McLaren Holdings Limited

Annual report and consolidated financial statements

Registered number 10756310

31 December 2021

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Strategic Report

McLaren Holdings Limited alongside its subsidiaries and joint ventures (the "Group") is a global leader in luxury automotive, high-performance supercars and related products, and motorsports. During the period under review the Group constituted three operating divisions being the wholly owned Automotive and Applied businesses, alongside the Group's joint venture investment in McLaren Racing. Applied and the investment in Racing were both sold in August 2021.

With its heritage in the McLaren Racing business, McLaren Automotive launched its first products in 2011 starting with the MP4 12C and today is a global leader in high performance supercars. It is an award-winning luxury brand focused on the design, engineering, production and sale of luxury supercars with a particular focus on the driving experience achieved through performance and advanced technologies. The Group has a range of luxury high performance supercars across four product families: GT, Supercars, Ultimate and Motorsport, and has produced ground-breaking cars such as the iconic McLaren P1™, Senna, Speedtail and Elva.

The business has established its position in the market through developing a reputation for creating cars that have exceptional performance, spectacular design, cutting-edge technology, and an outstanding driving experience that is combined with unique customer propositions and experiences, driving strong brand loyalty, demand and pricing power. As part of the unique customer experience, the Group offers highly personalised "tailormade" products through its MSO (McLaren Special Operations) subdivision, such as the bespoke customisation of each vehicle according to the customers' specifications.

The Applied division was disposed of by the Group in August 2021 but had focused on the application of McLaren's technological know-how and was a supplier of electronic components and software to Formula 1, NASCAR, IndyCar and Formula E.

The Racing business, founded in 1963 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. The Group secured an investment in McLaren Racing from a consortium of investors in December 2020. The investment was in the form of convertible loan notes and warrants. Although the Group still owned a majority share of the issued capital of Racing, due to other factors in the framework governance agreement McLaren Racing was reported as a joint venture and subject to equity method accounting. The investment in Racing was sold by the Group to its parent company in August 2021.

Business Review

Automotive

As was the case for many businesses, 2020 was a challenging year for the Group due to COVID-19. The impact of the pandemic was initially felt towards the end of Q1 2020 with supply chain issues and dealer closures in certain regions. From Q2 onwards operations were affected by component availability issues and production and development facility closures, as well as the closure of most retailers around the world, curtailing the Group's ability to deliver new vehicles. However, performance during 2021 reflects a strong recovery from 2020, with significant contributions from premium restricted-volume vehicles including the Elva and the 765LT. Retail volumes were down on prior year with 2,673 units (2020: 2,831) being sold in 2021.

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Wholesale volumes by region were:

Region	2021 Units	2020 Units	YoY
Europe	473	500	-5%
North America	883	595	48%
Asia Pacific	412	271	52%
China	240	182	32%
Rest of World	130	111	17%
Global	**2,138**	**1,659**	**29%**

In March 2020, the Group launched the lighter, more powerful and track-focused 765LT to critical acclaim. Like previous LT models, production numbers were limited with all 765 units selling out despite the COVID-19 pandemic. It went into production in Q3 2020 and we have continued to deliver these in 2021 driving strong volumes in the supercar segment.

We commenced sales of our latest Ultimate vehicle, the Elva, in H2 2020 and it has made a strong contribution to 2021. This vehicle, with its exceptional performance and unique, thrilling driving experience has created excitement in the market. This iconic windscreen-less hypercar, with its innovative air deflection technology, allows drivers to experience the full thrill of an F1 car, but in a road-legal package. In 2021 an option was launched for customers to order an Elva with a windscreen, with sales of this variant commencing in H2 2021. As a limited run model, sales are expected to cease from mid 2022.

The Artura was revealed in February 2021 and is McLaren's first high performance hybrid supercar to be launched on our new lightweight carbon vehicle architecture. It is a plug-in hybrid, capable of up to 30km of emission-free driving and is the first application of the new McLaren Carbon Lightweight Architecture and Ethernet electrical architecture. The impact of industry-wide semiconductor shortages and COVID-19, alongside delivering the extent of new design and technology in the Artura, has meant that customer deliveries have been delayed from 2021 and are now expected to commence mid-2022.

In July 2021 the new 765LT Spider was launched. The 765LT Spider is another example of McLaren's super-lightweight engineering expertise, adhering to the LT principle of minimising weight, being 80kg lighter than a 720S Spider and around 100kg lighter than its closest comparable competitor. Production numbers are limited to 765 units which have now all been allocated.

During the first half of 2021 the business had been largely able to successfully manage the global supply shortage of semiconductors. However in H2 production and wholesale volumes were adversely impacted as a result of limited supply. It is expected that semiconductor shortages will continue throughout 2022, but especially in the first half of the year. The Group is engaging with a number of component suppliers and producers to secure long term supply agreements to minimise future supply risks.

Racing

The Group's joint venture investment in Racing was disposed of in August 2021, and below provides a business review for the period up until disposal.

Following the much-delayed 2020 season, 2021 saw a more complete season with 22 races planned over the year. The business moved to a Mercedes engine for the 2021 season, and Daniel Ricciardo joined the team to race alongside Lando Norris. The team had a strong start to the season which clearly illustrated the

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continued recovery of the on-track performance of the team. Prior to the disposal of the business Lando had achieved three podium finishes.

Off the track, sponsorship income continued to perform strongly, with the on-track success of the team translating into increased interest from both existing and new partners. The business has also been able to develop further opportunities and revenue growth by leveraging its brand and technical know-how. The third-place finish in the 2020 season and the full calendar in 2021 enabled the business to grow its prize money revenue year-on-year.

As only limited modifications were permitted for the 2021 season, cars were largely carried over from 2020, which enabled the business to constrain its car spend during the year. However with a full race season run in 2021 and the growth in sponsorship income driving associated operating costs, it meant that there was some cost growth year-on-year.

The 2021 season saw the implementation of new financial regulations to all F1 teams. The financial regulations included a cost cap of $145m – McLaren supports these regulations and met its requirements in 2021. These regulations are expected to support the business meet its medium to long-term financial objectives.

McLaren had a very successful season in IndyCar during 2021. Prior to the disposal of the business McLaren SP's driver Pato O'Ward achieved race victories at both Texas and Detroit, as well as two podium finishes.

Sale and Leaseback

In April 2021, the Group announced that it had completed the sale of its global headquarters for net consideration of £167.8m. As part of the transaction, the Group agreed a 20-year lease whereby the site will remain the Group's headquarters. Following the completion of the sale and leaseback, the Group used a portion of the proceeds to repurchase £85m of senior secured notes in June 2021.

Issue of preference shares and refinancing

In August 2021 the Group's parent, McLaren Group Limited, completed a £550m fund raise to strengthen its capital structure and support long-term growth plans. New investors, most notably being funds managed by the Private Equity and Credit Groups of Ares Management Corporation and Public Investment Fund of the Kingdom of Saudi Arabia, invested a total of £400m in McLaren Group Limited in the form of preference shares and equity warrants, bringing capital as well as financial and strategic expertise to the Group. Existing shareholders alongside a limited number of new private investors, invested a total of £150m in the form of convertible preference shares.

Following the above equity raise, McLaren Group Ltd purchased the Group's investment in McLaren Racing as well as certain heritage assets, and subscribed for ordinary share capital in the Company, resulting in a cash inflow of £371.0m into the Group.

In August 2021, the Group raised USD$620m through the issue of 7.5% senior secured notes, with a maturity date of August 2026 and entered into a new revolving credit facility with initial commitments of £95m. The Group used the proceeds described above to redeem and repurchase the outstanding existing senior secured notes due in 2022, repay and cancel the existing £130m revolving credit facility under which £68.9m was drawn and add cash to the Group's balance sheet. Further information is detailed in the going concern section of the Directors' Report.

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Sale of Applied business

On 4 August 2021, following a strategic review of the Group's structure, the Group completed the sale of its Applied business division, focusing the Group's activities on supercar manufacturing. The loss on disposal recognised was £33.3m.

Intangible investment

The Group continued to invest in new products and services, investing £156m in 2021. The majority of this was invested in new road car projects including new Ultimate and Super Series models. The spend includes development of Artura, being the first vehicle to be based on the all-new architecture alongside other future models under development.

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	2021 £m	2020 £m	YoY
Turnover	610.4	771.6	-21%
EBITDA (Note 5)	179.7	(43.9)	509%
Loss before tax	(67.5)	(318.3)	79%
Cash	76.7	66.7	15%
Cash flow	10.1	11.0	-8%

Turnover

- Rationale: The ability to deliver and grow revenue is an important measure of a business's appeal to customers and its competitive position in the market in which it operates.
- Performance: Turnover was down in 2021 due to the results of Racing not being consolidated by the Group and the sale of Applied in 2021.

EBITDA / Loss before tax

- Rationale: Delivery and growth of EBITDA and profit / (loss) before tax represent key measures of the Group's operating and overall performance to investors and external stakeholders against our strategic priorities.
- EBITDA is defined as loss before taxation, adding back interest payable/receivable and similar charges, depreciation and amortisation and share in loss of joint venture (see note 5 in financial statements for further information). The interest added back excludes foreign exchange gains and losses apart from those resulting from the retranslation of the USD senior secured notes.
- Performance: With the EBITDA performance of Automotive only slightly adverse to 2020, year-on-year EBITDA benefited from the gain on the sale and leaseback of the Group's headquarters, the gain on disposal of the investment in Racing, the gain on the disposal of heritage assets, partially offset by a loss arising on the disposal of the Applied business. The loss before tax also benefited from lower amortisation reflecting the relative model mix during the year.

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Cash and cash flow

- Rationale: Cash provides a view of the available resources and liquidity of the Group, whilst the total cash flows of the Group provide an assessment of the cash generation of the business and its ability to invest in its future growth / generate shareholder value.

- Performance: Cash flows from operations in 2021 were significantly impacted by COVID-19, semi-conductor shortages and delay in the launch of Artura, alongside programme capex spend continuing during the year albeit at a lower level. These outflows were however offset by cash flows arising on the equity raise, refinancing and sale and leaseback transaction.

ii) Non-financial performance indicators

Volumes	FY 2021 Units	FY 2020 Units	YoY
Production	2,183	1,642	33%
Wholesale	2,138	1,659	29%
Retail	2,673	2,831	-6%

Production and wholesale volumes

- Rationale: The number of new vehicles manufactured and sold by the Group, and is therefore a key driver of the financial performance of the Group and an indicator of demand.

- Performance: A strong year-on-year improvement compared to 2020 which was negatively impacted by COVID-19. Nonetheless 2021 has also been negatively impacted by semiconductor shortages and the pandemic.
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Retail volumes

- Rationale: The number of sales made by dealers, and although retail sales do not directly impact the Group's financials, they are a key indicator of demand on the product.
- Performance: Slightly down year-on-year but much higher than wholesale volumes reflecting destocking activities by dealers over 2020 and 2021 and strong demand for McLaren vehicles relative to production levels.

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.

Group performance review

The Group performed strongly in 2021 delivering 2,138 wholesale units, reflecting a period-on-period increase of 29% from 1,659 in 2020. Turnover was down 21% in 2021, due to 2020 consolidating the results of Racing until 16 December 2020, whilst in 2021 the results of Racing, up until the point of disposal in August 2021, have been equity accounted. Operating loss was £16.9m, an improvement year-on-year of £291m primarily due to lower amortisation reflecting the product mix in the current year, the gain on the sale and leaseback of the Group's headquarters, the gain on disposal of the investment in Racing, the gain on the disposal of heritage assets, partially offset by a loss arising on the disposal of the Applied business.

Revenue and cost of sales

Revenue was £610.4m for 2021, a year-on-year decrease of £161.2m or 21%. This reduction was largely a result of the prior year consolidating the revenue and results of Racing until December 2020 whilst in 2021

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the results of Racing, up until the point of disposal in August 2021, have been equity accounted. Also the sale of Applied in August 2021 has also reduced revenue year-on-year.

