)*

Statement of corporate governance arrangements *(continued)*

Principle 6 – Stakeholders (continued)

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 supercar 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. While Covid has impacted the ability of the Group to meet physically with its employees the Group has expanded its electronic communications and updates to ensure that employees are fully engaged in the Group's status and development. 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

Climate, environment and sustainability

The company recognises its responsibility to comply with relevant environmental and climate obligations and to consider and address the impact of our business activities on the environment and the likely consequence of business decisions in the long term.

The Board of directors review the resilience of the business model and asset resilience assumptions in the presence of risks and uncertainties of climate change but consider no adjustments necessary. The company also realises the opportunities to identify and drive further financial savings and lower climate impact where appropriate.

In 2019 the board of directors reviewed and agreed a sustainability framework and governance process based on the relevant aspects of the United Nations 17 Sustainable Development Goals. This consists of;

a. A sustainable business strategy
b. A sustainable environmental impact strategy
c. Environmental compliance and measures
d. A sustainable culture and organisational strategy

and we remain committed and compliant.

Directors' report *(continued)*

Climate, environment and sustainability *(continued)*

Environmental policy

We recognise that we are operating in a world where many natural resources that our business relies on, such as fossil fuels, raw materials and water, are limited. Measuring and managing our environmental impact is not only important for the planet, but also essential for the financial sustainability of our supply chain and business.

Our environmental policy outlines our commitment to protect against the long-term critical depletion of natural resources and lasting damage to species, habitats, biodiversity and climate.
Of particular focus is our commitment to:

- Manage our energy consumption and CO_2 emissions,
- Establish effective resource utilisation,
- Manage waste and recycling practices,
- Maintain control over our transport and logistics operations

Objectives
As part of our drive and ambition for professionalism in all areas of our work, the environmental commitments sit integrated with many aspects of our day-to-day work and specifically alongside our prime commitment to health and safety.

This environmental policy statement commits the McLaren Group of companies:

- Preventing and reducing pollution, including a reduction in CO_2 emissions of 2.5% year on year, and zero waste to landfill.
- Fulfilling all applicable regulatory and other obligations in terms of environmental protection as our bare minimum level of performance.
- Compliance with all permits issued under Local Authority Pollution Prevention and Control legislation.
- Encouraging 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.
- Ensuring that stakeholders in our business are aware of our Environmental Policy and that the policy and standards are promoted to our suppliers, partners and customers, encouraging others to implement environmental management measures in their own businesses.
- Embedding the principles of 'best performance' (health and safety, quality and environmental concerns) to our design, development, manufacturing and operational processes at MTC, track side and in transport logistics.
- Manage water in a way that conserves this scarce resource by minimising unnecessary water consumption.
- Periodically evaluate our activities to identify significant environmental concerns and put in place management action plans.
- Manage our land holdings to promote biodiversity and conserve the natural environment.

Risk is assessed in terms of the impact of climate change on the business, and conversely the direct and indirect impact of the business on climate and the environment.
The significant risks associated with the impact of climate change on the business are assessed as;

1. The reputational risk from stakeholders both internal and external to the business as a result of being perceived to be anything other than proactive, compliant and evidence based in regards any climate or environmental consideration.

Directors' report *(continued)*

Climate, environment and sustainability *(continued)*

Objectives (continued)

The work we do in this area is not undertaken in isolation and we work with our blue-chip commercial partners sharing best practice and concentrating efforts were possible for greater impact.
The external accreditation and evidence-based commitment to climate and environment issues is supported by renewed certification from The Carbon Trust. The process of certification measures absolute footprint and carbon intensity reduction in tonnes of CO_2 and includes a qualitative assessment of environmental management including waste as well as scoring the business on a benchmark with industry peers. The boundary defined for certification is for all McLaren's UK operations which covers out principal engineering, manufacturing and commercial activities together with all international travel and freight.

2. The revenue risk associated with a global shift away from dependence on fossil fuels to sustainable and renewable energy sources.

   The global trend to sustainable and renewable energy sources, supported by international regulatory requirements directly impacts automotive and racing vehicle product certification directly for vehicle emissions and power train technology and indirectly for required capital investment in associated technology and capability. The company welcomes these macro trends and our business plans and product strategy reflects the developing requirements. In racing the company plays a proactive role in a broad range of sustainability projects with the regulating bodies and other teams. During the year the company was proud to once again achieve another 'gold standard' award from the FIA for its voluntary motorsport environmental framework, which McLaren Racing was the first team to adopt. McLaren Racing has also signed up to a target of 'net zero' by 2030 in support of Formula One Managements drive for sustainability. McLaren Automotive continuously monitors the impact of climate change policies on vehicle regulations globally, and actively contributes to ongoing Government discussions particularly within the UK, EU and more specifically for our segment in the US and China.

   We welcome and support the ambition to end the sale of diesel and petrol vehicles globally and are actively looking at and considering the technology approach for our products including our pioneering McLaren Carbon Lightweight Architecture. Our fleet will be hybrid by 2026, with ambitions for a fully electric car by the end of the decade.

3. Infrastructure resilience risk in our engineering and manufacturing support systems such as IT server rooms, building control systems, as a result of the rising temperature and associated flood risks.
   The McLaren Technology Centre and McLaren Production Centres were developed with sustainability and biodiversity in mind and maintained and developed to a high standard. Over the 20 years since its construction, what were once considered one-in-twenty-year climate events have measurably increased. We monitor and track these risks and adapted our technology in financial plans and policies accordingly for greater resilience as well business scalability and continuity. We do not consider any other assets as at risk.

<u>The significant risks associated with the business impact on climate and the environment are assessed as;</u>

1. Reputational risk from harm to the environment either from excessive or uncontrolled waste management to land, water or air.

   Specialist environmental management teams have been working across the business for many years ensuring that we publicly state and comply with our environmental policy and targets including;

Directors' report _(continued)_

Climate, environment and sustainability _(continued)_

Objectives (continued)

a) Prevent and reduce pollution including CO_2 emissions of 2.5% year on year.

b) Maintain our commitment to zero waste to landfill. This was initially achieved in 2016, and still is in 2020. We continue to make significant progress in recycling and the management of plastics to protect land and water. We have also implemented controlled waste streaming processes resulting in greater amounts of waste to energy recovery.

c) Fulfil all regulatory requirements and obligations to environmental protection as a minimum.

d) Comply with all permits issued under local authority pollution, prevention and control legislation.

e) Encourage employee contribution in environmental matters including training and support to relevant employees giving them ownership and pride in achieving our objectives.

2. Reputational and revenue risk from potential product non-compliance in rapidly changing global vehicle emissions regulations in our automotive business.

Specialist engineering teams with management oversight ensure product compliance is managed rigorously via the gateway engineering, development and validation processes. The company also plays a proactive role on industry bodies consulting on evolving emissions regulations.

2020 has been a challenging year with global pandemic impacting our business. Global travel and site occupancy have been greatly restricted. Consequently, energy consumption and waste production have reduced this year which in turn will have driven down our environmental impact. The company remains committed to our long-term goals and objectives on sustainability. In addition to the specialist environmental management teams the company has strengthened its risk management processes and governance by implementing a board level Risk and Audit committee to oversee these and other material business risks.

Streamlined energy and carbon reporting ('SECR')

	Current reporting year 2020*	**Comparison reporting year 2019**
	UK and offshore	**UK and offshore**
Energy consumption used to calculate emissions /kWh	54,264,243	70,375,919
Emissions from combustion of gas tCO_2e (Scope 1)	2,706.60	2,890.14
Emissions from combustion of fuel for transport purposes tCO_2e (Scope 1)	1,123.98	1,987.83
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel tCO_2e (Scope 3)	367.37	930.88
Emissions from purchased electricity tCO_2e (Scope 2, location-based)	8,362.81	10,850.91
Total gross CO_2e based on above	**12,560.76**	**16,659.77**
Intensity ratio: tCO_2e gross figure (total GHG emissions per £m revenue)	**16.04**	**11.21**

*Note 2020 figures are impacted by the reduced business activity due to the restrictions from COVID-19 in the year.

Directors' report *(continued)*

Streamlined energy and carbon reporting ('SECR') *(continued)*

Methodology

The methodology used to calculate our GHG emissions is in line with the Greenhouse Gas Protocol, using the operational control approach to define our reporting boundary. The intensity ratio for the period has increased over the previous period due to reduced turnover directly accountable to the global COVID 19 pandemic.

Energy efficiency action

In the period covered by the report the company has purchased 35,489 MWh of sustainable biomass electricity.

A rolling programme of converting and replacing lighting systems on the main campus to LED is ongoing, with measured savings to date of 1,200MWh/annum.

Utility sub metering continues to be installed, extending the monitoring network to enable better reporting of use and identify further energy reductions.

Optimisation of the building management systems remains a continuous improvement activity, targeting services utility delivery to real time demand.

Actions identified in our participation in the Energy Savings Opportunity Scheme (ESOS) have been considered, with examples such as toothed belts on main AHU plant and floating setpoints on environmental control systems implemented. The company has recently been awarded the Carbon Trust standard for ongoing efforts to reduce carbon intensity.

Statement of directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company 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 Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report *(continued)*

Statement of directors' responsibilities *(continued)*

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

Directors' confirmations

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 Group and company's auditors are unaware; and
- they have 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 group and company's auditors are aware of that information.

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.