Automotive's revenue was £593.7m (2020: £615.3m) despite the growth in wholesale volumes which were up 29% from 1,659 in 2020 to 2,138 in 2021. This growth in volume largely reflected the gradual recovery from the impact of the COVID-19 pandemic, with stronger sales of GT, 720S and 765LT. Offsetting this was lower sales of the high revenue per vehicle Ultimate series with 2020 including sales of Speedtail, Elva and Sabre whilst in 2021 Ultimate sales were predominantly only Elvas. Revenue in 2021 has also been impacted by the phase out of the lower margin legacy Sports series.

Applied revenue was £16.7m, being a year-on-year decrease of £13.4m largely reflecting the disposal of the business in early August 2021.

The Group reported cost of sales of £443.7m (2020: £627.8m), with the reduction reflecting Racing not being consolidated in 2021.

Administrative expenses
Administrative expenses were £225.1m compared to £241.9m in 2020 which largely reflects no Racing costs in 2021, offset by higher rent expense following the sale and leaseback of the Group's headquarters and there being deflated costs in the prior period due to COVID-19. Administration expenses in 2020 included the cost of the Group's restructure announced in May 2020.

Other operating income
Other operating income reduced by £16.1m to £36.7m primarily due to the prior period including amounts received from the UK Government's Coronavirus Job Retention Scheme as well as Applied receiving lower grant income in 2021 prior to its disposal in August 2021. These impacts were partially offset by income of £21.5m charged to Racing and Applied (following its disposal) for various property, IT and corporate services.

Other gains and losses
Other gains and losses in 2021 include a £67.7m gain arising on the sale and leaseback of the Group's headquarters which was sold for £170.0m and completed in April 2021, the gain on the disposal of Racing of £79.5m, the gain on the sale of heritage assets of £80.8m and the loss on disposal of Applied of £33.3m.

Share of loss of joint ventures
The result in 2021 represents the Group's share of Racing's performance prior to its disposal in August 2021, whilst 2020 includes less than a month (being the period following the introduction of third party funding to Racing). As described in the business review, Racing has had a strong year both on and off the track, improving trading performance year-on-year, though still generating a net loss after tax.

The Group's share of Racing's performance prior to its disposal was a loss of £33.2m (2020: £0.9m), with the increase in share of loss attributable to the fact that the prior year only accounted for Racing as a joint venture for less than a month.

Impairment
Asset impairments of £1.3m are significantly lower than 2020, largely due to the prior year including write-downs of certain assets in the Applied business.

Depreciation
Depreciation reduced to £14.4m (2020: £29.6m) largely due to the sale of the Group's headquarters during 2021.

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Amortisation

Amortisation decreased by 30% to £141.1m (2020: £202.7m) due to the product mix in 2021 relative to 2020, as well as the prior year including certain non-recurring accelerated amortisation items.

Net interest income (expense)

Underlying finance costs fell in 2021 reflecting the refinancing activities carried out during the year, and this was despite the write-off of deferred facility fees as a result of this refinancing.

Income tax

The income tax credit was £61.4 compared to £43.6m in 2020. The loss before tax reduced driving a lower underlying tax credit. However during 2021 a tax credit was recognised for the revaluation of the Group's deferred tax assets from 19% to 25% in line with the UK corporation tax rate that is substantially enacted for the periods in which the losses will reverse.

Cash flow statement

The Group had a net cash inflow of £10.1 compared to £11.0m in 2020.

Cash flow from operating activities

Cash outflows from operating activities was £70.8m compared to £220.2m in the comparative period, being an improvement of £149. Operating cash outflows before movements in working capital improved £12.9m to £4.9m largely for the reasons already described above in relation to the Group's operating loss. The working capital outflow of £58.9m was largely because of the effects of the upcoming launch of Artura with higher stock holdings, lower creditors including lower utilisation of trade finance, partially offset by lower debtors. This compared to a working capital outflow of £203m in 2020 which had been driven by negative impacts arising from the significant reduction in wholesale volumes in 2020.

Cash flow from investing activities

Net cash flows from investing activities were an inflow of £176.1m compared to an outflow of £236.3m in 2020. The 2021 year benefited from net proceeds of £167.8m on the sale and leaseback of the Group's headquarters and a reduction in capital expenditure of £47.3m reflecting the expected reduction in spend with various new models now launched. The Group also received proceeds of £81.7m for its sale of investment in McLaren Racing to McLaren Group and proceeds of £93.5m for the sale of heritage assets to McLaren New Co.

Cash flow from financing activities

Net cash flows from financing activities was an outflow of £95.2, compared to an inflow of £467.4m in 2020.

The current period financing cash flows included £195.7m arising on equity raise and £436.1m from the new USD denominated senior secured note, arising on the refinancing process described above. Partially offsetting this was the repayment of bank loans of £68.9m and the previous senior secured note of £621.3m. These net refinancing cash outflows were also partially offset by interest paid of £34.9m. In 2020, the significant financing inflow reflected £440.6m from the ordinary shares issued in 2020 and drawdown of the Revolving credit facility of £68.9m.

Interest paid has reduced period on period due lower levels of debt following the refinancing.

Company performance review

The Company's loss for the year was £18.4m (2020: loss £272.2m), with the year-on-year improvement due to the prior year including impairment charges in relation to investments in and loans to certain subsidiaries. At 31 December 2021 the Company had net assets of £508.5m compared to £331.2m at the start of the year. This strengthening of the balance sheet reflects that in 2021 the Company issued share capital at £195.7m. Investments decreased from £355.8m to £274.1m during 2021 following the sale of McLaren Racing to the Company's parent company. This is further described above.

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Principal risks and uncertainties

The principal risks and uncertainties of the Group can be summarised as follows:

Risk	Mitigation
Macroeconomic ● Events such as a public health crisis (e.g. COVID-19) or significant market disruption (e.g. conflict in Ukraine) may adversely impact the Group, its suppliers, customers and dealers, and the macroeconomic environment in which they operate. ● Deteriorating economic position of key markets could adversely affect customer demand, supplier performance, exchange rates, interest rates, availability and price of financing facilities etc, which may in turn impact the Group's performance and financial position.	● Annual strategic plan and budget, as well as regular reforecasts taking into account market trends and the current economic environment. ● Regular operational and financial reviews of the business by senior management and board of directors. ● Monitoring industry trends, engagement with other industry participants and advisors.
Development ● Development of new vehicles requires significant upfront investment for which there is no certainty that the programmes will be delivered on time, profitably, to plan or in a technologically competitive way.	● See below regarding 'Demand and Brand' and 'Technological'. ● Programme delivery management and regular progress reporting and oversight.
Financial ● Liquidity risk must be carefully managed to ensure sufficient funds are available to run the operations of the business and fund capital expenditure to develop vehicles for the future. ● Movements in foreign exchange may adversely impact the financial results and position of the Group.	● Cash managed and reported daily, and weekly cash / liquidity forecasts. ● Annual budget and long-term plan processes alongside regular reforecasts, which include assessment of available liquidity and potential downside scenarios. ● Work with advisors to raise additional funds / liquidity as required. ● Hedging policy in place, which guides the level of hedging to have in place to mitigate foreign exchange risk.
Demand and Brand ● Demand for and appeal of the McLaren brand and vehicles, is subject to customer preferences, competitor offerings and industry trends.	● Annual strategic plan which considers the Group's existing vehicles, trends, customer preferences, competitor products and opportunities in the market.

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• An inability to maintain the position of the McLaren brand or develop high quality desired vehicles may impair customer perception of the brand and product, adversely impacting financial performance.	• Business case for key projects, assessed by senior management and board of directors. • Quality controls in place, including focus on 'right first time' to maintain focus on vehicle quality and ensure delivered to customers at the expected standard. • Careful management and cultivation of the McLaren brand, ensuring cooperation and alignment across lines of business. • Focus on quality and scale of dealer network .
Technological • Changing preferences or regulations, such as in relation to electric vehicles and connectivity, may reduce demand for or increase the cost of developing or manufacturing the Group's vehicles.	• Analysis and assessment of which features of vehicles are developed in-house or obtained from our high quality supplier base. • Assessment of strategic partnership opportunities with key partners especially with the industry shift towards hybrid / electric vehicles over the decade. • Launched the McLaren Composites Technology Centre (MCTC) in 2018 to be a world-leader in innovating lightweight carbon fibre and composites.
Supply Chain • Disruptions to supply chains, unavailability of components (e.g. semiconductors) or a decline in the quality of goods and services provided may adversely affect operations.	• Developed close relationships with suppliers to ensure proactive engagement on potential risks and disruptions (e.g. COVID-19 and semiconductor shortages) • Cross functional reviews to identify supply issues and develop actions to resolve. • At the peak of semiconductor shortages, daily reviews were held with regular reporting to senior management and the board. • Application of procurement processes to ensure selection of suppliers that can meet the requirements of the Group (e.g. quality, volume, frequency, price etc).

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.

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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 18 to 22 and is also available on the Group's website www.mclaren.com .

Note this Strategic Report and the Directors' Report includes references to certain committees, being the Audit and Risk Committee, Nomination Committee, Remuneration Committee and Pension Committee. These committees of constituted with Directors of the Group's parent, McLaren Group Limited, form an essential part of the control and governance framework for the wider Group.

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.

b) The interest of the company's employees

The Board understands 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. Covid impacted the business intensely and the Board have been gratified by the effort of our employees to mitigate the impact of the virus. Coronavirus response. The Group used the UK Coronavirus Job Retention Scheme to furlough a number of employees whilst implementing a programme of temporary salary reductions. Whilst the pandemic has, naturally, been the primary focus for much of 2021, the business remains passionately committed to achieving its long-term goal of being an inclusive and diverse organisation

In October a 17-year-old youth activist became the Chief Executive Officer of McLaren Automotive for the day to celebrate International Day of the Girl and encourage young people, and particularly young women, into science and engineering careers. Maisy, from Wales, took over the reins as part of our long-term partnership with global children's rights charity Plan International.

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

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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. Our Partners play a vital role in our progression and development with the core aim to strive for excellence together. With over 140 years of experience, and a presence in over 160 countries Pirelli is one of the leading manufacturers of performance tyres, and the perfect partner for McLaren. The bespoke tyres for the 12C and the McLaren P1™ are the result of close collaboration between Pirelli's researchers and McLaren's engineers at Woking, with the dual objective of harnessing all the power of the car while ensuring total control. At the heart of the project is the complete integration of the tyre design with McLaren's construction architecture and the sophisticated electronic technology in order to make the P Zero tyres a fundamental component of the car. The perfect harmony between car and tyre guarantees driving pleasure and precision, an immediate response under a variety of different forces and an instant reaction to changes in aerodynamic loads and set-up, no matter what the conditions of usage. Similarly, Dell Technologies is a unique family of businesses that helps organizations and individuals build their digital future and transform how they work and live. The company provides customers with the industry's broadest and most innovative technology and services portfolio, spanning from edge, to core, to cloud. McLaren Automotive is partnering with Dell Technologies to maximize speed and agility across their organization. Through its journey from data to decisions, McLaren uses technology for greater speed-to-market and faster data-enabled cycles of innovation that create better data-driven design. Together, we're transforming to challenge the boundaries of performance and drive human progress. 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

McLaren is committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) across the Group, where appropriate. The recommendations will form a basis for reporting on the climate-related financial impacts and the Audit Committee are regularly appraised on developments for the climate-related risks and opportunities to be incorporated into our risk management and strategic planning processes. As work progresses in this area, information will continue to be disclosed in the Annual Accounts and strategic report. As an automotive business, the Group's business model is exposed to both risk and opportunity from climate change. 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 22 to 25 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

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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.

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 the wider society. 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 holds quarterly meetings for all investors to dial into at which the Group Executives 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, which contains independent non-executives alongside the executive directors.

Directors

There were 6 directors during the year of which five were male and one was female. The Company had no employees in the year, as all directors were employed by another related company.

Signed by order of the Board

C Ferry
Director
30 May 2022

Registered Office:
McLaren Technology Centre
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Surrey GU21 4YH

Directors' Report

The Directors present their Annual report and the audited financial statements of the Group for the year ended 31 December 2021.

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 14.

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, in Bahrain, Spain and Japan.