The financial statements on pages 35 to 83 were approved by the Board of Directors on 27 April 2021 and signed by order of the Board:

T. N. Murnane

T Murnane
Company secretary, McLaren Group Limited

27 April 2021

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 2020 and of the group's loss and the group's 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 2020; the Consolidated profit and loss account, the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity and the Consolidated statement of cash flows 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 opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3b to the financial statements concerning the group's and the company's ability to continue as a going concern. The COVID-19 pandemic 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. These conditions, along with the other matters explained in note 3bto the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- considering the adequacy of the disclosures in the financial statements, particularly Note 32, Events after the end of the reporting period, and Note 3b, Summary of significant accounting policies - going concern; and
- considering 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 responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Overview

Audit scope

- The components included and work performed were:
    - Full scope audits of McLaren Automotive Limited, McLaren Automotive Incorporated and McLaren Racing Limited in the UK.
    - Audit of certain financial statement line items of McLaren Group Limited, McLaren Finance plc, McLaren Services Limited, McLaren Applied Limited, McLaren Holdings Limited and McLaren Automotive Asia Pte Limited in the UK.

Key audit matters

- Material uncertainty related to going concern (group and company)
- Valuation of Preference Shares (group and company)
- Capitalisation and amortisation of research and development costs (group)
- Fair valuation of the loan notes, warrants and retained interest in McLaren Racing Limited (group)
- Management's consideration of the impact of COVID – 19 (group and company)

Materiality

- Overall group materiality: £7.7M (2019: £14.8M) based on 1% of revenue.
- Overall company materiality: £6.6M (2019: £2.2M) based on 1% of total assets.
- Performance materiality: £5.8M (group) and £4.9M (company).

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.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, employment regulation, health and safety legislation and other legislation specific to the industry in which the group operates, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in determining accounting estimates. Audit procedures performed by the engagement team included:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the Audit Committee about existing and potential litigation and claims, and known or suspected instances of non-compliance with laws and regulations and fraud;
- addressing the risk of fraud through management override of controls by testing the appropriateness of journal entries, including journal entries with unusual account combinations;
- challenging assumptions and judgements made by management in their significant accounting estimates that involved considering future events that are inherently uncertain. In particular, in relation to valuation of preference shares issued by the group, the valuation of loan notes, warrants and retained interests in McLaren Racing Limited, and the capitalisation and amortisation of research and development costs (see related key audit matters below); and

- communicating relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and reminding them to be alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements.

Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

Valuation of Preference Shares and Fair valuation of the loan notes, warrants and retained interest in McLaren Racing Limited are new key audit matters this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of Preference Shares (group and company) As noted in Note 27 to the consolidated financial statements, the company issued £337M of preference shares in 2020 that are convertible into equity shares after 5 years based on an agreed conversion formula. The conversion results in the issuance of a variable number of shares dependent on the then valuation of the group. The company has elected to account for the instrument at fair value, with the change in value in 2020 of £311M recorded through earnings. The valuation of these preference shares, both on issuance and at year end, requires significant judgement by management in the application of valuation methodologies as well as the determination of key assumptions. Management engaged third party valuation experts to assist them in the valuation of these preference shares. The key estimates and assumptions assessed were: - The methodology and assumptions used to determine the equity value of the group including the management's estimates of the future forecast cash flows used in this process; and - The term to exit, the share price volatility and the risk-free rate of interest.	Our procedures included the following: ● Inspected the underlying documents to understand the terms and conditions of the instrument and independently assess the accounting treatment applied; ● Involved our internal valuation specialists in assessing the models used, re-performing the independent valuation, and assessing the appropriateness of management's key judgements and estimates; and ● Assessed whether the disclosures in the financial statements are appropriate and in accordance with FRS 102. Based on the procedures performed, we noted no material issues from our work

Independent auditors' report to the members of McLaren Group Limited *(continued)*

Capitalisation and amortisation of research and development costs (group) As noted in Note 11 to the consolidated financial statements, the group has £784M of capitalised research and development costs incurred on new production programmes as at 31 December 2020 (£769M as at 31 December 2019). 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 considers 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.	Our procedures included the following: ● 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. Based on the procedures performed, we noted no material issues from our work.
Fair valuation of the loan notes, warrants and retained interest in McLaren Racing Limited (group) As noted in Note 9 to the consolidated financial statements, in December 2020, McLaren Racing Limited issued 12% unsecured Series A convertible loan notes and warrants for a combined value of £100M. This issuance of loan notes and warrants was coincident with an agreement on a new governance structure for the business which led to McLaren Racing Limited ceasing to be a subsidiary by virtue of the terms of the governance agreement. To determine the gain on this sale of a share in the subsidiary, management had to allocate the total proceeds between the debt and the equity components of the transaction. This allocation of the proceeds based on fair values required management to make a number of significant assumptions and judgements that introduce a risk of material misstatement. The key judgements and estimates assessed were: - Determining the most appropriate basis for allocation of proceeds; and - Determining the most appropriate methodology and market multiples to ascertain the equity value of McLaren Racing Limited.	Our procedures included the following: ● Inspected the underlying documents to understand the terms and conditions of the instrument and independently assess the accounting treatment applied; ● Involved our internal valuation specialists in assessing the models used and assessing the appropriateness of management's key judgements and estimates; and ● Assessed whether the disclosures in the financial statements are appropriate and in accordance with FRS 102. Based on the procedures performed, we noted no material issues from our work.

Management's consideration of the impact of COVID – 19 (group and company)	
The global COVID-19 pandemic is causing widespread disruption to normal patterns of business activity across the world. This is considered to be a key audit matter due to the wide range of judgements impacting the business as a result of COVID-19, most notably the carrying amounts of assets and projected future cash flows in the context of going concern and impairment assessments. In addition, management's way of working, including the operation of controls, has been impacted by COVID-19 as a result of a large number of employees working remotely and using technology enabled working practices. For example, this has meant virtual review meetings and electronic review processes in place of some physical or hardcopy reviews. Please see the material uncertainty related to going concern presented earlier in this report.	Our procedures included the following: ● Understood management's assessment of the impact of the uncertainty presented by COVID-19 and considered its completeness; ● Evaluated management's forecasts in respect of going concern; ● Considered the potential impact of COVID-19 on the balance sheet, specifically around the potential impairment of tangible and intangible assets; and ● Assessed the adequacy of the disclosures in the financial statements in respect of the impact of COVID-19. Based on the procedures performed, other than the material uncertainty related to going concern presented earlier in this report, we noted no material issues from our work.

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.

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determined our audit scope for each component within the group. The group is split into four segments being Automotive, Racing, Applied and Corporate Services. Each segment in turn is further disaggregated into reporting components within the consolidation.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements we performed an audit of the complete financial information of three components. We also performed audit procedures on specific financial statement line items for six components.

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:

Independent auditors' report to the members of McLaren Group Limited *(continued)*

	Financial statements - group	Financial statements - company
Overall materiality	£7.7M (2019: £14.8M).	£6.6M (2019: £2.2M).
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 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 £0.9M to £7.4M.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £5.8M for the group financial statements and £4.9M for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £390,000 (group audit) (2019: £740,000) and £330,000 (company audit) (2019: £112,250) 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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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.

Independent auditors' report to the members of McLaren Group Limited *(continued)*

We have no exceptions to report arising from this responsibility.

Greg Briggs

Gregory Briggs (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
27 April 2021

Consolidated profit and loss account

for the year ended 31 December 2020	Note	2020 £000	2019 £000
Turnover	5	**771,660**	1,485,785
Cost of Sales		**(627,847)**	(1,033,817)
Gross Profit		**143,813**	451,968
Administrative expenses		**(245,710)**	(276,090)
Other operating income		**51,821**	28,606
Operating (loss)/profit before interest in joint venture, impairment, depreciation and amortisation		**(50,076)**	204,484
Share of loss from Joint Venture		**(886)**	-
Impairment of assets		**(12,762)**	-
Depreciation		**(29,635)**	(27,527)
Amortisation		**(202,724)**	(152,098)
Operating (loss)/profit	6	**(296,083)**	24,859
Interest receivable and similar income	8	**14,812**	17,811
Interest payable and similar expenses	8	**(425,600)**	(71,827)
Gain on sale of share in subsidiary	9	**21,070**	-
Loss before taxation		**(685,801)**	(29,157)
Tax on loss	10	**44,639**	(4,955)
Loss for the financial year		**(641,162)**	(34,112)

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 to not present the Company profit and loss account. The loss for the year is presented in the Company balance sheet on page 38.

The notes on pages 42 to 83 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2020	**Note**	**2020 £000**	2019 £000
Loss for the financial year		**(641,162)**	(34,112)
Other comprehensive (expense)/income:			
Deferred tax (charge)/credit on revaluation reserve	10	**(930)**	2,011
Cash flow hedges:			
- Change in value of hedging instrument		**(3,612)**	(1,365)
- Reclassifications to profit and loss		**13,583**	26,152
Loss on foreign currency translation reserve		**(6,277)**	(5,277)
Total comprehensive expense for the year		**(638,398)**	(12,591)

The notes on pages 42 to 83 form an integral part of these consolidated financial statements.

Consolidated balance sheet

as at 31 December 2020

	Note	2020 £000	2019 £000
Fixed assets			
Intangible assets	11	**829,851**	834,162
Tangible assets	12	**260,368**	290,543
Heritage assets	13	**34,155**	55,665
Investment in associate	14	**-**	1,738
Investment in joint venture	14	**32,606**	-
		1,156,980	1,182,108
Current assets			
Inventories	15	**112,773**	151,656
Debtors	16	**337,658**	396,755
Cash at bank and in hand		**66,784**	56,252
		517,215	604,663
Creditors: Amounts falling due within one year	17	**(613,600)**	(747,523)
Net current liabilities		**(96,385)**	(142,860)
Total assets less current liabilities		**1,060,595**	1,039,248
Creditors: Amounts falling due after more than one year	18	**(1,306,893)**	(657,250)
Provision for liabilities	21	**(40,555)**	(26,796)
Deferred capital funding	23	**(92,836)**	(96,493)
Net (liabilities)/assets		**(379,689)**	258,709
Capital and reserves			
Called up share capital	26	**89**	89
Share premium account		**203,123**	203,123
Revaluation reserve		**42,586**	44,219
Capital contribution reserve		**2,039**	2,039
Merger reserve		**218,547**	218,547
Other reserves		**8,574**	4,880
Accumulated losses		**(854,647)**	(214,188)
Total Equity		**(379,689)**	258,709

The notes on pages 42 to 83 form an integral part of these consolidated financial statements.

The financial statements on pages 35 to 83 were authorised for issue by the Board of Directors on 27 April 2021 and signed on its behalf by:

P S Walsh
Director

Registered number: 10720174

Company balance sheet

as at 31 December 2020

	Note	**2020 £000**	2019 £000
Fixed assets			
Investment	14	**645,910**	205,251
		645,910	205,251
Current assets			
Debtors	16	**15,412**	19,514
Cash at bank and in hand		**75**	38
		15,487	19,552
Creditors: Amounts falling due within one year	17	**(152,926)**	(1,405)
Net current (liabilities)/assets		**(137,439)**	18,147
Total assets less current liabilities		**508,471**	223,398
Creditors: Amounts falling due after more than one year	18	**(688,350)**	(37,098)
Provisions for liabilities and charges	21	**(225)**	-
Net (liabilities)/ assets		**(180,104)**	186,300
Capital and reserves			
Called up share capital	26	**89**	89
Share premium account		**203,123**	203,123
Capital contribution reserve		**2,039**	2,039
Accumulated losses at the beginning of the year		**(18,951)**	(17,912)
Loss for the year		**(366,404)**	(1,039)
Total equity		**(180,104)**	186,300

The financial statements on pages 35 to 83 were authorised for issue by the Board of Directors on 27 April 2021 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 2020

	Called up share capital	Share premium account	Merger reserve	Capital contribution reserve	Other reserves	Revaluation reserve	Accumulated Losses	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
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/(expense) for the year	**-**	**-**	**-**	**-**	**19,510**	*** (8,585)**	**10,596**	**21,521**
Total comprehensive Income/(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**
At 1 January 2020	89	203,123	218,547	2,039	4,880	44,219	(214,188)	**258,709**
Loss for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**(641,162)**	**(641,162)**
Total other comprehensive income/(expense) for the year	**-**	**-**	**-**	**-**	**3,694**	***(1,633)**	**703**	**2,764**
Total comprehensive Income/(expense)	**-**	**-**	**-**	**-**	**3,694**	**(1,633)**	**(640,459)**	**(638,398)**
At 31 December 2020	**89**	**203,123**	**218,547**	**2,039**	**8,574**	**42,586**	**(854,647)**	**(379,689)**

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 2020

	Called up share capital	Share Premium account	Capital contribution reserve	Accumulated losses	Total equity
	£000	£000	£000	£000	£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**
At 1 January 2020	89	203,123	2,039	(18,951)	**186,300**
Loss for the financial year	-	-	-	(366,404)	**(366,404)**
At 31 December 2020	**89**	**203,123**	**2,039**	**(385,355)**	**(180,104)**

Consolidated statement of cash flows
for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Net cash (used in)/from operating activities	28	**(216,624)**	235,697
Taxation paid		**(783)**	(5,128)
Net cash (used in)/from operating activities		**(217,407)**	230,569
Cash flow from investing activities			
Addition of intangible assets		**(221,856)**	(297,930)
Addition of tangible assets		**(15,961)**	(21,453)
Proceeds from disposal of investment	14	**3,000**	-
Proceeds from disposal of tangible assets		**12**	49
Interest received		**55**	204
Sale of share of subsidiary		**(1,505)**	-
Net cash used in investing activities		**(236,255)**	(319,130)
Cash flow from financing activities			
Repayment of obligations under finance lease		**(2,487)**	(1,048)
Receipts from revolving loan facility		**68,899**	216,144
Repayment of revolving loan facility		**-**	(216,144)
Interest paid		**(42,443)**	(34,016)
Proceeds from issue of preference shares		**290,659**	-
Proceeds from short term bank loan		**150,000**	-
Proceeds from issue of ordinary share capital		**-**	53,132
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 generated from financing activities		**464,628**	50,266
Net increase/(decrease) in cash and cash equivalents		**10,966**	(38,295)
Cash and cash equivalents at beginning of year		**56,252**	96,869
Effect of foreign exchange rate changes		**(434)**	(2,322)
Cash and cash equivalents at end of year		**66,784**	56,252
Cash and cash equivalents consists of:			
Cash at bank and in hand		**66,784**	56,252
Cash and cash equivalents		**66,784**	56,252

The notes on pages 42 to 83 form an integral part of these consolidated financial statements.

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 26. The nature of the Group’s operations and its principal activities are set out in the Strategic report on pages 3 to 13.

The Company is a private company limited by shares and is incorporated in the United Kingdom and registered in England 10720174. 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.

McLaren Holdings Limited and its subsidiaries (the restricted group) have certain restrictive covenants in place under its facility agreements in respect of the Senior Secured Notes and Revolving Credit Facility. The covenants restrict the payment of dividends out of this restricted group up to the parent company McLaren Group Limited. In addition, there are certain restrictions on payments outside of the restricted group, the company is governed by the terms and conditions within the Revolving Credit Facility and under the Indenture in respect of the Groups outstanding Notes in issuance. Following the investment in McLaren Racing by the consortium led by MSP Sports Capital in December 2020, McLaren Racing was designated an unrestricted subsidiary and now sits outside of the restricted group of companies. Due to this the restricted group is no longer permitted to lend to McLaren Racing due to the restrictive covenants in place.

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 cancelation of a number of races in the 2020 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

Notes to the financial statements *(continued)*

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

b. Going concern (continued)

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 designed to strengthen the balance sheet in the aftermath of COVID-19. The Group completed the second phase in December 2020 by securing a deal to sell a stake in McLaren Racing - an investment that is intended to cover future cash requirements for that business. The final phase of the strategy, which is now well underway, sees the Group raising further equity to take out the short-term financing and then refinance both the bond and 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.

Additional financing will be required by the Group to meet its liabilities as they fall due over the next 12 months; 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 and the company'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, together with the Group's share of the results of associates and joint ventures made up to 31 December.

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. Where the Group owns more than 50% of the equity but has joint control over the financial and operating policies of an entity, it accounts for that entity as a joint venture using the equity method of accounting.

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

Notes to the financial statements *(continued)*

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

d. Basis of consolidation (continued)

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 joint ventures and associates to the extent of the group’s interest in the entity.

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 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.

Notes to the financial statements *(continued)*

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

f. Revenue recognition (continued)

(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 Continued 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.

(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. Stage of completion is recognised on the basis of a percentage of total contacted revenue, based on total costs incurred as a percentage of total expected costs. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors.

(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. Other Income

(i) Government grants

A government grant is assistance by government in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the operating activities of the entity.

The group classify grants either as grants relating to revenue or grants relating to assets. Grants relating to revenue are recognised in income on a systematic basis over the periods in which the group recognises the related costs for which the grant is intended to compensate.

A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs is recognised in income in the period in which it becomes receivable. Under the COVID-19 Job Retention Scheme (CJRS), HMRC will reimburse up to 80% of the wages of employees who have been furloughed but who are being kept on the payroll. The scheme is designed to compensate for staff costs, so amounts received are recognised in the statement of comprehensive income over the same period as the costs to which they relate.

Grants relating to assets are recognised in income on a systematic basis over the expected useful life of the asset.

Notes to the financial statements *(continued)*

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

g. Other income (continued)

(ii) R&D Tax credits

Companies within the group might be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (for example, the Research and Development Tax Incentive regime in the UK).

The Group accounts for such allowances as tax credits and recognised in profit and loss as other operating income.

h. 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.

i. 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.

j. 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.

Notes to the financial statements *(continued)*

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

j. Employee benefits (continued)

(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 benefits consist of Statutory redundancy and payment in lieu and is measured at the best estimate of the expenditure that would be required to settle the obligation at the reporting date.

k. 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.

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.

l. 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

Notes to the financial statements _(continued)_

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

l. Intangible assets (continued)

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.

m. 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

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.

Notes to the financial statements *(continued)*

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

n. 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.

o. Heritage assets

McLaren Services and McLaren Automotive Limited have a collection of heritage vehicles, made up of 37 racing cars, 4 F1 road cars, 7 historic vehicles, 6 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.

At the point a car is identified for sale, those cars are transferred to inventory. On disposal of the cars, the sales proceeds are recognised as revenue and the carrying value and associated costs are recognised within cost of sales.

p. Borrowing costs

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

q. 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.

Notes to the financial statements *(continued)*

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

q. Leased assets (continued)

(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.

r. 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.

s. Investments

(i) Investment in an associate is held at cost less accumulated impairment losses, in the company's standalone financial statements.

(ii) Investments in subsidiary companies are held at cost less accumulated impairment losses.

(iii) Investment in joint venture is held at cost less accumulated impairment losses.

t. 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.

Prior to the sale of a share in McLaren Racing in December 2020, all expenditure on the production and maintenance of Racing cars was charged to the profit and loss account during the racing season in which the racing car was used. The Group carried forward to the following year certain development costs incurred

Notes to the financial statements *(continued)*

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

t. Inventories (continued)

in the current year which relate to the production of the next season's racing car. The Directors considered 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.

Heritage assets held by McLaren Racing were also reclassified to inventory once they have been identified for sale.

As McLaren Racing is a joint venture as at 31 December 2020, there are no balances in the Group balance sheet in inventory in relation to the Racing car or Heritage assets held by McLaren Racing.

u. Cash and cash equivalents

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

Bank overdrafts are shown within borrowing in current liabilities.

v. 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.

w. 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.