Going concern

The Company participates in the McLaren Group's centralised treasury arrangements and shares banking arrangements with its parent and subsidiaries. In April 2021, the Group announced that it had completed the sale of its global headquarters for gross consideration of £170m and in turn agreed a 20-year lease whereby the site will remain the Group's headquarters. In April 2021, the Group announced that it had completed the sale of its global headquarters for gross consideration of £170m and in turn agreed a 20-year lease whereby the site will remain the Group's headquarters. In August 2021, the Group's parent company, McLaren Group Ltd, completed a £550m fund raise, strengthening its capital structure and supporting future plans, raised USD$620m through the issue of senior secured notes and entered into a new revolving credit facility with initial commitments of £95m. The Group's parent used the proceeds described above to redeem and repurchase the outstanding existing senior secured notes due in 2022, repay and cancel the existing £130m revolving credit facility under which £68.9m was drawn, settle a £150m term loan and add cash to the Group's balance sheet. These activities strengthened the Group's balance sheet through providing it greater liquidity, more available cash and a longer tenure on its financing facilities.

The Group's vehicle volumes and revenue have, however, been adversely impacted by both industry-wide shortages in semiconductors and the later than initially expected launch of Artura. The Artura is McLaren's first high performance hybrid supercar to be launched on its new lightweight carbon vehicle architecture.

The Group has recently completed its annual budget and long-term plan, which have been approved by the board of the Group and these have been used to carry out an assessment of the ability of the Group to fund these plans with existing liquidity and access to secured financing, for a period of at least 12 months from the issuance of these financial statements. These cash flow forecasts have taken into account typical cash cycles of the Group, expected operational milestones (e.g. product launches), the level of future product investment, timings of cash inflows and outflows and the impact of these on available liquidity and covenant requirements. The Group has also taken into account severe but plausible downside scenarios arising from the Group's principal risks and uncertainties, especially those which have the potential to have the greatest impact on the Group for the period under assessment.

The Board remains positive on the future direction and long-term product plan of the business, but likewise recognises risks to performance such as the global shortage of semiconductors alongside delays launching the Artura. Furthermore, the Company is reliant on the trading group to satisfy its liabilities as they fall due and the conditions related to the Group as outlined above have been considered as part of the Company's going concern assessment. As such the Group and Company may require additional funding in order to meet its liabilities as and when they fall due over the next 12 months and such funding has not been secured at this time, and nor have the terms on which such funding may be provided been agreed. These conditions

Directors' Report

indicate a material uncertainty which may cast significant doubt over the Group's and the Company's ability to continue as a going concern. These financial statements do not include any adjustments that would arise if the Group and the Company were unable to continue as a going concern.

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 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 3-14, and the section on Going concern on page 15.

Price Risk

The Group is exposed to price risk through its purchases from suppliers, especially where parts are exposed to changes in commodity prices (e.g. metal prices), or in relation to utility pricing (e.g. electricity). The Group does manage price fluctuations through hedging prices of specific purchases (utilities) but the pricing of many other parts are not actively hedged. The sales price of the Group's vehicles are based on a number of factors including cost of development and build as well the relative pricing and features of competitors' vehicles. Price risk due to foreign currency movements is managed through hedging as described above.

Directors' Report

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.

As at 31 December 2021 the collection numbered some 50 vehicles which were held at a cost of £21.7m. There is a market for these assets, and the Group may 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 2021 (2020: £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:

Z Brown
P Buddin – resigned 04.05.21
M Flewitt – resigned 30.11.21
J Neale – resigned 04.01.22
P S Walsh
C Ferry – appointed 04.05.21

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.

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.

Directors' Report

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

Please refer to the 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 bred a spirit of dedication. Our people maintain that commitment, courage and creativity throughout the business in the unremitting search for excellence.

McLaren exists to 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.

The Group is committed to investing in its people and charities, including Woking & Sam Beare Hospices, White Lodge Centre, and Children With Special Needs Foundation as detailed on the McLaren Group website.

We support the communities we are proud to be part of and aim to make a positive contribution to improving people's life chances, especially those of young people.

We understand the importance and benefit of having a broad range of skills, experiences, perspectives and backgrounds in our teams and that 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.

Directors' Report

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 includes an Executive Chairman whose role is to maintain a strong link between the Group Board of Directors and the Executive Management and ensure that responsibilities, accountabilities and decision making across the Group are sustained.

The Board of McLaren Holdings 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. We believe that the size and composition is appropriate to the Group's large yet focused business.

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 Holdings 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.

The successful delivery of the long-term plans relies on key inputs and positive relationships with a wide range of stakeholders and so the Board approves an updated five year strategic plan on an annual basis. The Board then receives monthly data on the main business activities for each of the Group Companies in respect of financial matters, risks and opportunities, operational matters and sustainability. During the period of covid the Board has intensified its focus on cash management and has regularly reviewed the Group's cash flows, and the financial resilience of the Group. 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 have operated an internal audit function since the start of 2021, reporting to the Audit and Risk Committee. The Audit team have a defined annual programme of work and report against this to the Committee on a quarterly basis. In the event that they became aware of a specific matter the Internal Auditor has direct access to the Committee Chair. . To support good governance the Audit Committee regularly reviews the relationship with the external auditors.

Directors' Report

Principle 4 – Opportunity and risk

The Executive Management (as delegated by the Board) has 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 UK review of the Corporate Governance Principles for Large Private Companies recommended a focus on opportunities as well as risks, and transformation opportunities are now incorporated into the Committee meetings. These include detailed analysis of the key operating activities and cost rationalisation.

The Group has an Audit and Risk Committee comprised of three Non-Executive Directors to ensure that the interest of the shareholders is properly protected in relation to financial reporting and internal control.

The Committee has clearly defined terms of reference. Specific responsibilities include reviewing and recommending for approval the annual financial statements, reviewing the Group's accounting policies, the performance of the internal audit function and reviewing the effectiveness of internal controls and risk.

Directors' Report

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. 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

Directors' Report

individuals to raise questions and concerns. While COVID-19 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.

In October 2021 the Financial Stability Board's Task Force for Climate-related Financial Disclosures published an updated report recommending that climate-related risks and opportunities should be incorporated into companies' risk management and strategic planning processes. The task force also recommended that these risks and opportunities should be quantified and reported on. The McLaren Group has a policy of sustainability and reducing its direct carbon emissions. Progress towards this target is recorded in the 'Streamlined energy and carbon report' (SECR), below. The Group has achieved certification from the Carbon Trust for energy and carbon management methodology. The Audit Committee have been presented with a strategy to consider governance, strategy, risk, and metrics. During 2022 the Group aim to embed sustainability throughout all employee roles and as work progresses in this area, information will continue to be disclosed within the SECR and in the strategic report.

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.

Directors' Report

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.
<u>The significant risks associated with the impact of climate change on the business are assessed as;</u>

(i) 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.
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.

Directors' Report

(ii) 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. 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.

(iii) 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 the construction of the McLaren Technology Centre, what were once considered one-in-twenty-year climate events are assessed to have increased in likelihood. We monitor these risks and build into our financial plans any expenditure to manage and mitigate risks as necessary. We do not consider any other assets as at risk.

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

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;

   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 2021. 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.

Directors' Report

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')
The companies included in these group accounts are part of the consolidated financial statements prepared by another UK incorporated company, McLaren Group Limited. The annual report and financial statements of McLaren Group limited include the disclosures required under the Streamlined energy and carbon reporting regulations on a group wide basis and accordingly, separate disclosures have not been made in these accounts.

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the annual report and the consolidated 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 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.

The directors are also 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's 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's and company's auditors are aware of that information.

Directors' Report

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 34 to 82 were approved by the Board of Directors on 30 May 2022

and signed by order of the Board:

C Ferry
Director
30 May 2022

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

Independent auditors' report to the members of McLaren Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, McLaren Holdings 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 2021 and of the group's and company'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 2021; 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. Due to risks to future performance such as the global shortage of semiconductors alongside delays in launching the Artura, the group and company may require additional funding in order to be able to meet their liabilities as they fall due over the next 12 months. This additional funding has not yet been secured, nor have the terms on which this additional funding will be provided been agreed. These conditions, along with the other matters explained in note 3b to 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 extent to which the group's and company's future cash flows might be adversely affected by risks to performance, including the shortage of semiconductors and delay in launching the Artura;

- reviewing management's cash flow forecasts, assessing the existing sources of finance and considering the overall impact on liquidity; and.
- considering the adequacy of the disclosures in the financial statements, particularly Note 3b, Summary of significant accounting policies - 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

- Full scope audits of McLaren Automotive Limited, McLaren Automotive Incorporated, McLaren Automotive Asia Pte, and McLaren Racing Limited in the UK.
- Audit of certain financial statement line items of McLaren Finance plc, McLaren Services Limited, McLaren Support Services Limited and McLaren Holdings Limited in the UK.

Key audit matters

- Material uncertainty related to going concern (group and company)
- Capitalisation of research and development costs (group)
- Accounting for sale and leaseback (group)

Materiality

- Overall group materiality: £5.9M (2020: not applicable) based on 1% of revenue from continuing operations.
- Overall company materiality: £12.6M (2020: £22.3M) based on 1% (2020: 2%) of total assets.
- Performance materiality: £4.5M (2020: not applicable) (group) and £9.5M (2020: £16.7M) (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.

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.

As a result of the company presenting audited consolidated financial statements for the group that includes a subsidiary with listed debt for the first time in 2021, the group and the company are considered public interest entities, and accordingly, key audit matters have also been included for the first time this year.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Capitalisation of research and development costs (group) As disclosed in Note 12 to the consolidated financial statements, the group has £786M of capitalised research and development costs as at 31 December 2021 (£781M as at 31 December 2020). 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.	Our procedures included the following: • Reviewing and testing management's capitalisation criteria for research and development costs on new and ongoing car programmes, including feasibility studies for new projects and business plans for new and ongoing projects, against the requirements of FRS 102; • Understanding and evaluating the design and operating effectiveness of management's review and approval of car programme related vendor costs; and • Verifying 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 confirming that they met the criteria for capitalisation; and assessing the overall appropriateness of salary costs capitalised by comparing these to budgets. Based on the procedures performed, we noted no material issues from our work.
Accounting for sale and leaseback (group) As disclosed in notes 4,5,7 and 24, in 2021, the group completed the sale and leaseback of its global headquarters for an net consideration of £167.8M and a lease of 20 years. The accounting for this transaction involves significant judgement; particularly in determining: • the classification of the lease; • the incremental borrowing rate used to discount future minimum lease payments; • the fair value of the sale consideration; and • the fair value of the future lease rentals. Incorrect assumptions in determining the above could result in a misclassification of the lease and a risk of material misstatement of the financial statements.	Our procedures included the following: • Inspecting the underlying documents to understand the terms and conditions of the arrangement and independently assess the accounting treatment applied; • Alongside our valuation specialists; discussing and challenging management's and their expert's on their assessment of the fair values of the sale consideration and the future lease rentals; • Assessing whether the disclosures in the financial statements were appropriate and in accordance with FRS 102. Based on the procedures performed, 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 four components. We also performed audit procedures on specific financial statement line items for four 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:

	Financial statements - group	**Financial statements - company**
Overall materiality	£5.9M (2020:not applicable).	£12.6M (2020: £22.3M).
How we determined it	1% of revenue from continuing operations	1% (2020: 2%) 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 £0.6M to £5.6M. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

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% (2020: 75%) of overall materiality, amounting to £4.5M (2020: not applicable) for the group financial statements and £9.5M (2020: £16.7M) 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 at the upper end 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 £297,250 (group audit) (2020: not applicable) and £631,587 (company audit) (2020: £1,114,250) 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 2021 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 in respect of the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, 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 employment regulation, health and safety legislation and other legislation specific to the motorsport and automotive 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 financial statements such as the Companies Act 2006 and the UK and overseas tax legislation as applicable to the group. 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 certain journal entries posted with unusual account combinations, such as, journals crediting revenue where debit is to an unexpected account;
- 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 the valuation of loan notes and warrants in McLaren Racing Limited and the capitalisation of research and development costs; and
- communicating relevant identified laws and regulations and potential fraud risks to all engagement team members 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.