Notes to the financial statements *(continued)*

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

w. Financial instruments (continued)

(i) Financial assets *(continued)*

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.

(iii) Preference shares

The Group has issued preference shares that are mandatorily convertible at a fixed or determinable future date into a variable number of the group's equity instruments. Initial measurement is at transaction price, with subsequent measurement at fair value through profit and loss. The dividends on these preference shares are also recognised in the profit and loss account as interest.

Notes to the financial statements *(continued)*

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

w. Financial instruments *(continued)*

(iv) 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.

(v) 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 that maximises the use of relevant observable inputs and minimise the use of unobservable units. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing and transaction.

(vi) 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.

x. 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)

y. 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.

z. 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 tax losses are considered recoverable.

Notes to the financial statements *(continued)*

4. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

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

(iv) Control assessment

During December 2020, McLaren Racing received new third party investment through the issuance of convertible loan notes and warrants. These warrants are convertible at any time at the option of the warrant holders, for £0.01, into equity shares of McLaren Racing. The warrants have given the investors voting and dividend rights on an 'as-converted' basis. Therefore, as at 31 December 2020, the investors cumulatively held 21.05% in the subsidiary on a diluted basis. Although the Group owns 100% of the issued capital of the subsidiary as at the reporting date, the directors have determined, that due to other factors in the framework governance agreement, in particular the substantive rights held by the investor such as the power to govern the financial and operating policies of the entity, led to the conclusion that the Company no longer has unilateral control of McLaren Racing and instead holds joint control with the third party investor. McLaren Racing is now reported as a joint venture and subject to equity method accounting from the date control was lost. See note 9 for the gain recorded on sale of the share in subsidiary.

As the Company continues to hold a significant interest in the ongoing operations of McLaren Racing, the deconsolidation of the business is not presented as a discontinued operation in the financial statements.

(v) Preference share accounting

Preference shares must be analysed carefully to determine if they contain features that cause the instrument not to meet the definition of an equity instrument. The Group has issued preference shares that are mandatorily convertible at a fixed or determinable future date into a variable number of the group's equity shares, based on the market value of the company's unquoted shares reduced by an agreed percentage discount. This is therefore a complex financial instrument, accounted for at fair value under Section 12 of FRS 102 with changes in fair values recognised in profit or loss.

(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 3l and 3r 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.

(iii) Preference shares

The fair value of this financial instrument is determined using valuation techniques. The group uses its judgement to select the appropriate method and make assumptions that are based on market conditions existing at the end of the reporting period. For details of significant inputs and sensitivity, please see note 27.

Notes to the financial statements *(continued)*

4. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

(b) Key accounting estimates and assumptions *(continued)*

(iv) Gain on sale of share in subsidiary

In December 2020, McLaren Racing Limited issued 12% unsecured Series A convertible loan notes and warrants for a combined value of £100m. This issuance of loan notes and warrants was coincident with an agreement on a new governance structure for the business which led to McLaren Racing Limited ceasing to be a subsidiary by virtue of the terms of the governance agreement.

The determination of the gain on this sale of a share in the subsidiary, required allocating the total proceeds between the debt and the equity components of the transaction. This allocation of the proceeds based on fair values involved the following key judgements and estimates:

- Determining the most appropriate basis for allocation of proceeds; and

- Determining the most appropriate methodology and market multiples to ascertain the equity value of McLaren Racing Limited.

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	**2020** **£000**	**2019** **£000**
Automotive	**615,301**	1,248,969
Racing (Prior to loss of control)	**322,715**	185,740
Applied	**33,594**	54,009
Corporate services	**86,532**	91,842
	1,058,142	1,580,560
Less inter-segmental turnover	**(286,482)**	(94,775)
	771,660	1,485,785

Notes to the financial statements *(continued)*

5. Segment information *(continued)*

An analysis of revenue by 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.

The inter-segmental turnover elimination is predominantly in relation to the central Corporate services function. In 2020 it also includes a transfer of Heritage car assets from McLaren Racing Limited to McLaren Services Limited at market value, which is eliminated on consolidation.

Analysis of turnover by category	**2020 £000**	**2019 £000**
Sales of goods	**613,839**	**1,245,426**
Rendering of services	**157,821**	**240,359**
	771,660	**1,485,785**

EBITDA by business segment	**2020 £000**	**2019 £000**
Automotive	**(3,812)**	263,059
Racing	**112,329**	(69,127)
Applied	**(14,966)**	(16,427)
Corporate services	**(139)**	4,391
Gain on sale of share in subsidiary	**21,070**	-
Elimination of heritage car transfer	**(163,595)**	-
	(49,113)	181,896

EBITDA is defined as profit before interest and taxes, adding back interest payable/receivable and similar charges and depreciation and amortisation. The interest added back excludes foreign exchange gains and losses apart from those resulting from the retranslation of the USD senior secured notes.

The elimination of heritage car transfer in 2020 is against the gain on sale recognised in the EBITDA of McLaren Racing for the transfer of heritage car assets to McLaren Services Limited at market value.

Notes to the financial statements *(continued)*

6. Operating profit/(loss) is stated after charging/(crediting)	2020 £000	2019 £000
Wages and salaries	**184,776**	222,004
Social security costs	**21,051**	23,838
Pension costs	**8,903**	8,434
Staff costs charged to profit and loss	**214,730**	254,276
Restructuring costs	**14,657**	4,896
Profit on disposal of fixed asset investment	**(1,262)**	-
(Profit)/loss on disposal of tangible assets	**(12)**	25
Depreciation of tangible assets	**29,635**	27,527
Amortisation of intangible assets	**206,381**	155,755
Amortisation of deferred capital funding	**(3,657)**	(3,657)
Impairment of intangible assets	**10,298**	-
Impairment of tangible assets	**2,464**	-
Impairment of trade receivables	**88**	732
Impairment of inventory	**5,350**	-
Inventory recognised as an expense	**269,048**	472,547
Coronavirus job retention scheme grant	**(19,834)**	-
Research & development tax credits	**(19,280)**	(20,166)
Other grants	**(4,103)**	(1,108)
Operating lease charges	**9,528**	8,211

Fees payable to the Company's auditors and its associates for the audit of the Company's and the Group's consolidated financial statements	**320**	123
Fees payable to the Company's auditors and its associates for other services:		
- The audit of the Company's subsidiaries	**630**	358
- Tax compliance services	**186**	66
Total amount payable to the Company's auditors and its associates	**1,136**	547

7. Employees and Directors

Group

Employees

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

	2020 Number	2019 Number
Production	**1,208**	1,646
Design & Engineering	**1,229**	1,367
Administration	**1,722**	1,456
	4,159	4,469

Notes to the financial statements *(continued)*

7. Employees and Directors *(continued)*

Directors

The Directors are considered to be the only Key Management Personnel of the Group. Details of transactions with Directors and members during the year are disclosed in note 30.

The directors' emoluments and highest paid director were as follows:

	2020 £000	2019 £000
Total emoluments	**1,994**	-
	1,994	-

Company

Employees

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

	2020 Number	2019 Number
Director	**1**	-
Administration	**4**	4
	5	4

Company

Employee costs

	2020 £000	2019 £000
Wages and salaries	**4,096**	3,525
Social security costs	**637**	497
Pension costs	**19**	28
	4,752	4,050

8. Net interest expense

	2020 £000	2019 £000
(a) Interest receivable and similar income		
Bank interest received	**55**	204
Total interest income on financial assets not measured at fair value through profit or loss	**55**	204
Net exchange gain	**14,757**	17,607
Total interest receivable and similar income	**14,812**	17,811

Notes to the financial statements _(continued)_

8. Net interest expense _(continued)_

	2020 £000	2019 £000
(b) Interest payable and similar expenses		
Interest payable on related party loans	**(2,055)**	(1,925)
Finance lease interest	**(540)**	(257)
Interest payable on bank loans and overdrafts	**(8,263)**	(3,237)
Interest payable on senior secured notes	**(41,324)**	(36,923)
Other interest payable and finance charges	**(8,225)**	(2,762)
Total interest expense on financial liabilities not measured at fair value through profit and loss	**(60,407)**	(45,104)
Change in fair value on Preference shares	**(310,650)**	-
Preference share dividend payable	**(40,387)**	-
Losses on derivative financial instruments	**(14,156)**	(26,723)
Total interest payable and similar expenses	**(425,600)**	(71,827)

	2020 £000	2019 £000
(c) Net interest expense		
Interest receivable and similar income	**14,812**	17,811
Interest payable and similar expenses	**(425,600)**	(71,827)
Net interest expense	**(410,788)**	(54,016)

The change in fair value of preference shares represents the increase in the preference share liability determined using an option pricing model. As explained in note 27, the key inputs into the model include the equity value of the group and the expected volatility of the underlying shares. The increase in the fair value is a result of the changes in the value of these key inputs between the date of issue and the valuation date, driven by internal and external factors including improved future cash flow projections for the Group and an increase in the equity value of comparable luxury automobile manufacturers.

9. Gain on sale of share in subsidiary

In December 2020, McLaren Racing Limited issued 12% unsecured Series A convertible loan notes and warrants for combined proceeds of £100M. This was the first tranche of a total committed investment of £185m, with the remaining £85m due in 2021 (£50m) and 2022 (£35m).

This issuance of loan notes and warrants was coincident with an agreement on a new governance structure for the business which led to McLaren Racing Limited ceasing to be a subsidiary by virtue of the terms of the governance agreement. The determination of the resultant gain on this sale of a share in the subsidiary required allocating the total proceeds of £100m between the debt (loan notes) and the equity (warrants) components of the transaction. This allocation of the proceeds based on fair values involved judgements and estimates as disclosed in note 4. The exercise resulted in £30m being allocated to equity and £70m being allocated to debt.

Notes to the financial statements *(continued)*

9. Gain on sale of share in subsidiary *(continued)*

The gain recorded in the consolidated financial statements was computed as follows:

Gain on sale of share in subsidiary	**2020 £000**
Proceeds allocated to the equity of McLaren Racing	**30,000**
Group's share of the above proceeds @78.95% being the group's retained interest in McLaren Racing (see note 1 below) - (A)	**23,685**
Carrying amount of net assets of McLaren Racing on the date of sale	**12,421**
Carrying amount of interest transferred being 21.05% share sold to the new investors (see note 1 below) – (B)	**2,615**
Gain on sale of share in McLaren Racing (A-B)	**21,070**

Note 1
Although not converted by 31 December 2020, the warrants issued under this transaction remain convertible at any time at the option of the warrant holders, for an exercise price of £0.01/warrant. Under the agreement, these confer the investors voting and dividend rights on an 'as-converted' basis and therefore, as at 31 December 2020, though the Group owned 100% of the issued equity, the investors in-substance were determined to hold a 21.05% share on a diluted basis.

10. Tax on loss

(a) Tax expense /(credit) included in profit or loss	**2020 £000**	**2019 £000**
Current tax:		
- UK corporation tax on loss for the period	**3,694**	3,355
- Foreign corporation tax on loss for the year	**3,778**	6,337
- Adjustments in respect of prior years	**256**	561
Total current tax	**7,728**	10,253

	2020 £000	**2019 £000**
Deferred tax:		
- Origination and reversal of timing differences	**(43,211)**	(8,527)
- Adjustments in respect of prior years	**(768)**	1,933
- Impact of change in tax rate	**(8,388)**	1,298
Total deferred tax (note 22)	**(52,367)**	(5,298)
Tax (credit)/charge on loss	**(44,639)**	4,955

Notes to the financial statements *(continued)*

10. Tax on loss *(continued)*

(b) Tax credit included in other comprehensive income/(expense)

Deferred tax:	**2020 £000**	2019 £000
- Origination and reversal of timing differences	**930**	(2,011)
Tax credit included in other comprehensive income/(expense)	**930**	(2,011)

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

The tax assessed for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £000	**2019 £000**
Loss before taxation	**(685,801)**	(29,157)
Loss before taxation multiplied by the standard rate of tax in the UK of 19% *(2019: 19%)*	**(130,302)**	(5,540)
Effects of:		
- Income not subject to tax	**(695)**	(695)
- Unrecognised deferred tax	**25,717**	552
- Expenses not deductible for tax purposes	**69,254**	5,422
- Impact of overseas tax rates	**467**	1,341
- Adjustments in respect of prior years	**(512)**	2,493
- Withholding tax suffered	**65**	84
- Tax incentives	**(245)**	-
- Re-measurement of deferred tax	**(8,388)**	1,298
Total tax (credit)/charge for year	**(44,639)**	4,955

(d) Tax rate changes

The current UK corporation tax rate is 19%. Deferred tax balances at 31 December 2020 are measured using tax rates and laws that have been enacted or substantively enacted by the period end that are expected to apply to the reversal of the timing difference.

The UK Finance Act 2016 included provisions for a reduction in the UK corporation tax rate to 17% with effect from 1 April 2020. On 11th March 2020 the UK Government announced that this would be reversed, and legislation was enacted. The main rate of corporation tax would be held at 19% for the financial year 2020. This change to the valuation of deferred tax assets has been recognised in 2020.

Further, in the March 2021 Budget Statement, the UK Government has stated that for companies with profits over £250,000 the rate of corporation tax will increase to 25% from April 2021. On the bases that McLaren has a significant number of trading losses that are expected to reverse after that date. The impact, which should amount to a benefit of £30m, will be reflected in the 2021 financial statements once this measure has received Royal Ascent.

Notes to the financial statements *(continued)*

11. Intangible assets

Group	New production development costs	IT systems development costs	Internally developed software	Other development costs	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost:					
At 1 January 2020	1,374,971	70,506	12,210	15,366	1,473,053
Additions	217,702	1,489	140	2,525	221,856
Reclassification	(9,488)	-	-	-	(9,488)
At 31 December 2020	**1,583,185**	**71,995**	**12,350**	**17,891**	**1,685,421**
Accumulated amortisation and impairment:					
At 1 January 2020	605,761	26,716	2,943	3,471	638,891
Charge for the year	196,212	7,269	996	1,904	206,381
Impairment	-	-	-	10,298	10,298
At 31 December 2020	**801,973**	**33,985**	**3,939**	**15,673**	**855,570**
Net book value:					
At 31 December 2020	**781,212**	**38,010**	**8,411**	**2,218**	**829,851**
At 31 December 2019	769,210	43,790	9,267	11,895	834,162

Research and development costs recognised as an expense in the year were £3,140k (2019: £3,637k)

New production development costs relate to expenditure on developing cars.

Reclassification includes assets under construction that are now in use and have been transferred to Tangible assets.

The impairment charge results from the reassessment of business strategy within McLaren Applied and relates to capitalised costs on projects that are no longer being pursued .

These assets are included within total assets which are offered as security against liabilities see note 19.

The Company had no intangible assets at 31 December 2020 (2019: £nil).

Notes to the financial statements *(continued)*

12. 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 2020	279,119	21,143	117,702	8,970	97,379	4,100	528,413
Additions	-	586	5,798	-	11,709	5,245	23,338
Disposals	-	-	(2,294)	-	(1,017)	-	(3,311)
Reclassification	-	9,538	226	-	606	(882)	9,488
Transfer to inventory	-	-	-	-	-	(100)	(100)
Derecognised on sale of share in subsidiary	-	(863)	(53,870)	(6,899)	(39,429)	(4,412)	(105,473)
Exchange adjustment	-	-	-	-	(11)	-	(11)
At 31 December 2020	**279,119**	**30,404**	**67,562**	**2,071**	**69,237**	**3,951**	**452,344**
Accumulated depreciation and impairment:							
At 1 January 2020	77,239	3,356	83,322	7,590	66,363	-	237,870
Charge for the year	5,945	1,425	13,316	413	8,536	-	29,635
Disposals	-	-	(2,294)	-	(1,017)	-	(3,311)
Impairments	-	-	-	-	-	2,464	2,464
Derecognised on sale of share in subsidiary	-	(615)	(42,205)	(6,896)	(24,828)	(129)	(74,673)
Exchange adjustment	-	-	-	-	(9)	-	(9)
At 31 December 2020	**83,184**	**4,166**	**52,139**	**1,107**	**49,045**	**2,335**	**191,976**
Net book value:							
At 31 December 2020	**195,935**	**26,238**	**15,423**	**964**	**20,192**	**1,616**	**260,368**
At 31 December 2019	201,880	17,787	34,380	1,380	31,016	4,100	290,543

The net carrying amount of assets held under finance leases included in plant, machinery, tools and equipment is £nil (2019: £465k) and within fixtures, fittings and office equipment is £5,560k (2019: £6,530k).

Freehold land and buildings includes land with a net book value of £26,089k (2019: £26,089k).

Reclassification includes Assets under construction that are now in use and have been transferred from Intangible assets into the correct asset classification, in order to be depreciated.

These assets are included within total assets which are offered as security against liabilities see note 19.

The Company had no tangible assets at 31 December 2020 (2019: £nil).

Notes to the financial statements *(continued)*

13. Heritage assets

McLaren Services Limited and McLaren Automotive Limited have a collection of heritage vehicles, made up of 37 racing cars, 4 F1 Road Cars, 7 historic vehicles, 6 spare F1 racing car monocoques, 2 P1™ vehicles and 2 McLaren Sennas. The collection is held at the McLaren Technology Centre and in secure storage.

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.

Group	**Historic Cars**
Cost and net book value:	**£000**
At 1 January 2020	55,665
Additions	233
Reclass from Inventory	1,427
Derecognised on sale of share in subsidiary	(23,170)
At 31 December 2020	**34,155**

Five year financial summary of heritage asset transactions:

	2020	**2019**	**2018**	**2017**	**2016**
	£000	**£000**	**£000**	**£000**	**£000**
Additions	**233**	**300**	317	1,649	225
Disposals:					
Carrying value	**23,170**	-	-	-	-
Sales proceeds	**-**	-	-	-	-

In 2020, disposals of Heritage assets with a carrying value of £825k (2019: £10,885k) were made from inventory. Preparation costs, recognised in cost of sales, were incurred of £806k (2019: £1,540k). Sales proceeds, recognised in turnover, on these disposals were £10,183k (2019: £19,154k).

These assets are included within total assets which are offered as security against liabilities see note 19.
The Company had no Heritage assets at 31 December 2020 (2019: £ nil).

Notes to the financial statements _(continued)_

14. Investments

Group

Investment in associates	**2020 £000**
At 1 January	**1,738**
Disposal of investment	**(1,738)**
At 31 December	**-**

On 18 December 2020, the 25% investment in EnMovi Ltd, was sold with proceeds of £3,000k received.

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

Investment in Joint Venture

As explained in note 9, the issuance of loan notes and warrants by McLaren Racing was coincident with an agreement on a new governance structure for the business. Under the revised structure, the Group and the investors were determined to have joint control over the relevant activities of McLaren Racing making it a joint venture for the Group and, therefore, subject to equity method accounting.