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.

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.

We have no exceptions to report arising from this responsibility.

Other matter

The group financial statements for the year ended 31 December 2020, forming the corresponding figures of the group financial statements for the year ended 31 December 2021, are unaudited.

Gregory Briggs (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
30 May 2022

Consolidated Profit and Loss Account

For the year ended 31 December 2021

	Note	**2021 Continuing Operations £000**	**2021 Discontinued Operations £000**	**2021 Total £000**	Unaudited 2020 Continuing Operations £000	Unaudited 2020 Discontinued Operations £000	Unaudited 2020 Total £000
Turnover	5	**593,704**	**16,683**	**610,387**	419,817	351,843	771,660
Cost of Sales		**(429,868)**	**(13,786)**	**(443,654)**	(417,858)	(209,989)	(627,847)
Administrative expenses		**(218,004)**	**(7,058)**	**(225,062)**	(184,973)	(56,919)	(241,892)
Other operating income		**36,460**	**305**	**36,765**	29,574	23,372	52,946
Other gains and (losses)	7	**227,986**	**(33,320)**	**194,666**			
Share of loss from joint venture	15	**-**	**(33,166)**	**(33,166)**	(886)	-	(886)
Impairment of assets		**(894)**	**(377)**	**(1,271)**	(2,464)	(10,298)	(12,762)
Depreciation		**(12,011)**	**(2,447)**	**(14,458)**	(17,395)	(12,240)	(29,635)
Amortisation		**(139,999)**	**(1,064)**	**(141,063)**	(199,823)	(2,901)	(202,724)
Operating loss	7	**57,374**	**(74,230)**	**(16,856)**	(374,008)	82,868	(291,140)
Interest receivable and similar income	9	**2,312**	**-**	**2,312**	13,422	1,390	14,812
Interest payable and similar expenses	9	**(52,941)**	**(2,788)**	**(55,729)**	(52,320)	(10,742)	(63,062)
Gain on sale of share in subsidiary	10	**2,820**	-	**2,820**	21,070	-	21,070
Profit/(loss) before taxation		**9,565**	**(77,018)**	**(67,453)**	(391,836)	73,316	(318,320)
Tax on loss	11	**57,816**	**3,568**	**61,384**	49,265	(5,704)	43,561
Profit/(loss) for the financial year		**67,381**	**(73,450)**	**(6,069)**	(342,571)	67,812	(274,759)

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 profit for the year is presented in the Company balance sheet on page 37.

The notes on pages 41 to 82 form an integral part of these consolidated financial statements.

See note 6 for further information on discontinued operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Note	2021 £000	Unaudited 2020 £000
Profit/(loss) for the financial year		**(6,069)**	(274,759)
Other comprehensive (expense)/income:			
Deferred tax charge on revaluation reserve	11	**1,094**	(930)
Deferred tax on cash flow hedges	11	**2,135**	-
Cash flow hedges:			
- Change in value of hedging instrument		**(20,654)**	(3,612)
- Reclassifications to profit and loss		**(2,312)**	13,583
Gain/(Loss) on foreign currency translation reserve		**1,674**	(6,277)
Total comprehensive expense for the year		**(24,132)**	(271,995)

The notes on pages 41 to 82 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet
for the year ended 31 December 2021

	Note	2021 £000	Unaudited 2020 £000
Fixed assets			
Intangible assets	12	**819,635**	**829,851**
Tangible assets	13	**61,355**	**260,368**
Heritage assets	14	**21,781**	**34,155**
Investment in joint venture	15	**-**	**32,606**
		902,771	**1,156,980**
Current assets			
Inventories	16	**195,326**	**112,773**
Debtors	17	**287,541**	**336,375**
Cash at bank and in hand		**76,696**	**66,709**
Creditors: Amounts falling due within one year	18	**(339,484)**	**(462,338)**
Net current assets /(liabilities)		**220,079**	**53,519**
Total assets less current liabilities		**1,122,850**	**1,210,499**
Creditors: Amounts falling due after more than one year	19	**(459,877)**	**(631,010)**
Provisions for liabilities	22	**(45,063)**	**(40,329)**
Deferred capital funding	24	**-**	**(92,835)**
Net assets/(liabilities)		**617,910**	**446,325**
Capital and reserves			
Called up share capital	27	**108**	**108**
Share premium account		**839,480**	**643,763**
Revaluation reserve		**12,890**	**42,586**
Capital contribution reserve		**2,039**	**2,039**
Merger reserve		**218,547**	**218,547**
Other reserves		**(10,583)**	**8,574**
Accumulated losses		**(444,571)**	**(469,292)**
Total Equity		**617,910**	**446,325**

The notes on pages 41 to 82 form an integral part of these consolidated financial statements.

The financial statements on pages 34 to 82 were authorised for issue by the Board of Directors on 30 May 2022 and signed on its behalf by:

C Ferry
Director

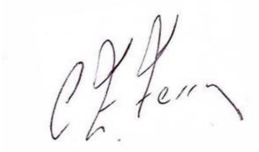
Registered number: 10756310

Company Balance Sheet
for the year ended 31 December 2021

	Note	2021 £000	2020 £000
Fixed assets			
Investments	15	**274,071**	355,821
Current assets			
Debtors	17	**925,712**	718,482
Cash at bank and in hand		**63,391**	39,965
		989,103	758,447
Creditors: Amounts falling due within one year	18	**(299,680)**	(157,010)
Net current assets		**689,423**	601,437
Total assets less current liabilities		**963,494**	957,258
Creditors: Amounts falling due after more than one year	19	**(454,948)**	(626,042)
Net assets		**508,546**	331,216
Capital and reserves			
Called-up share capital	27	**108**	108
Share premium account		**839,480**	643,763
Capital contribution reserve		**2,039**	2,039
Accumulated losses		**(333,081)**	(314,694)
Total Equity		**508,546**	331,216

The Company’s loss for the year was £18.4m (2020: loss £272.2m)

The financial statements on pages 34 to 82 were authorised for issue by the Board of Directors on 30 May 2022 and signed on its behalf by



C Ferry
Director

Registered number 10756310

Consolidated Statement of Changes in Equity
for the year ended 31 December 2021

(2020 unaudited)	**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 2020	89	203,123	218,547	2,039	4,880	44,219	(195,236)	277,661
Loss for the financial year	-	-	-	-	-	-	(274,759)	(274,759)
Total other comprehensive income for the year	-	-	-	-	3,694	(1,633)	703	2,764
Total comprehensive expense	-	-	-	-	3,694	(1,633)	(274,056)	(271,995)
Issue of Share capital	19	440,640	-	-	-	-	-	440,659
At 31 December 2020	108	643,763	218,547	2,039	8,574	42,586	(469,292)	446,325
Loss for the financial year	-	-	-	-	-	-	**(6,069)**	**(6,069)**
Total other comprehensive expense for the year	-	-	-	-	**(19,157)**	**(29,696)**	**30,790**	**(18,063)**
Total comprehensive expense	-	-	-	-	**(19,157)**	**(29,696)**	**24,721**	**(24,132)**
Issue of shares	-	**195,717**	-	-	-	-	-	**195,717**
At 31 December 2021	**108**	**839,480**	**218,547**	**2,039**	**(10,583)**	**12,890**	**(444,571)**	**617,910**

Total other comprehensive income includes the reclassification of £26.1m of revaluation reserve to accumulated losses as a result of the disposal of the Racing joint venture investment and the sale of certain heritage assets.

Company Statement of Changes in Equity
for the year ended 31 December 2021

	Called up share capital £000	Capital contribution reserve £000	Share premium account £000	Accumulated losses £000	Total Equity £000
At 1 January 2020	**89**	**2,039**	**203,123**	**(42,454)**	**162,797**
Shares issued in March 2020	10	-	243,543	-	**243,553**
Shares issued in May 2020	2	-	47,104	-	**47,106**
Shares issued in December 2020	7	-	149,993	-	**150,000**
Loss for the financial year / Total comprehensive loss for the financial year	-	-	-	(272,240)	**(272,240)**
At 31 December 2020	**108**	**2,039**	**643,763**	**(314,694)**	**331,216**
At 1 January 2021	**108**	**2,039**	**643,763**	**(314,694)**	**331,216**
Shares issued in August 2021	-	-	195,717	-	**195,717**
Loss for the financial year / Total comprehensive loss for the financial year	-	-	-	(18,387)	**(18,387)**
At 31 December 2021	**108**	**2,039**	**839,480**	**(333,081)**	**508,546**

Consolidated Cash Flow Statement
for the year ended 31 December 2021

	Note	2021 £000	Unaudited 2020 £000
Net cash used in operating activities	28	**(63,835)**	(219,428)
Taxation paid		**(6,985)**	(783)
Net cash used in operating activities		**(70,820)**	(220,211)
Cash flow from investing activities			
Addition of intangible assets		**(156,247)**	(221,856)
Addition of tangible assets		**(5,597)**	(15,961)
Proceeds from disposal of heritage assets	14	**93,556**	-
Proceeds from disposal of investment	15	**81,750**	3,000
Proceeds from disposal of tangible assets (net of associated transaction costs)	13	**167,805**	12
Interest received		**-**	55
Disposal of subsidiary (net of cash disposed)		**(5,156)**	(1,505)
Net cash generated from/(used) in investing activities		**176,111**	(236,255)
Cash flow from financing activities			
Repayment of obligations under finance lease		**(1,973)**	(2,487)
(Repayment)/Receipt of revolving loan facility		**(68,899)**	68,899
Interest paid		**(34,883)**	(39,680)
Proceeds from issue of Ordinary shares		**195,717**	440,659
Repayment of senior secured notes		**(621,229)**	-
Proceeds from issue of senior secured notes (net of associated transaction costs		**436,059**	-
Net cash (used in)/generated from financing activities		**(95,208)**	467,391
Net increase in cash and cash equivalents		**10,083**	10,925
Cash and cash equivalents at beginning of year		**66,709**	56,214
Effect of foreign exchange rate changes		**(96)**	(430)
Cash and cash equivalents at end of year		**76,696**	66,709
Cash and cash equivalents consists of:			
Cash at bank and in hand		**76,696**	66,709
Cash and cash equivalents		**76,696**	66,709

The notes on pages 41 to 82 form an integral part of these consolidated financial statements.

Notes to the Company Financial Statements

1. General information

McLaren Holdings Limited ("the Company") and its subsidiaries (together "the Group") is privately owned and incorporated in the United Kingdom and registered in England 10756310. 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 14.

2. Statement of compliance

The Group and individual financial statements of McLaren Holdings 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.

As the Company forms part of the McLaren Group Ltd consolidated group, there was no previous requirement to prepare consolidated financial accounts for the Company. Under the terms of the USD$620m senior secured notes issued in 2021, the Company is now required to prepare consolidated accounts. The 2020 comparatives of the Group's consolidated financial statements are unaudited as the Group was exempt in 2020 from preparing consolidated financial statements.

b. Going concern

The Company participates in McLaren Group's centralised treasury arrangements and shares banking arrangements with its parent and subsidiaries. In April 2021, the Group announced that it had completed the sale of its global headquarters for gross consideration of £170m and in turn agreed a 20-year lease whereby the site will remain the Group's headquarters. In August 2021, the Group's parent company, McLaren Group Ltd, completed a £550m fund raise, strengthening its capital structure and supporting future plans, raised USD$620m through the issue of senior secured notes and entered into a new revolving credit facility with initial commitments of £95m. The Group used the proceeds described above to redeem and repurchase the outstanding existing senior secured notes due in 2022, repay and cancel the existing £130m revolving credit facility under which £68.9m was drawn, settle a £150m term loan and add cash to the Group's balance sheet. These activities strengthened the Group's balance sheet through providing it greater liquidity, more available cash and a longer tenure on its financing facilities.

The Group's vehicle volumes and revenue have, however, been adversely impacted by both industry-wide shortages in semiconductors and the later than initially expected launch of Artura. The Artura is McLaren's first high performance hybrid supercar to be launched on its new lightweight carbon vehicle architecture.