The cost of the joint venture on initial recognition and as at 31 December 2020 was computed as follows:

	2020 £000
Group's share (78.95%) of the carrying amount of McLaren Racing's net assets on the date of disposal	**9,807**
Group's share (78.95%) of the proceeds in McLaren Racing allocated to equity (refer note 9)	**23,685**
Cost of the joint venture on initial recognition	**33,492**
Group's share (78.95%) of the losses of the joint venture	(886)
Cost of joint venture at 31 December 2020	**32,606**

Company

Investment in subsidiary

	2020 £000	**2019 £000**
At 1 January	**205,251**	152,119
Additions	**440,659**	53,132
At 31 December	**645,910**	205,251

On the 4th March 2020, McLaren Holdings issued 566,498 shares to McLaren Group Limited for £130,000k.

Notes to the financial statements *(continued)*

14. Investments *(continued)*

On the 24th March 2020 McLaren Holdings issued 700,102 shares to McLaren Group Limited for £160,659k.

On 28th July 2020 McLaren Holdings issued 653,651 shares to McLaren Group Limited for £149,999k.

The company had no associates at 31 December 2020 (2019: £nil)

15. Inventories

Group

	2020 £000	2019 £000
Raw materials and consumables	**57,174**	58,284
Work in progress	**21,985**	51,252
Finished goods and goods for resale	**33,614**	42,120
	112,773	151,656

The Company had no inventories at 31 December 2020 (2019: £nil).

16. Debtors

	Group		Company	
	2020 £000	**2019 £000**	**2020 £000**	**2019 £000**
Trade debtors	**149,012**	201,872	**-**	-
Amounts owed by Joint Venture	**423**	-	**-**	-
Amounts owed by Group undertakings	**-**	-	**13,167**	18,749
Amounts owed by related parties (note 30)	**3,201**	1,757	**-**	-
Taxation and social security	**7,490**	24,709	**492**	57
Other debtors	**16,491**	30,151	**-**	-
Deferred tax asset (note 22)	**118,145**	83,089	**1,647**	569
Derivative financial assets (notes 24 and 25)	**16,734**	12,872	**-**	-
Prepayments and accrued income	**26,162**	42,305	**106**	139
	337,658	396,755	**15,412**	19,514

Group

Trade debtors are stated after provisions for impairment of £424k (2019: £779k).

Trade debtors balances falling due after more than one year is nil (2019:£nil).

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

Notes to the financial statements *(continued)*

16. Debtors *(continued)*

Company

Amounts owed by Group undertakings include business transactions, under normal commercial terms and conditions, and Group loans. £5,924k (2019: £9,992k) of the Group loans attract interest at 5.3%, are unsecured and due after more than one year (repayable in July 2023). £6,542k (2019: £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).

17. Creditors: amounts falling due within one year

	Group		Company	
	2020 £000	**2019 £000**	**2020 £000**	**2019 £000**
Bank loans and overdraft (note 19)	**68,899**	-	**-**	-
Obligations under finance leases (note 19)	**1,945**	2,709	**-**	-
Trade creditors	**61,398**	101,638	**-**	-
Amounts owed to Joint Venture	**2,133**	-	**-**	-
Amounts owed to Group undertakings	**-**	-	**963**	284
Amounts owed to related parties (note 30)	**150,000**	516	**150,000**	-
Other creditors	**111,370**	223,115	**-**	-
Taxation and social security	**6,659**	13,010	**224**	618
Derivative financial liabilities (note 24 and 25)	**2,784**	8,961	**-**	-
Accruals and deferred income	**208,412**	397,574	**1,739**	503
	613,600	747,523	**152,926**	1,405

Other Creditors includes £63,713k (2019: £156,061k) of Trade Finance which is used to support wholesales to McLaren retailers. The total facility available is up to US$220,000k or equivalent, at an interest rate of LIBOR plus the difference between LIBOR and the bank's funding rate plus a margin of 1.125%. A Trade Credit Insurance Facility covers 95% of the Trade Finance balance.

Group and 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.

Amounts owed to related parties are unsecured loans. The loan relates to the National Bank of Bahrain, an associate of the ultimate parent company Bahrain Mumtalakat Holdings, and attracts interest at 3.25% which is settled quarterly. The loan is repayable in June 2021.

Notes to the financial statements *(continued)*

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

	Group		Company	
	2020 £000	**2019 £000**	**2020 £000**	**2019 £000**
Senior secured notes (note 19)	**613,576**	613,857	**-**	-
Obligations under finance leases (note 19)	**3,308**	4,286	**-**	-
Cumulative compulsorily convertible preference shares of £0.01 each (note 27)	**688,350**	-	**688,350**	-
Amounts owed to related parties (note 30)	**-**	37,098	**-**	37,098
Derivative financial liabilities (note 24 and 25)	**1,659**	2,009	**-**	-
	1,306,893	657,250	**688,350**	37,098

As at 31 December 2020 the Group's subsidiaries had a £130,000k, (2019: £130,000k) 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.

19. Loans and other borrowings

	Group		Company	
	2020 £000	**2019 £000**	**2020 £000**	**2019 £000**
Bank loans and overdraft	**68,899**	-	**-**	-
Senior secured notes	**613,576**	613,857	**-**	-
Obligations under finance leases	**5,253**	6,995	**-**	-
Preference Shares	**688,350**	-	**688,350**	-
Amounts owed to related parties	**150,000**	37,098	**150,000**	37,098
	1,526,078	657,950	**838,350**	37,098

The revolving credit facility and senior secured notes are secured by way of a fixed and floating charge over the total assets of McLaren Holdings Limited and its subsidiaries unless designated as unrestricted. McLaren Racing and its subsidiaries are designated as unrestricted.

Bank loans and overdraft

The Group's financing facility includes a revolving credit facility (RCF) of £130,000k. The balance available to draw is reduced by £23.2m of issued guarantees, and the overdraft available of £40,000k. .At 31st December 2020 there was no bank overdraft drawn (2019: £nil), and the RCF was drawn £68,899k (2019: £130,000k available, drawn £nil) with a final maturity date of January 2022. Interest is charged at Libor plus 3.75% on the drawn down amount.

Notes to the financial statements *(continued)*

19. Loans and other borrowings (continued)

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:

	2020 £000	2019 £000
Not later than one year	**2,291**	3,036
Later than one year and not later than five years	**3,526**	4,657
Total gross payments	**5,817**	7,693
Less finance charges	**(564)**	(698)
Carrying amount of liability	**5,253**	6,995

The finance leases primarily relate to IT equipment and data storage systems

Total commitments relating to the Joint Venture which are not included in the consolidated numbers equate to £4,533k.

Amounts owed to related parties

Amounts owed to related parties are unsecured loans. £150,000k of the loans relates to the National Bank of Bahrain, an associate of the ultimate parent company Bahrain Mumtalakat Holdings, and attracts interest at 3.25% which is settled quarterly. The loan is repayable in June 2021.

20. 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	**2020**	**2019**
	£000	**£000**
Current year contributions	**8,903**	8,434

Company	**2020**	**2019**
	£000	**£000**
Current year contributions	**19**	28

Notes to the financial statements *(continued)*

21. Provisions for liabilities

Group	Dilapidations Provision	Product Warranty Provision	End of Contract Provision	Restructuring Provision	Other Provisions	Total
	£000	£000	£000	£000	£000	£000
At 1 January	1,712	22,272	1,200	-	1,612	26,796
Additions	48	34,955	8,927	14,656	-	58,586
Amounts utilised	(30)	(30,395)	-	(9,853)	(1,339)	(41,617)
Unused amount reversed to profit and loss	-	(1,592)	-	-	-	(1,592)
Reclass to interest in Joint Venture	-	-	-	(1,618)	-	(1,618)
At 31 December	**1,730**	**25,240**	**10,127**	**3,185**	**273**	**40,555**

Dilapidations provision

The dilapidations provision 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 the passage of time is recognised as a finance cost. The provision is expected to be utilised between 2021 and 2038.

Product Warranty provision

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.

It is estimated that £14,946k of the provision will be utilised within 12 months.

End of Contract provision

The provision is for the Groups obligation to provide a residual value guarantee to the finance provider on the Personal Contract Purchase (PCP) arrangements between the retailers and customer. The provision covers estimated losses on these contracts based on the contractually agreed residual value between the Group and the bank, and the forecast resale price for a used vehicle. The provision is expected to be utilised over the length of the lease which is usually 3 years but is adjusted quarterly for new cars sold and market conditions.

Restructuring provision

The group announced its intention to streamline its operations in the UK. While all sites remain operational, the group announced its intention to make 1,200 employees redundant. During the year, 818 employees were made redundant, utilising part of the provision. The remaining employees will be paid in 2021 as their employment is terminated.

Other provisions include various legal matters where the outcome is not certain and has been estimated.

The Company had £225k provision for liabilities, relating to restructure, at 31 December 2020 (2019: £nil). These are expected to be fully utilised in 2021.

Notes to the financial statements *(continued)*

22. Deferred tax asset

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

	Group		Company	
	2020 £000	**2019 £000**	**2020 £000**	**2019 £000**
Depreciation in excess of capital allowances	**4,703**	2,969	**-**	-
Revaluation of heritage assets	**(5,700)**	(9,074)	**-**	-
Financial instruments	**899**	1,005	**-**	-
Other timing differences	**5,302**	2,533	**-**	-
Tax R&D incentives	**10,318**	18,630	**-**	-
Losses carried forward	**102,623**	67,026	**1,647**	569
	118,145	83,089	**1,647**	569

The movement in net deferred tax assets is reconciled as follows:

	£000
At 1 January 2020	83,089
Add: net deferred tax credit for the year recognised	
In income statement (note10)	52,367
Less: deferred tax charge recognised in other comprehensive income	(930)
Less: amounts relating to McLaren Racing derecognised on sale of a share in subsidiary	(16,381)
At 31 December 2020	**118,145**

The Group deferred tax assets expected to reverse in 2021 total £850k (2019: £5,200k). This primarily relates to fixed asset timing differences and losses carried forward.

At 31 December 2020 the Group has losses amounting to £977k (2019: £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.

There are also £7,500k (2019: £6,300k) of unrecognised trade losses in respect of overseas locations where recovery is not certain. Further, there are £Nil (2019: £1,700k) of unrecognised UK trade losses where it is not probable that taxable profits will be available against which they can be utilised.

The Company has £Nil (2019: £110k).

Notes to the financial statements *(continued)*

23. Deferred capital funding

Group	**2020**	**2019**
	£000	**£000**
Cost and net book value:		
At 1 January	**96,493**	100,150
Amortisation credit for the year	**(3,657)**	(3,657)
At 31 December	**92,836**	96,493

Deferred capital funding is capital based funding received for the construction of the McLaren Technology Centre.

24. Financial instruments

The Group has the following financial instruments:	**Group**	
	2020 **£000**	**2019** **£000**
Financial assets measured at fair value through profit or loss		
- Derivative financial assets (notes 16 & 25)	**16,734**	12,872
Financial assets that are debt instruments measured at amortised cost		
- Trade debtors (note 16)	**149,012**	201,872
- Amounts owed by related parties (note 16)	**3,201**	1,757
- Other debtors (note 16)	**16,491**	30,151
- Accrued income (note 16)	**12,957**	17,877
	198,395	264,529
Financial liabilities measured at fair value through profit or loss		
- Derivative financial liabilities (notes 17, 18 and 25)	**4,443**	10,970
- Preference shares (notes 4,18 and 27)	**688,350**	**-**
Financial liabilities measured at amortised cost		
- Bank Loan (note 17)	**68,899**	**-**
- Senior secured notes (note 18)	**613,576**	613,857
- Finance leases (notes 17 and 18)	**5,253**	6,995
- Trade creditors (note 17)	**61,398**	101,638
- Amounts owed to related parties (note 17,18 and 30)	**150,000**	37,614
- Other creditors (note 17)	**111,370**	223,115
- Accruals (note 17)	**143,237**	245,334
	1,846,526	1,239,523

Notes to the financial statements *(continued)*

25. Derivative financial instruments

Group	Current		Non-current	
	2020 £000	**2019 £000**	**2020 £000**	**2019 £000**
Assets				
Forward foreign currency contracts	**12,298**	8,050	**4,436**	4,822
Liabilities				
Forward foreign currency contracts	**(2,784)**	(8,961)	**(1,659)**	(2,009)
	9,514	(911)	**2,777**	2,813

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

At 31 December 2020, the outstanding contracts mature out to December 2022.

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 2020 (2019: £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	
	2020	**2019**	**2020 £000**	**2019 £000**	**2020 £000**	**2019 £000**
Sell						
USD	**1.312**	1.3098	**373,131**	451,593	**13,488**	6,754
JPY	**138.9865**	140.7696	**52,595**	62,656	**565**	843
CNY	**8.9242**	9.0332	**26,557**	98,486	**127**	2,117
AUD	**1.8360**	1.8576	**10,316**	26,625	**(164)**	433
EUR	**1.099**	1.1175	**216,972**	284,570	**(1,725)**	(8,245)
					12,291	1,902

Notes to the financial statements *(continued)*

25. Derivative financial instruments *(continued)*

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 £14,156k (2019: Losses of £26,723k) were recognised in profit or loss in 2020.

26. Called up share capital

Group and company

Ordinary shares of £0.01 each	**2020 No.**	**2020 £000**	**2019 £000**
Allotted and fully paid:			
At 1 January	**8,888,135**	**89**	87
Shares issued in the year	**-**	**-**	2
At 31 December	**8,888,135**	**89**	89

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

27. Convertible Preference shares

Preference shares of £0.01 each	**2020 £000**
Allotted and fully paid:	
At 1 January	**-**
Issued during the year	**337,313**
Fair value adjustment	**310,650**
Payment in kind dividend accrued	**40,387**
At 31 December	**688,350**

The preference shares are classified as liabilities in the balance sheet.

The issued value in the year includes cash received of £290,659k, the conversion of shareholder loans of £39,153k and £7,500k issued as settlement of costs.

Each preference share accrues a fixed cumulative dividend at 15% per annum on the issue price, accruing on a daily basis and compounds every 6 months. The distribution shall be settled in lieu of payment by other means, including cash, by way of a bonus issue on conversion date.

The preference shares do not confer any further right of participation in the profits of the Company and are subject to restrictions on the declaration of distributions imposed by law.

Notes to the financial statements *(continued)*

27. Convertible Preference shares *(continued)*

On a return of capital on liquidation or otherwise, the surplus assets of the Company remaining after payment of its liabilities shall be applied to the Preference Shareholders in preference to the Ordinary Shareholders at a value equal to the formula driven conversion rate on the date of the capital return or liquidation event, and thereafter the remaining assets of the Company shall be applied to the Ordinary Shareholders in proportion to their respective holdings of Ordinary Shares.

An Option Pricing Model has been used to value the Preference shares. This requires the following inputs:

Equity Value

The equity value has been derived using a discounted cash flow approach based on board approved cash flow projections up to 2025. The main assumptions used in the valuation were:

- For terminal years, revenue is increased by 2% based on GDP deflator data and an allowance for short term growth.
- Expenses are expected to be the same % of revenue in 2025.
- Tax is assumed at 19%.
- For the terminal year, the change in working capital is calculated using the average % change in revenue for the years 2021-2025, then applied to the change in revenue into the terminal period.
- For the terminal year, capital expenditure is based on an estimated long term sustainable level of required investment.

The discount rate applied is the weighted average cost of capital derived using appropriate inputs based on external sources and comparable companies. Taking a low and high equity risk premium based on different external sources, this resulted in a range between 9.5% and 10.75%. The value of preference shares at these extreme levels fluctuates between £669.9m and £706.8m.

Term to exit

A term to exit has been assumed in line with the mandatory conversion term of the preferred shares per the Articles of Association. It is assumed no other triggering events (sale or special resolution) will occur prior to this.

Risk free rate

A UK risk free rate of 0.1% with a maturity of 4 years 2 months (consistent with the time to exit).

Volatility

Estimated based on global automotive manufacturers observed volatility, taking into consideration the Group’s specific characteristics.

The model is most sensitive to volatility, and the valuation chosen is based on the mid-point in the range of comparable benchmarks from other global automotive manufacturers. The value of preference shares at these extreme levels fluctuates between £669.9m and £706.8m.

Notes to the financial statements _(continued)_

28. Consolidated statement of cash flows

Reconciliation of loss to net cash flow from operating activities

	2020 £000	2019 £000
Loss for the financial year	**(641,162)**	(34,112)
Adjustments for:		
Tax on loss	**(44,639)**	4,955
Net interest expense	**410,788**	54,016
Profit on sale of share in subsidiary	**(21,070)**	-
Operating (loss)/profit	**(296,083)**	24,859
Depreciation and amortisation charges	**232,359**	179,625
Interest in joint venture	**886**	-
Impairment of assets	**12,762**	-
Increase in heritage assets	**(233)**	(300)
Realised net exchange loss	**(10,286)**	(28,455)
Decrease in stocks and work in progress	**1,329**	6,557
Decrease/(increase) in debtors	**85,140**	(99,306)
(Decrease)/increase in creditors	**(293,787)**	135,118
Decrease in amounts owed to related parties	**(1,960)**	(967)
(Decrease)/increase in provisions	**15,377**	18,383
Trade receivables impairment losses	**355**	158
(Profit)/loss on disposal of fixed assets	**(1,274)**	25
Decrease in amounts relating to joint venture	**38,791**	-
Cash (used in)/from operations	**(216,624)**	235,697

Non-cash transactions

During the year £745k (2019: £6,329k) 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, £2,097k (2019: £2,633k) in new tangible assets were acquired but not settled, with amounts owing to third parties at year end reflected in trade creditors and accruals.

In addition to preference shares issued for cash, £39,153k was issued on conversion of shareholder loans and £7,500k was issued as settlement of costs.

Notes to the financial statements *(continued)*

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

Analysis of changes in net debt

	At 1 January	*Cash flows*	*New finance leases*	*Fair value & exchange movements*	*Non-Cash changes*	*At 31 December*
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cash and cash equivalents	56,252	10,966	-	(434)	-	66,784
Revolver loan	-	(68,899)	-	-	-	(68,899)
Senior loans	(613,857)	-	-	7,946	(7,665)	(613,576)
Finance Leases	(6,995)	2,487	(745)	-	-	(5,253)
Preference shares	-	(290,659)	-	(310,650)	(87,041)	(688,350)
Amounts owed to related parties	(37,098)	(150,000)	-	-	37,098	(150,000)
Total	**(601,698)**	**(496,105)**	**(745)**	**(303,138)**	**(57,608)**	**(1,459,294)**

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

29. 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	**2020 £000**	**2019 £000**
Payments due:		
Not later than one year	**8,351**	10,234
Later than one year and not later than five years	**24,306**	22,745
Later than five years	**34,248**	36,321
	66,905	69,300

The lease payments include £216k relating to interests in Joint venture.

The Group also has an irrevocable Letter of Credit issued in favour of Ally Financial by McLaren Automotive and the credit for this reduces the funding available under our revolving credit facility. The balance at 31 December 2020 was $27,500k (2019: $22,000k).

The Company had no financial commitments at 31 December 2020 (2019: £nil).