The Group has recently completed its annual budget and long-term plan, which have been approved by the board of the Group and these have been used to carry out an assessment of the ability of the Group to fund these plans with existing liquidity and access to secured financing, for a period of at least 12 months from

Notes to the Company Financial Statements

the issuance of these financial statements. These cash flow forecasts have taken into account typical cash cycles of the Group, expected operational milestones (e.g. product launches), the level of future product investment, timings of cash inflows and outflows and the impact of these on available liquidity and covenant requirements. The Group has also taken into account severe but plausible downside scenarios arising from the Group's principal risks and uncertainties, especially those which have the potential to have the greatest impact on the Group for the period under assessment.

The Board remains positive on the future direction and long-term product plan of the business, but likewise recognises risks to performance such as the global shortage of semiconductors alongside delays launching the Artura. Furthermore, the Company is reliant on the trading group to satisfy its liabilities as they fall due and the conditions related to the Group as outlined above have been considered as part of the Company's going concern assessment. As such the Group and Company may require additional funding in order to meet its liabilities as and when they fall due over the next 12 months and such funding has not been secured at this time, and nor have the terms on which such funding may be provided been agreed. These conditions indicate a material uncertainty which may cast significant doubt over the Group's and the Company's ability to continue as a going concern. These financial statements do not include any adjustments that would arise if the Group and the Company were unable to continue as a going concern.

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 joint ventures made up to 31 December 2021.

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.

Any subsidiary undertakings or joint venture sold or acquired during the year are accounted for as described above 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

Notes to the Company Financial Statements

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 to the extent of the group's interest in the entity.

When the Group's share of losses exceeds its interest in an equity accounted investment, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

(i) Income from the sale of goods, including income associated with heritage cars, is recognised when the risks and rewards of the goods have passed to the customer. On the sale of vehicles, International Commercial Terms (INCO) are agreed with each dealer and revenue is recognised at the point of which risk and reward transfers. This will differ based on terms of agreement, of which the majority will either be the point of despatch to the dealer, when the car is imported into the destination country, or when the vehicle is received by the dealer.

Notes to the Company Financial Statements

(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 as appropriate and recognised over the period in which the Group performs its obligations under the sponsorship contract.

(iv) 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.

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 classifies 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) in the UK, HMRC reimbursed a portion of the wages of employees who have been furloughed and as such amounts received were recognised in the profit and loss account over the same period as the payroll 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.

(ii) Management fees

The Group provides certain shared management services, specifically in relation to facilities management, IT and corporate services. These services are recognised as other income over the period the service is provided, at the fair value of the consideration to be received in compensation for this service.

(iii) 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 which are recognised in profit and loss as other operating income.

Notes to the Company Financial Statements

h. Research and development

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

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

Research and development tax credits are treated as grant income and recognised as other income in the profit and loss account.

Any withheld portion is treated as a deferred tax asset so as to be offset against future taxable profit.

i. Employee benefits

Employee benefits include the following items:

(i) Defined contribution pension plans

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

(ii) Short-term benefits

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

(iii) Annual bonus plan

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

(iv) Termination benefits

The Group recognises termination benefits as a liability and an expense when it is able to demonstrate a detailed formal plan for the termination without realistic possibility of withdrawal from the plan. The termination 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.

j. Taxation

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

Notes to the Company Financial Statements

Current or deferred taxation assets and liabilities are not discounted.

(v) 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.

(vi) 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.

k. Intangible assets

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

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

Intangible fixed assets representing development costs incurred on new car programmes are capitalised at historical cost and amortised over the wholesale lifecycle units, 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.

Amortisation is provided over the estimated useful lives of the assets taking into account factors such as expected period of use, likely technological advancements etc. 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.

Notes to the Company Financial Statements

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

l. Tangible assets

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

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

Freehold buildings	-	2% - 10% straight line
Short term 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.

m. Heritage assets

The Group has a collection of heritage vehicles, treated as heritage assets, which 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 are not depreciated but instead are assessed for impairment.

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.

n. Borrowing costs

All borrowing costs are recognised in profit and loss in the period in which they are incurred, except for costs directly incurred in relation to a new financing facility in which case the cost is deferred on the balance sheet net of the relevant facility balance, and amortised over the term of the facility.

o. 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.

Notes to the Company Financial Statements

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.

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.

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.

Sale and leaseback

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If the sale and leaseback transaction is classified as an operating lease, then any gain or loss is recognised immediately if the sale and leaseback terms are demonstrably at fair value. If the sale price is below fair value then the gain or loss is recognised immediately other than to the extent that a loss is compensated for by future rentals at below market price, then the loss is deferred and amortised over the period that the asset is expected to be used. If the sale price is above fair value, then any gain is deferred and amortised over the useful life of the asset.

p. 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.

q. Investments

Notes to the Company Financial Statements

Investments in associates, joint ventures and subsidiaries in the Company's standalone financial statements are held at cost less accumulated impairment losses.

r. 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.

Costs of raw materials and consumables are ascertained on an average cost basis and cost of finished goods and work in progress, 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

s. Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank overdrafts, whilst bank overdrafts are shown within borrowing in current liabilities.

t. 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.

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. Provisions are 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 vendors. The estimates and underlying assumptions are reviewed on an ongoing basis.

u. Financial instruments

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

(i) Financial assets

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

The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset

Notes to the Company Financial Statements

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.

With the exception of some hedging instruments, other debt instruments not meeting conditions of being ‘basic’ financial instruments are measured at fair value through profit or loss.

(iv) Foreign currency derivative financial instruments

Forward foreign exchange contracts are derivatives which 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 other comprehensive income where part of an effective cash flow hedge (see note 3v below) or otherwise 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

Notes to the Company Financial Statements

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.

v. 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.

w. 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.

x. 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

Notes to the Company Financial Statements

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) 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.

(ii) Control assessment

Racing has 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 Racing. The framework governance agreement for Racing provides the framework under which the business is operated, including substantive rights in relation to certain financial and operating policies of the business. As a consequence of this the directors determined that the Group did not have sufficient control of Racing to account for it as a subsidiary. Instead it was assessed, prior to the disposal of the Group's investment in Racing, that the Group held joint control with third party investors meaning it was accounted for as a joint venture and subject to equity method accounting.

(iv) Sale and leaseback

The Group completed a sale and leaseback on its head-office and carried out an assessment to consider whether the resulting lease was an operating or finance lease. This assessment took into account available accounting guidance, with specific consideration given to, but not limited to, the transfer of risks and rewards, any transfer of ownership of the asset at the end of the lease, the lease term, the present value of lease payments, nature of the asset, availability of break clauses, extension options etc. Following the completion of this analysis, it was concluded based on the facts and circumstance of this transaction, that the lease was most appropriately treated as an operating lease.

(b) Key accounting estimates and assumptions

(i) Impairment of intangible assets

The Directors regularly consider the carrying value of intangible assets and alongside the factors that could indicate that the carrying amount of intangible assets could be impaired. Such factors include actual cash flow generation with that in the business plan, the volume of vehicles sold and that expected to be sold in the future, the profitability of each model and other relevant economic factors.

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 the 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

Notes to the Company Financial Statements

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) Gain on sale of share in subsidiary

In December 2020, McLaren Racing issued convertible loan notes and warrants to third party investors outside the Group. This issuance occurred at the same time as entering a new framework governance agreement, which as described above in relation to critical judgements, resulted in McLaren Racing ceasing to be consolidated. Further loans notes and warrants were issued in June 2021. The determination of the gain arising on this transaction required the allocation of the total proceeds between the debt and the equity which was done so based on fair values. This involved determining the most appropriate basis of allocation of the proceeds and the most appropriate methodology and market multiples to ascertain the equity value of McLaren Racing.

(iv) 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.

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5. Segment information

Description of business segments and principal activities

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

Automotive – a global leader in the design and manufacture of luxury high performance sports and supercars.

Racing – prior to its disposal in August 2021, participated in motor racing events, primarily Formula 1, throughout the world. This included the design, development, manufacture and racing of Formula 1 cars. In addition it periodically sold its own heritage cars as part of its business activities.

Applied – prior to its disposal in August 2021 (see note 6) this division focused on the application of McLaren's technological know-how in a wide variety of fields.

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	**2021 £000**	**Unaudited 2020 £000**
Automotive	**593,704**	615,301
Racing (Prior to loss of control)(Discontinued Operations)	**-**	322,715
Applied (Discontinued Operations)	**18,481**	33,594
Corporate	**56,764**	85,407
	668,949	1,057,017
Less inter-segmental turnover	**(58,562)**	(285,357)
	610,387	771,660

The above segment breakdown is different to the face of the profit and loss as this is stated before intergroup transactions in Applied are eliminated.

In 2020 turnover and EBITDA included the revenue and profit arising from the transfer of a number of heritage car assets from Racing to the Corporate Services segment at market value. The revenue and profit arising on this transaction was eliminated on consolidation.

Analysis of turnover by region

Region	**2021 £'000**	**Unaudited 2020 £'000**
Europe	**217,188**	456,035
North America	**227,204**	167,339
Asia Pacific	**93,754**	87,383
China	**44,019**	41,298
Rest of World	**28,222**	19,605
Global	**610,387**	771,660

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* Prior year turnover for Europe includes McLaren Racing whilst in 2021 the results of Racing have been equity accounted

Analysis of turnover by category	**2021 £000**	**Unaudited 2020 £000**
Sales of goods	**540,456**	613,839
Rendering of services	**68,600**	157,821
Royalties	**1,331**	-
	610,387	771,660

Rendering of services includes commissions of £34.1m (2020: £27.6m)

EBITDA by business segment	**2021 £000**	**Unaudited 2020 £000**
Automotive	**(9,735)**	(3,812)
Racing (Discontinued Operation)	**-**	112,329
Applied (Discontinued Operation)	**(4,779)**	(14,966)
Corporate services	**(3,250)**	5,049
Corporate services - Gain on Sale and leaseback of buildings *	**67,690**	-
Applied- Loss on disposal of business *	**(33,320)**	-
Corporate Services - Gain on sale of investment *	**79,490**	-
Corporate Services - Gain on sale of heritage assets *	**80,806**	-
Corporate Services - Gain on sale of share in subsidiary *	**2,820**	21,070
Elimination of heritage car transfer	**-**	(163,595)
	179,722	(43,925)

EBITDA is defined as loss before taxation, adding back interest payable/receivable and similar charges, depreciation and amortisation and share in loss of joint venture. The interest added back excludes foreign exchange gains and losses apart from those resulting from the retranslation of the USD senior secured notes. EBITDA is calculated as follows:

* As these items are not included within the Group's segment information reviewed by the chief operating decision maker, they have not been allocated to a specific segment and instead are presented separately in this reconciliation.

Notes to the Company Financial Statements

	2021 £000	Unaudited 2020 £000
Loss before taxation	**(67,453)**	(318,320)
Interest receivable (excluding foreign exchange)	**-**	(55)
Interest payable (excluding foreign exchange)	**51,083**	49,152
Senior secured notes retranslation foreign exchange	**7,405**	(7,947)
Amortisation	**141,063**	202,724
Depreciation	**14,458**	29,635
Share of results of joint ventures	**33,166**	886
EBITDA	**179,722**	(43,925)

6. Discontinued operations

Group

Racing
In August 2021 the Group disposed of its shareholding in McLaren Racing to McLaren Group Ltd for £81.8m, resulting in a gain on disposal of £79.5m. In 2021 prior to the disposal, the Group had recognised £33.2m (2020: £0.9m) as its share of McLaren Racing's loss.

Applied
On 4 August 2021, following a strategic review of the Group's structure, the Group completed the sale of its Applied business division to Greybull Capital, focusing the Group's activities on supercar manufacturing. During the year the Applied business, prior to disposal, contributed a post-tax loss of £40.3m (2020: £19.1m). The Group received no cash consideration. The net liabilities pre-disposal were £49.6m and following a loan forgiveness, the net assets at the date of disposal were £26.4m along with contract provisions of £6,9m, resulted in a loss on disposal of £33.3m recognised in the profit and loss account.

Notes to the Company Financial Statements

7. Operating loss

Operating loss is stated after charging/(crediting):

	2021 **£000**	**Unaudited** **2020** **£000**
Restructuring costs	**-**	14,177
Profit on disposal of fixed asset investment	**-**	(1,262)
(Profit) on disposal of tangible assets	**(67,690)**	(12)
Loss on disposal of business	**33,320**	-
Gain on disposal of investment	**(79,490)**	-
Gain on disposal of heritage assets	**(80,806)**	-
Depreciation of tangible assets	**14,458**	29,635
Amortisation of intangible assets	**142,283**	206,381
Amortisation of deferred capital funding	**(1,220)**	(3,657)
Impairment of intangible assets	**(524)**	10,298
Impairment of tangible assets	**1,795**	2,464
Impairment of trade receivables	**26**	88
Impairment of inventory	**4,500**	5,350
Inventory recognised as an expense	**255,436**	269,048
Coronavirus job retention scheme grant	**-**	(19,834)
Research & development tax credits	**(9,956)**	(19,280)
Other grants	**(750)**	(4,103)
Operating lease charges	**20,530**	9,528

Other gains and losses in 2021 include a £67.7m gain arising on the sale and leaseback of the Group's headquarters which was completed in April 2021. The gain comprised gross consideration of £170.0m less fees of £2.2m, tangible assets disposed of £191.7m and deferred capital funding liability of £91.6m. Other gains and losses included the gain on sale of McLaren Racing investment to McLaren Group of £79.5m, a gain on sale of heritage assets of £80.8m and the loss on disposal of Applied of £33.3m.

Notes to the Company Financial Statements

	2021 £000	Unaudited 2020 £000
Fees payable to the Company's auditors and its associates for the audit of the Company's and the Group's consolidated financial statements	**119**	
Fees payable to the Company's auditors and its associates for other services:		
- The audit of the Company's subsidiaries	**585**	630
- Audit related assurance services	**105**	-
- Corporate Finance Transaction Services	**325**	-
- Tax compliance services	**77**	186
- Other	**20**	-
Total amount payable to the Company's auditors and its associates	**1,231**	816

8. Employees and Directors

Group

Employees

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

	2021 Number	Unaudited 2020 Number
Production	**555**	1,208
Design & Engineering	**634**	1,229
Administration	**1,319**	1,717
	2,508	4,154

	2021 £000	Unaudited 2020 £000
Wages and salaries	**150,893**	214,793
Social security costs	**15,734**	23,494
Other pension costs	**3,707**	10,157
Capitalised labour costs	**(44,539)**	(38,084)
Staff costs charged to profit and loss	**125,795**	210,360

Notes to the Company Financial Statements

Directors

The Directors of the Company 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 31. The directors' emoluments were as follows:

		Unaudited
	2021	**2020**
	£000	**£000**
Highest paid director emoluments	**3,910**	9,319
Aggregate emoluments excluding highest paid director	**697**	1,204
	4,607	10,523

Director's emoluments in 2021 included 2 directors (2020: 3 directors) paid by subsidiaries of the Group, with the remaining directors being employees of and remunerated by McLaren Group Ltd, the parent of the Company. There were no pensions paid to directors. No recharges were made to the Company in relation to the remuneration of the directors who were employees of McLaren Group Ltd.

Notes to the Company Financial Statements

9. Net interest income/(expense)

	2021 £000	Unaudited 2020 £000
(a) Interest receivable and similar income		
Bank interest received	**-**	55
Total interest income on financial assets not measured at fair value through profit or loss	**-**	55
Net exchange gains	**-**	14,757
Gain on derivative financial liabilities	**2,312**	-
Total interest receivable and similar income	**2,312**	14,812

(b) Interest payable and similar expenses

	2021 £000	Unaudited 2020 £000
Interest payable on related party loans	**(455)**	(817)
Finance lease interest	**(475)**	(540)
Interest payable on bank loans and overdrafts	**(2,902)**	(2,636)
Interest payable on senior secured notes	**(45,915)**	(41,744)
Other interest payable and finance charges	**(1,336)**	(3,168)
Total interest expense on financial liabilities not measured at fair value through profit and loss	**(51,083)**	(48,905)
Losses on derivative financial instruments	**-**	(14,156)
Net exchange loss	**(4,646)**	-
Total interest payable and similar expenses	**(55,729)**	(63,062)

	2021 £000	Unaudited 2020 £000
(c) Net interest income/(expense)		
Interest receivable and similar income	**2,312**	14,812
Interest payable and similar expenses	**(55,729)**	(63,062)
Net interest income/(expense)	**(53,417)**	(48,250)

Notes to the Company Financial Statements

10. Gain on sale of share in Racing

In December 2020, McLaren Racing Limited issued 12% unsecured convertible loan notes and warrants for proceeds of £100m. This was the first tranche of a total committed investment of £185m, with the remaining due over 2021 and 2022. A further £25m of loan notes and warrants were issued in June 2021.

The framework governance agreement for McLaren Racing entered into part of this arrangement provides the framework under which the business is operated, including defining certain substantive rights in relation to its financial and operating policies. As a consequence of this arrangement it was assessed that the Group holds joint control with the third party investors; meaning the assets and liabilities of McLaren Racing were disposed from the consolidated balance sheet of the Group in December 2020 and subsequently McLaren Racing is accounted for as a joint venture and subject to equity method accounting.

The determination of the resultant gain on this effective sale of a share in the subsidiary (e.g. by issuing warrants, the Group is diluted and therefore in effect selling a portion of its interest in Racing) required allocating the total proceeds from the loan notes issued between the debt (loan notes) and the equity (warrants) components of the transaction. This allocation of the proceeds based on fair values involved judgement and estimation as disclosed in note 4. The exercise resulted in £4m (2020: £30m) being allocated to equity and £21m (2020: £70m) being allocated to debt.

Although not converted by 31 December 2021, 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 per warrant. Under the agreement, these confer the investors voting and dividend rights on an 'as-converted' basis and therefore, whilst the Group owned 100% of the issued equity, it was assessed that the new third party investors in-substance held a 25.00% (2020: 21.05%) share on a diluted basis.

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

Gain on sale of share in Racing	**2021 £000**	**Unaudited 2020 £000**
Proceeds allocated to the equity of McLaren Racing	**4,000**	**30,000**
Group's share of the above proceeds @75.0% (2020:78.95%) being the Group's retained interest in McLaren Racing (see note 15) - (A)	**3,000**	**23,685**
Carrying amount of investment of McLaren Racing on the date of sale	**3,599**	**12,421**
Carrying amount of interest transferred being 3.95% (2020:21.05%) share sold to the new investors (see note 15) – (B)	**180**	**2,615**
Gain on sale of share in McLaren Racing (A-B)	**2,820**	**21,070**

On 3 August 2021 the company sold its investment in McLaren Racing for a consideration of £81.8m and the investment disposed of was £2.3m giving a net profit on disposal of £79.5m.

Notes to the Company Financial Statements

11. Tax on profit/(loss)

(a) Tax credit included in profit or loss	2021 £000	Unaudited 2020 £000
Current tax:		
- UK corporation tax on profit/(loss) for the period	**2,494**	3,694
- Foreign corporation tax on profit/(loss) for the year	**3,183**	3,778
- Adjustments in respect of prior years	**607**	256
Total current tax	**6,284**	7,728
Deferred tax:		
- Origination and reversal of timing differences	**(20,694)**	(42,256)
- Adjustments in respect of prior years	**(4,423)**	(718)
- Impact of change in tax rate	**(42,551)**	(8,315)
Total deferred tax (note 23)	**(67,668)**	(51,289)
Tax credit on loss	**(61,384)**	(43,561)

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

Deferred tax:	2021 £000	Unaudited 2020 £000
Origination and reversal of timing differences:		
- Foreign exchange reserve	**2,135**	**-**
- Origination and reversal of timing differences	**1,094**	930
Tax credit included in other comprehensive income/(expense)	**3,229**	930

Notes to the Company Financial Statements

(c) Reconciliation of tax credit:

The tax assessed for the year is lower (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021	**unaudited 2020**
	£000	**£000**
Loss before taxation	**(67,453)**	(318,320)
Profit/(loss) before taxation multiplied by the standard rate of tax in the UK of 19% *(2020: 19%)*	**(12,816)**	(60,481)
Effects of:		
- Income not subject to tax	**(24,259)**	(695)
- Unrecognised deferred tax	**9,853**	25,717
- Expenses not deductible for tax purposes	**11,207**	387
- Impact of overseas tax rates	**893**	467
- Adjustments in respect of prior years	**(3,810)**	(461)
- Withholding tax suffered	**98**	65
- Tax incentives	**-**	(245)
- Re-measurement of deferred tax	**(42,550)**	(8,315)
Total tax credit for year	**(61,384)**	(43,561)

(d) Tax rate changes

The current UK corporation tax rate is 19% (2020:19%). Deferred tax balances at 31 December 2021 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.

In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

12. Intangible assets

Notes to the Company Financial Statements

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 2021	1,583,185	71,995	12,350	17,891	1,685,421
Additions - Internally generated	155,431	178	-	-	155,609
Disposals	-	(30)	-	(40)	(70)
Disposal of subsidiary	-	-	(12,350)	(17,851)	(30,201)
Reclassification	(6,634)	2,832	-	-	(3,802)
At 31 December 2021	**1,731,982**	**74,975**	**-**	**-**	**1,806,957**
Accumulated amortisation and impairment:					
At 1 January 2021	801,973	33,985	3,939	15,673	855,570
Charge for the year	144,172	7,192	267	797	152,428
Impairment	-	-	-	(524)	(524)
Disposal of subsidiary	-	-	(4,206)	(15,946)	(20,152)
At 31 December 2021	**946,145**	**41,177**	**-**	**-**	**987,322**
Net book value:					
At 31 December 2021	**785,837**	**33,798**	**-**	**-**	**819,635**
At 31 December 2020	781,212	38,010	8,411	2,218	829,851

Research and development costs recognised as an expense in the year were £1.4m (2020: £3.1m).

New production development costs relate to expenditure on developing cars which are expected to be amortised over a period consistent with the expected life span of the associated vehicle, being typically 5-10 years. The most material balance is in relation to the Artura, the Group’s first high performance hybrid supercar to be launched on it’s new lightweight carbon vehicle architecture, and is expected to be launched in mid-2022. Other material balances relate to other future models in development as well as existing models such as the GT, 720S and 765LT. Spend on one model may support the development of other models are therefore the amortisation of these costs will reflect this fact.

IT systems development costs relate to network development and CAD upgrade.

Reclassification includes leasehold improvements transferring from asset under construction to leasehold improvements within tangible assets

The amortisation charge includes £10.1m (2020: £nil) absorbed into inventory

The Company had no intangible assets at 31 December 2021 (2020: £nil).

13. Tangible assets

Notes to the Company Financial Statements

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 2021	279,119	30,404	67,562	2,071	69,237	3,951	452,344
Additions	-	2,431	137	-	3,680	728	6,976
Disposals	(274,865)	(4,337)	(235)	-	(518	(2,335)	(282,290)
Reclassification	-	8,626	794	-	(4,094)	(1,524)	3,802
Disposal of subsidiary	(1,307)	(17)	(16,209)	-	(2,207)	-	(19,740)
At 31 December 2021	**2,947**	**37,107**	**52,049**	**2,071**	**66,098**	**820**	**161,092**
Accumulated depreciation and impairment:							
At 1 January 2021	83,184	4,166	52,139	1,107	49,045	2,335	191,976
Charge for the year	2,020	2,187	5,209	241	4,801	-	14,458
Disposals	(85,482)	(1,860)	(154)	-	(420)	(2,335)	(90,251)
Impairments	1,585	-	89	-	121	-	1,795
Disposal of subsidiary	(1,307)	(17)	(14,866)	-	(2,049)	-	(18,239)
Exchange adjustment	-	(1)	(1)	-	-	-	(2)
At 31 December 2021	**-**	**4,475**	**42,416**	**1,348**	**51,498**	**-**	**99,737**
Net book value:							
At 31 December 2021	**2,947**	**32,632**	**9,633**	**723**	**14,600**	**820**	**61,355**
At 31 December 2020	**195,935**	**26,238**	**15,423**	**964**	**20,192**	**1,616**	**260,368**

The net carrying amount of assets held under finance leases included in plant, machinery, tools and equipment is £nil (2020: £nil) and within fixtures, fittings and office equipment is £3.6m (2020: £5.6m).