Notes to the financial statements *(continued)*

30. Related party transactions

Transactions with related companies during the year were as follows:

Group	Year ended 31 December 2020 £000	Balance outstanding at 31 December 2020 £000	Year ended 31 December 2019 £000	Balance outstanding at 31 December 2019 £000
Sales to related parties				
Directors	**5,036**	**3,201**	1,755	1,755
Directors of subsidiaries	**164**	**-**	199	2
McLaren Racing	**423**	**423**	-	-
Repayment of loan by related parties:				
McLaren Racing	38,791	**-**	-	-
Amounts owed by related parties at 31 December		**3,624**		1,757
Split by:				
Amounts owed by related parties due < 1 year		**3,624**		1,757
Amounts owed by related parties due > 1 year		**-**		-
		3,624		1,757

Notes to the financial statements *(continued)*

30. Related party transactions *(continued)*

Group	Year ended 31 December 2020 £000	Balance outstanding at 31 December 2020 £000	Year ended 31 December 2019 £000	Balance outstanding at 31 December 2019 £000
Purchases from related parties				
TAG Automotive Limited	**-**	**-**	154	-
Bahrain Mumtalakat Holding Company	**-**	**-**	20	14
Directors	**-**	**-**	773	502
McLaren Racing	**2,133**	**2,133**	-	-
Loans from related parties:				
National Bank of Bahrain (note 18)	**150,000**	**150,000**	-	-
National Bank of Bahrain – interest on loan	**2,456**	**-**	-	-
Receipt/(settlement) of loans from shareholders:				
Bahrain Mumtalakat Holding Company	**(27,843)**	**-**	-	27,843
TAG Automotive Limited	**(9,255)**	**-**	-	9,255
Preference shares issued to shareholders*				
Bahrain Mumtalakat Holding Company	**229,465**	**229,465**	-	-
TAG Automotive Limited	**48,879**	**48,879**	-	-
Nidala (BVI) Limited	**33,297**	**33,297**	-	-
Favorita Limited	**17,725**	**17,725**	-	-
Acanitt Limited	**7,947**	**7,947**	-	-
Amounts owed to related parties at 31 December		**489,446**		37,614
Split by:				
Amounts owed to related parties due < 1 year		**152,133**		516
Amounts owed to related parties due > 1 year		**337,313**		37,098
		489,446		37,614

The Loans from shareholders were converted to preference shares during 2020.

Notes to the financial statements *(continued)*

30. Related party transactions *(continued)*

Company	Year ended 31 December 2020 £000	Balance outstanding at 31 December 2020 £000	Year ended 31 December 2019 £000	Balance outstanding at 31 December 2019 £000
Loans from related parties:				
National Bank of Bahrain (note 18)	**150,000**	**150,000**	-	-
National Bank of Bahrain – interest on loan	**2,456**	-	-	-
Loans from shareholders:				
Bahrain Mumtalakat Holding Company	**(27,843)**	-	-	27,843
TAG Automotive Limited	**(9,255)**	-	-	9,255
Preference shares issued to shareholders*				
Bahrain Mumtalakat Holding Company	**229,465**	**229,465**	-	-
TAG Automotive Limited	**48,879**	**48,879**	-	-
Nidala (BVI) Limited	**33,297**	**33,297**	-	-
Favorita Limited	**17,725**	**17,725**	-	-
Acanitt Limited	**7,947**	**7,947**	-	-
Amounts owed to related parties at 31 December		**487,313**		37,098
Split by:				
Amounts owed to related parties due < 1 year		**150,000**		-
Amounts owed to related parties due > 1 year		**337,313**		37,098
		487,313		37,098

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

*Note this represents the face value of the preference shares issued and therefore excludes the movements during the year on accounting at fair value through profit and loss.

31. Ultimate controlling party

Ownership of McLaren Group Limited at 31 December 2020 was as follows: 56.30% Bahrain Mumtalakat Holding Company, 14.30% TAG Automotive 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.

Notes to the financial statements *(continued)*

32. Events after the end of the reporting period

Executive change

McLaren Group announced on 22nd January 2021 the appointment of Kate Ferry as Group Chief Financial Officer, effective 1 April.

Kate was previously Chief Financial Officer of TalkTalk PLC, leading the transformation of the company and its agreement to be taken private. Prior to joining TalkTalk in 2017 she was a member of the Dixons Carphone PLC Executive Committee. She also serves as an Independent Non-Executive Director of Greggs PLC, where she is Chair of the Audit Committee.

At McLaren, Kate will lead the Group's financial strategy and investor relations, as well as supporting the broader strategic development of the company under the leadership of Executive Chairman Paul Walsh.
She will also direct the company's planned equity raise and debt financing, a process which has commenced.

Sale and Leaseback transaction

In April 2021, the Group announced it had entered into a Sale & Leaseback transaction with Global Net Lease to sell the McLaren Technology Centre and McLaren Production Centre for proceeds of £170.0m, entering into a 20 year lease.

33. 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**
Incorporated in the UK:		
McLaren Applied Limited	Engine management systems design and manufacture, and application of technologies within the Group	100%
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 Services Limited	Managed services	100%
McLaren Support Services Limited	Managed services	100%

Notes to the financial statements *(continued)*

33. Subsidiaries and related undertakings *(continued)*

Name	Principal activity	Holding ordinary share capital
Incorporated overseas:		
McLaren Applied Inc, incorporated in the United States of America	Marketing and sales of McLaren Applied Limited products	100%
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 in China	Sports car retailer	100%
McLaren Automotive Europe S.LU incorporated in Spain	Maintenance and repair of motor vehicles	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.

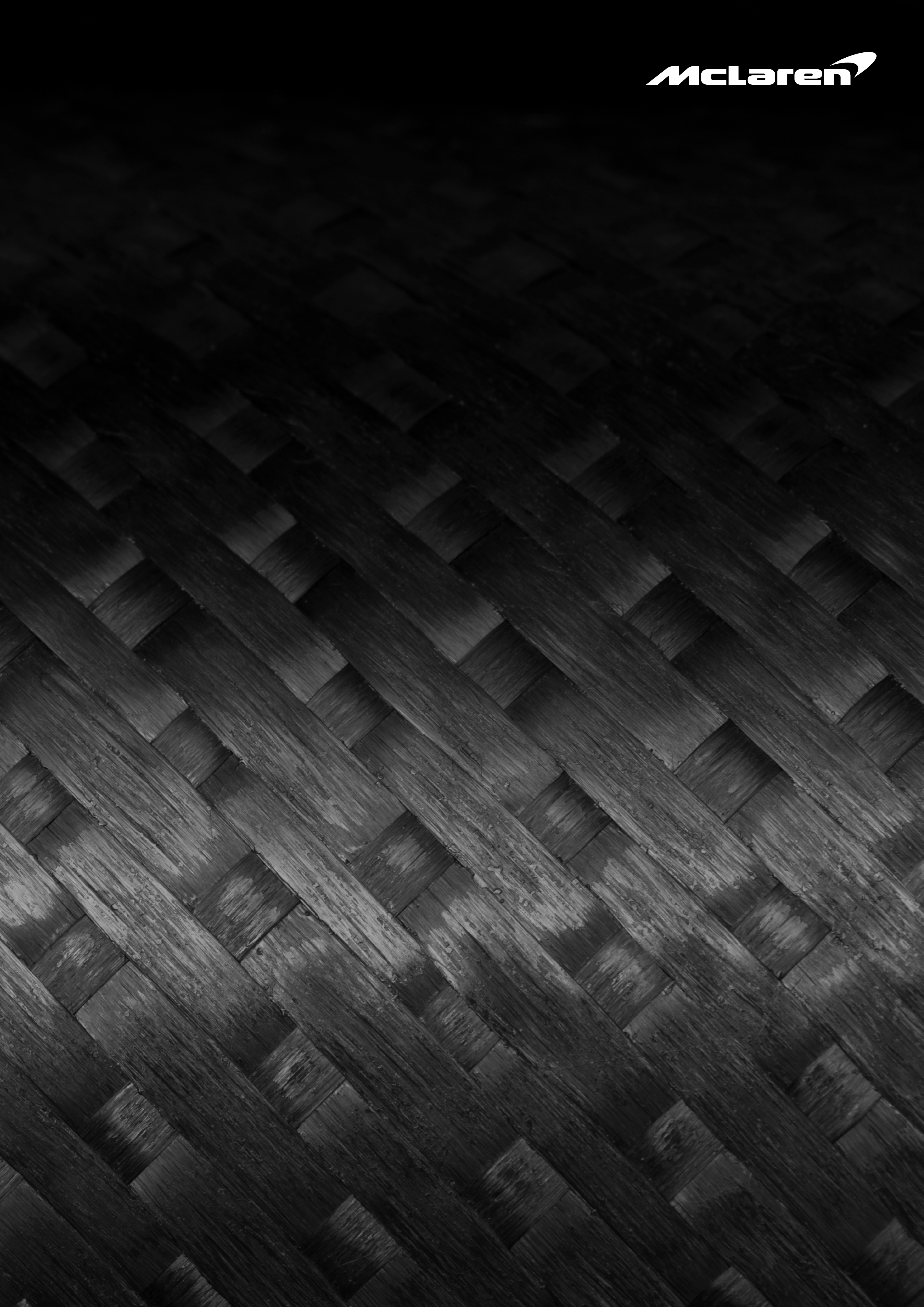
McLaren Automotive Europe S.L.U registered office is Poligono Industrial de L'arbornar, S/N, Santa Oliva 43710, Tarragona.

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.

All the above subsidiaries are included in the consolidation. The company’s investment in McLaren Holdings Limited is direct ownership, all other investments are indirect ownership.

McLaren Racing Limited and its subsidiaries, McLaren Triple Crown Limited, McLaren Marketing Limited and Team McLaren Limited, were 100% owned subsidiaries as at 31 December 2019. These are now joint ventures with the company enjoying a beneficial ownership of 78.95%


McLaren