In April 2021, the Group completed the sale of its global headquarters for consideration of £170.0m (£167.8m net of fees). Following this transaction, the closing book value of the freehold land and buildings category comprises land of £2.9m (2020: £26.1m).

Closing book value of the freehold land and buildings category comprises land of £2.9m (2020: £26.1m).

Reclassification of £3.8m relates to assets that were under construction within Intangibles that are now in use under tangible assets.

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 2021 (2020: £nil).

14. Heritage assets

Over the last 50 years the Group has established a large collection of heritage race and road cars which chronicle the Group's racing heritage and its development into a global leader in high performance

Notes to the Company Financial Statements

supercars. These vehicles have been used to serve as promotional vehicles for the brand within the McLaren Technology Centre (MTC) as well as at museums, retailers and heritage track days around the world. The collection comprises 54 vehicles (2020: 58).

Group

Cost and net book value:	**£000**
At 1 January 2021	34,155
Reclass from Inventory	376
Disposal	(12,750)
At 31 December 2021	**21,781**

Five year financial summary of heritage asset transactions:

	2021	**2020**	**2019**	**2018**	**2017**
	£000	**£000**	**£000**	**£000**	**£000**
Additions	**376**	**233**	**300**	317	1,649
Disposals:					
Carrying value	**(12,750)**	**23,170**	-	-	-
Sales proceeds	**93,556**	-	-	-	-

In 2021~~,~~ there were disposals of Heritage assets of £12.8m with sales proceeds recognised of £93.3m, giving a gain in disposal of £80.8m. The only disposals in 2020 were those cars held by Racing at the time the Group ceased to control this business. Certain heritage vehicles were sold in 2020 to third parties but these formed part of inventory – the sales proceeds, recognised in turnover, in 2020 on these vehicles were £10.2m, the carrying value was £0.8m and there were preparation costs recognised in cost of sales of £0.8m~~.~~

The Company had no Heritage assets at 31 December 2021 (2020: £ nil)

Notes to the Company Financial Statements

15. Investments

Group

Investment in Joint Venture

As explained in note 10, 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.

Investment in joint venture on initial recognition and as at 31 December 2021 was computed as follows:

	2021 **£000**	2020 £000
As at 1 January	**32,606**	-
Reduction in shareholding in Racing (see below)	**2,820**	33,492
Group's share 75% (2020:78.95%) of the losses of the joint venture	**(33,166)**	(886)
Disposal	**(2,260)**	-
As at 31 December 2021	**-**	(32,606)

	2021 **£000**	2020 £000
Carrying amount of McLaren Racing's net assets at disposal	**-**	9,807
Carrying value of diluted interest	**(180)**	-
Group's share 75% (2020:78.95%) of the proceeds in McLaren Racing allocated to equity (refer note 10)	**3,000**	23,685
	2,820	33,492

On 3 August 2021 the Group disposed of its shareholding in McLaren Racing for £81.8m, resulting in a gain on disposal of £79.5m.

Company	**2021** **£000**	**2020** **£000**
Shares in Group undertakings	**274,071**	355,821

A List of subsidiaries of the Company are provided in note 33.

Notes to the Company Financial Statements

16. Inventories

Group

	2021 **£000**	**Unaudited** **2020** **£000**
Raw materials and consumables	**80,855**	57,174
Work in progress	**59,086**	21,985
Finished goods and goods for resale	**55,385**	33,614
	195,326	112,773

The Company had no inventories at 31 December 2021 (2020: £nil).

17. Debtors

Group	**2021** **£000**	**Unaudited** **2020** **£000**
Trade debtors	**50,043**	149,012
Amounts owed by Joint Venture	**-**	423
Amounts owed by related parties (note 31)	**4,050**	4,164
Taxation and social security	**10,291**	6,998
Other debtors	**18,190**	16,491
Deferred tax asset (note 23)	**177,741**	116,498
Derivative financial assets (notes 25 and 26)	**6,162**	16,734
Prepayments and accrued income	**21,064**	26,055
	287,541	336,375

Trade debtors are stated after provisions for impairment of £0.4m (2020: £0.4m).

Trade debtors balances falling due after more than one year is nil (2020: £nil).

Amounts owed by related parties are repayable on demand and represent business transactions under normal commercial terms and conditions £nil at December 2021 (2020: £3.2m).

Company

Notes to the Company Financial Statements

	2021 £000	2020 £000
Amounts owed by Group undertakings	**914,575**	708,321
Deferred tax asset (note 23)	**9,487**	9,212
Derivatives	**34**	-
Prepayments and accrued income	**1,616**	949
	925,712	718,482

Amounts owed by group undertakings include loans and interest accrued thereon. £858,595k of group loans attract interest at 6.25% (2020: £666,408k), are unsecured and repayable on demand. £2,692k of the group loans attract interest of 5% (2020: £281k) and are repayable on demand. £6,898k (2020: £6,542k) of group loans are interest free (originally £7,500k discounted at a market rate of interest) and are repayable in July 2023. £27,107k of the group loans attract interest of 5.3% (2020: £27,107k) and are repayable by July 2023.

18. Creditors: amounts falling due within one year

Group	2021 £000	Unaudited 2020 £000
Bank loans and overdraft (note 20)	**-**	68,899
Obligations under finance leases (note 20)	**1,713**	1,945
Trade creditors	**63,967**	61,398
Amounts owed to joint venture	**-**	2,133
Amounts owed to related parties (note 31)	**4,764**	700
Other creditors	**70,773**	111,368
Taxation and social security	**5,207**	6,435
Derivative financial liabilities (note 25 and 26)	**13,443**	2,784
Accruals and deferred income	**179,617**	206,674
	339,484	462,336

The Group is party to a trade finance arrangement whereby a financial institution settles certain trade debtors in advance of the cash being due from the debtor. The financial institution has insurance coverage in place in the event of non-payment by the debtor. Other creditors include £11.2m (2020: £63.7m) of Trade Finance, relating to £11.2m of trade debtors (2020: £63.7m). The facility can also be used to finance finished goods of the Group and £14.3m was drawn at December 2021 (2020: £nil). The total facility available is up to US$220m or equivalent, at a calculated interest rate of SONIA (Sterling Overnight Index Average) for Sterling, US LIBOR for US Dollars and Euribor (for Euros) for the applicable period plus the bank funding cost (if any) plus a margin of 1.125% plus a credit adjustment spread. In addition, other creditors also include £18.5m (2020: £9.5m) of drawn other working capital financing facilities associated with inventories of the Group, to support working capital management and cash flows.

Company	**2021**	**2020**

Notes to the Company Financial Statements

	£000	**£000**
Bank Loans and overdrafts	**-**	68,899
Amounts owed to group undertakings	**299,577**	87,479
Accruals and deferred income	**103**	632
	299,680	157,010

McLaren Holdings Limited is party to an unlimited cross company guarantee securing all monies due, or to become due, in respect of the overdraft and £95,000k loan facility (2020: £130,000k) provided to McLaren Holdings Limited by its bankers. As at 31 December 2021 the balance guaranteed was £nil (2020: £68,899k).

In August 2021, McLaren Finance Plc, a subsidiary of McLaren Holdings Limited, issued $620,000k of dollar denominated 7.50% Senior Secured Notes due August 2026 and repaid the outstanding £370,000k of sterling-denominated 5% Senior Secured Notes due August 2022, and $350,000k of dollar denominated 5.75% Senior Secured Notes due August 2022 at the same time. The Company is party to a guarantee in relation to all these facilities.

Amounts owed to group undertakings include group loans of £273,630k (2020: £66,355k) which accrue interest at a rate of 6.25%, are unsecured and repayable on demand.

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

Group	**2021** **£000**	**Unaudited** **2020** **£000**
Senior secured notes (note 20)	**448,051**	613,576
Obligations under finance leases (note 20)	**1,568**	3,308
Amounts owed to parent undertakings	**6,898**	12,467
Derivative financial liabilities (note 25 and 26)	**3,360**	1,659
	459,877	631,010

Company	**2021** **£000**	**2020** **£000**
Amounts owed to group undertakings	**454,948**	626,042
	454,948	626,042

Within amounts owed to group undertakings, £6,898k of group loans are interest free (originally £7,500k discounted at a market rate of interest) and repayable in July 2023.

The remaining amount relates to a new term loan facility of USD $620,000K (£458,038k less transaction fees), due in August 2026 at a rate of 7.5% interest.

20. Loans and other borrowings

Notes to the Company Financial Statements

	Group	
	2021	**Unaudited 2020**
	£000	**£000**
Bank loans and overdraft	**-**	68,899
Senior secured notes	**448,051**	613,576
Obligations under finance leases	**3,280**	5,253
Amounts owed to parent undertakings	**6,898**	12,467
	458,229	631,296

Bank loans and overdraft

The Group's financing facility includes a Revolving Credit Facility (RCF) of £95m. The balance available to draw is reduced by £40m committed guarantee facility, and the overdraft available of £15m. At 31st December 2021 there was no bank overdraft drawn (2020: £nil), and the RCF was undrawn (2020: £130m available, drawn £68.9m) with a final maturity date of May 2026. Interest is charged at SONIA plus 3.75% on the drawn down amount.

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.

A number of the Group's subsidiaries have provided guarantees in respect of the obligations under the revolving credit facility and the Group is restricted in its use of assets secured by these facilities

Senior secured notes

In August 2021, McLaren Finance Plc, a subsidiary of McLaren Holdings Limited, issued US$620m 7.50% Senior Secured Notes due August 2026 and repaid the outstanding £370m 5% Senior Secured Notes due August 2022, and $350m 5.75% Senior Secured Notes due August 2022 at the same time.

Under the terms of the revolving credit facility and the senior secured notes the Group has certain covenants and restrictions (in respect of matters such as indebtedness, dividends, acquisitions, investments, disposals, transfers etc).

Interest rates

The Group's borrowings have limited exposure to floating interest rates and the facilities where floating rates are applied have been transitioned to the new benchmark during the year with the applicable reference rate being SONIA. The Senior Secured Notes apply a fixed interest rate.

Finance leases

The future minimum finance lease payments are as follows:

	2021	**Unaudited 2020**
	£000	**£000**

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Not later than one year	**1,868**	2,291
Later than one year and not later than five years	**1,627**	3,526
Total gross payments	**3,495**	5,817
Less finance charges	**(215)**	(564)
Carrying amount of liability	**3,280**	5,253

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

21. 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	2021	Unaudited 2020
	£000	£000
Current year contributions	**3,742**	10,193

22. Provisions for liabilities

Group	Dilapidations	Product Warranty	End of Contract	Restructuring	Other	Total
	£000	£000	£000	£000	£000	£000
1 January 2021	1,730	25,240	10,127	2,959	273	40,329
Additions	68	19,132	14,852	-	7,289	41,341
Amounts utilised	(11)	(28,585)	(5,052)	(2,959)	-	(36,607)
31 December 2021	**1,787**	**15,787**	**19,927**	**-**	**7,562**	**45,063**

Dilapidations

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 2022 and 2038.

Product warranty

The Group is liable for the parts and labour costs associated with repairing manufacturing faults arising on vehicles during the warranty period (typically three years). The provision for product warranties reflects the expected claims value during the remaining warranty period for vehicles under warranty at the reporting date. It is estimated that £8.9m (2020: £14.9m) of the provision will be utilised within 12 months.

End of contract

The provision is for the Group's obligation to provide a residual value guarantee to the finance provider on the Personal Contract Purchase (PCP) arrangements between the retailers and customers. The provision

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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 for new cars sold and market conditions.

Restructuring

Restructuring provisions relate principally to redundancy and other associated costs arising as a result of a reorganisation and are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date.

Other

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

23. Deferred tax asset

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

Group	**2021 £000**	**unaudited 2020 £000**
Depreciation in excess of capital allowances	**6,305**	4,703
Revaluation of heritage assets	**(4,606)**	(5,700)
Financial instruments	**887**	899
Other timing differences	**8,670**	5,302
Foreign exchange reserve	**2,135**	-
Tax R&D incentives	**9,753**	10,318
Losses carried forward	**154,597**	100,976
	177,741	116,498

	Group £000
The movement in net deferred tax assets is reconciled as follows	
At 1 January 2021	**116,498**
Add: net deferred tax credit for the year recognised in income statement (note 11)	**67,660**
Add: deferred tax charge recognised in other comprehensive income	**3,229**
Less: amounts relating to McLaren Applied derecognised on sale of business	**(9,646)**
At 31 December 2021	**177,741**

Company

The deferred tax asset consists of the following:

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	2021	2020
	£000	**£000**
Losses carried forward	**2,185**	9,212

The deferred tax assets expected to reverse in 2022 total £nil. The trading losses do not expire.

The Group deferred tax assets expected to reverse in 2022 total £Nil (2020: £0.9m). This primarily relates to fixed asset timing differences and losses carried forward.

At 31 December 2021 the Group has losses amounting to £1m (2020: £1m) 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. The trading losses do not expire.

There are also £Nil (2020: £7.5m) of unrecognised trade losses in respect of overseas locations where recovery is not certain. Further, there are £2m (2020: £Nil) of unrecognised UK trade losses where it is not probable that taxable profits will be available against which they can be utilised.

24. Deferred capital funding

Group	**2021**	**unaudited 2020**
	£000	**£000**
Cost and net book value:		
At 1 January	**92,836**	96,493
Amortisation credit for the year	**(1,220)**	(3,657)
Disposal of building	**(91,616)**	-
At 31 December	**-**	92,836

Deferred capital funding is capital based funding received for the construction of the McLaren Technology Centre. Following the sale and leaseback transaction in April 2021 the balance was released as part of the transaction and forms part of the gain on sale.

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25. Financial instruments

The Group has the following financial instruments:	Group	
	2021 £000	unaudited 2020 £000
Financial assets measured at fair value through profit or loss		
- Derivative financial assets (notes 17 & 26)	**6,162**	16,734
Financial assets that are debt instruments measured at amortised cost		
- Trade debtors (note 17)	**50,043**	149,012
- Amounts owed by related parties (note 17)	**-**	4,164
- Other debtors (note 17)	**18,190**	16,491
- Accrued income (note 17)	**8,810**	12,957
	83,205	199,358
Financial liabilities measured at fair value through profit r loss		
- Derivative financial liabilities (notes 18, 19 and 26)	**16,803**	4,443
Financial liabilities measured at amortised cost		
- Bank Loan (note 18)	**-**	68,899
- Senior secured notes (note 19)	**448,051**	613,576
- Finance leases (notes 18 and 19)	**3,280**	5,253
- Trade creditors (note 18)	**63,967**	61,398
- Other creditors (note 18)	**79,669**	111,369
- Accruals (note 18)	**120,042**	143,237
	722,915	1,008,175

26. Derivative financial instruments

Group	Current		Non-current	
	2021 £000	Unaudited 2020 £000	2021 £000	Unaudited 2020 £000
Assets				
Forward foreign currency contracts	**5,802**	12,298	**360**	4,436
Liabilities				
Forward foreign currency contracts	**(13,443)**	(2,784)	**(3,360)**	(1,659)
	(7,641)	9,514	**(3,000)**	2,777

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 2021, the outstanding contracts mature out to October 2023. The Group has entered into fixed forward contracts and forward option contracts to sell

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various currencies, primarily USD and 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.

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	
	2021	Unaudited 2020	2021 £000	Unaudited 2020 £000	2021 £000	Unaudited 2020 £000
Sell						
USD	**1.3670**	1.312	**339,890**	**373,131**	(3,365)	13,488
JPY	**146.5936**	138.9865	**55,732**	**52,595**	2,925	565
CNY	**9.2228**	8.9242	**37,515**	**26,557**	(2,210)	127
AUD	**-**	1.8360	**-**	**10,316**	-	(164)
EUR	**1.1262**	1.099	**207,786**	**216,972**	(7,991)	(1,725)
					(10,641)	12,291

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 two financial years.

Gains of £2,312 (2020: Losses of £14,156k) were recognised in profit or loss in 2021.

27. Called up share capital and reserves

Share Capital

Group and company

Ordinary shares of £0.01 each	**2021 £000**	**Unaudited 2020 £000**
Allotted and fully paid:		
At 1 January	**108**	89
Shares issued in the year	**-**	19
At 31 December	**108**	108

The Company has one class of ordinary shares which carry no right to fixed income. Dividend payment requires a 75% shareholder approval. In August 2021 McLaren Holdings Limited issued 100 ordinary 1p shares at a consideration of £1.9m per share.

Reserves

Merger reserve represents the Group reconstruction relief that arose upon merger of McLaren Automotive into the McLaren Group in 2017.

Capital contribution reserve arises on gifts or equivalent made to the Company by a shareholder, with the current balance relating to a discount on a shareholder loan as part of the group reconstruction in 2017.

Notes to the Company Financial Statements

The Other reserves represent 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.

Revaluation reserve relates to the heritage assets.

28. Consolidated statement of cash flows

Reconciliation of loss to net cash flow from operating activities

	2021 £000	Unaudited 2020 £000
Profit /(loss) for the financial year	**(6,069)**	(274,759)
Adjustments for:		
Tax on loss	**(61,384)**	(43,561)
Net interest expense	**53,417**	48,250
Profit on sale of share in subsidiary	**(2,820)**	(21,070)
Operating loss	**(16,856)**	(291,140)
Depreciation and amortisation expense	**155,521**	232,359
Impairment of assets	**1,271**	12,762
Trade receivables impairment expense	**-**	355
Share of results of joint venture	**33,166**	886
Increase in heritage assets	**-**	(233)
Realised net exchange gain / (loss)	**16,640**	(10,286)
Net loss on disposal of subsidiary	**33,320**	-
Profit on disposal of fixed assets	**(67,690)**	(1,274)
Profit on disposal of heritage assets	**(80,806)**	-
Net gain on disposal of investment	**(79,490)**	-
Decrease in amounts relating to joint venture	**-**	38,791
Operating cash outflow before movements in working capital	**(4,924)**	(17,780)
(Increase)/decrease in stocks and work in progress	**(76,955)**	1,329
Decrease in debtors	**80,968**	85,603
Decrease in creditors	**(57,484)**	(294,692)
Decrease in amounts owed to related parties	**(3,820)**	(9,040)
(Decrease)/increase in provisions	**(1,620)**	15,152
Cash used in operations	**(63,835)**	(219,428)

Non-cash transactions

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During the year new tangible assets acquired under finance leases was £nil k (2020: £0.7m). In addition, £0.4m (2020: £2.1m) in new tangible assets were acquired but not settled, with amounts owing to third parties at year end reflected in trade creditors and accruals.

Analysis of changes in net debt

	At 1 January 2021	***Cash flows***	***New finance leases***	***Fair value & exchg. movements***	***Non-Cash changes***	***At 31 December 2021***
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cash and cash equivalents	66,709	10,083	-	(96)	-	**76,696**
Revolving credit facility	(68,899)	68,899	-	-	-	**-**
Senior secured notes	(613,576)	185,170	-	(7,405)	(12,240)	**(448,051)**
Finance Leases	(5,253)	1,973	-	-	-	**(3,280)**
Amounts owed to parent undertaking	(12,467)	8,123	-	-	(2,554)	**(6,898)**
Total	**(633,486)**	**274,248**	**-**	**(7,501)**	**(14,794)**	**(381,533)**

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

30. 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	**2021 £000**	**Unaudited 2020 £000**
Payments due:		
Not later than one year	**24,140**	8,351
Later than one year and not later than five years	**90,506**	24,306
Later than five years	**267,142**	34,248
	381,788	66,905

The above includes the commitment associated with the Sale & Leaseback transaction that occurred in April 2021, and resulted in the sale of the McLaren Technology Centre and McLaren Production Centre. The Group agreed a 20-year lease whereby the site will remain the Group’s headquarters. Under the terms of the lease the Group has a right until 2023 to request a reset of the rental charge based on certain market factors. The rent is subject to annual inflationary increases based on an agreed cap and collar.

The Group has issued guarantees and irrevocable Letter of Credits which reduces the funding available under the Group’s revolving credit facility. The balance at 31 December 2021 was £32.5m (2020: £20.2m)

Notes to the Company Financial Statements

31. Related party transactions

Transactions with related companies during the year were as follows:

Group	Year ended 31 December 2021 £000	Balance outstanding at 31 December 2021 £000	Year ended 31 December 2020 £000	Unaudited Balance outstanding at 31 December 2020 £000
Sales to related parties				
Directors	**120**	**-**	5,036	3,201
Directors of subsidiaries	**375**	**-**	164	-
McLaren Racing	**20,457**	**1,328**	423	423
McLaren Group	**2,722**	**2,722**	963	963
Repayment of loan by related parties:				
McLaren Racing	-	**-**	38,791	-
Amounts owed by related parties at 31 December		**4,050**		4,587
Split by:				
Amounts owed by related parties due < 1 year		**4,050**		4,587
Amounts owed by related parties due > 1 year		**-**		-
		4,050		4,587

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Group	Year ended 31 December 2021 £000	Balance outstanding at 31 December 2021 £000	Year ended 31 December 2020 £000	Unaudited Balance outstanding at 31 December 2020 £000
Purchases from related parties				
McLaren Racing	**5,288**	**869**	2,133	2,133
McLaren Group	**2,895**	**3,895**	700	700
Loans from related parties:				
Receipt/(settlement) of loans from shareholders:				
Bahrain Mumtalakat Holding Company	**-**	**-**	(27,843)	-
TAG Automotive Limited	**-**	**-**	(9,255)	-
Amounts owed to related parties at 31 December		**4,764**		2,833
Split by:				
Amounts owed to related parties due < 1 year		**4,764**		2,833
Amounts owed to related parties due > 1 year		**-**		-
		4,764		2,833

Amounts owed to McLaren Racing are repayable on demand and represent business transactions under normal commercial terms and conditions.

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

32. Ultimate controlling party

McLaren Group Limited is the parent company of the Group and at 31 December 2021 McLaren Group Limited’s shareholders was as follows: 59.91% Bahrain Mumtalakat Holding Company, 14.39% TAG Automotive Limited, 9.99% Nidala (BVI) Limited, 5.61% Favorita Limited, 3.96% Perlman Investments Limited, 3.59% McKal Holdings Limited, and 2.56% Acanitt Limited.

Bahrain Mumtalakat Holding Company, registered address Arcapita Building, 4th Floor, Building No. 551, Road 4612, Sea Front 346, Bahrain Bay, Kingdom of Bahrain (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 Company Financial Statements

33. Subsidiaries and related undertakings

All the below subsidiaries are wholly owned and included in the consolidation of the Group
:

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	Development, manufacture and sale of high performance sports cars	100%
McLaren Automotive Events Limited	Events Company	100%
McLaren Finance Plc	Financing Company	100%
McLaren Services Limited	Managed services	100%
McLaren Support Services Limited	Managed services	100%

* Entity formed part of the Applied business and therefore was only a member of the Group until 4 August 2021, after which it was no longer a subsidiary or related party of the Group.
[#] Investment is directly held by the Company.

Name	Country of incorporation	Principal activity	Holding ordinary share capital
Incorporated overseas:			
McLaren Applied Inc, incorporated in the United States of America *	USA	Marketing and sales of Applied products	100%
McLaren Automotive Inc, incorporated in the United States of America	USA	Sports car retailer	100%
McLaren Automotive Asia Pte Limited, incorporated in Singapore	Singapore	Sports car retailer	100%
McLaren Applied Pte Ltd, incorporated in Singapore *	Singapore	Marketing and sales of Applied Limited	100%
McLaren Automotive Distribution (Shanghai) Company Limited, incorporated in China	China	Sports car retailer	100%
McLaren Automotive Europe S.LU incorporated in Spain	Spain	Maintenance and repair of motor vehicles	100%

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

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

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

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

Notes to the Company Financial Statements

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

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

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