

# **McLaren Racing Limited**

**Annual report and financial  
statements**

**Registered number 01517478**

**31 December 2018**



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## **Strategic report**

### **Principal activities**

The principal activity of McLaren Racing Limited (the "Company") during the year was that of participating in Formula One ("F1") motor racing events throughout the world. This includes the design, development, manufacture and racing of F1 cars. In addition, the Company sells its own heritage cars as part of its business activities.

In January 2019, as part of a process of corporate simplification aimed at improving the efficiency of the overall McLaren organisation, the trade and assets of McLaren Marketing Limited and Team McLaren Limited were transferred to McLaren Racing Limited.

McLaren Marketing Limited's principal activity is the provision of marketing and advertising services, relating to rights of brand association to the McLaren Group.

Team McLaren Limited's principal activity is the managing the merchandising and certain licensing interests of McLaren Technology Group Limited.

### **Business review**

McLaren entered the year with the continued driver partnership of Stoffel Vandoorne and Fernando Alonso and a new engine partnership with Renault. McLaren finished sixth in the Formula 1 World Constructors' Championship with 62 points. This is a good step forward on 2017 when the team finished ninth with just 30 points. This will lead to an increase in the prize money that the team will receive in 2019, as compared to 2018, as the allocation of prize money is based on prior year Championship position.

Whilst this is a good step forward, this is not where the team forecast to be but the fundamental aerodynamic weaknesses in the design of the 2018 car have been identified and the 2019 car is a big improvement on its predecessor. The team is therefore confident that in 2019 McLaren can move up the grid.

Sponsorship acquisition in 2018 improved with the performance but was not as strong as forecast, given the steps made by the car were not as much as expected. However, some of the new contracts signed in 2018 have built a solid foundation for 2019 and the team has a number of significant prospects in the pipeline for 2019 which will all help to recover the financial position of the Racing Team.

For 2019, the team announced that Carlos Sainz Junior was joining the team (replacing Fernando Alonso who is not racing in Formula 1 in 2019) and that he will be partnered by Lando Norris. Lando has been part of the McLaren Young Driver Programme since early 2017, when he officially joined the team as a Test and Simulator Driver. He graduates to a race seat having been the McLaren Test and Reserve Driver in 2018 as well as contesting the 2018 FIA Formula 2 Championship. In addition, Sergio Sette Camara takes Lando's place as Test and Development driver for 2019.

Racing have also announced that they will return to the Indy 500 for the second time in three years when they contest the 103rd running of the race in May 2019. Fernando Alonso has been signed up to race for McLaren in the race.

Off the track, Zak Brown (CEO, McLaren Racing Limited) has completed a full review of the Racing structure following his appointment earlier in the year and has been restructuring his management team. In particular, Racing has announced that they have secured the services of James Key as Technical Director and Andreas Seidl as Managing Director of McLaren F1. These, and other new appointments, will strengthen the team and bring a wealth of experience into McLaren over the next 12 months. The team have also turned their focus to sponsorship acquisition for the new 2019 season and have a significant number of potential prospects. For 2019 McLaren has added British American Tobacco, Huski Chocolate and Coca Cola to its impressive list of partners. All the changes that have been made throughout the team in 2018, mean that McLaren is more confident going into the 2019 season and hopes to improve upon the points total that it achieved in 2018.

## **Strategic report (continued)**

In respect of the wider Formula 1 commercial environment, McLaren continues to work with the FIA and Formula 1 Management in order to create a more sustainable sport. The current commercial framework for Formula 1 ends at the end of 2020 and all parties are looking to sign a long-term agreement that will both improve the sport and also the financial returns for all parties involved. The aim of these changes is to grow the size of Formula 1 as a business and ultimately the value of the team franchises from 2021 and beyond.

The key items for discussion and decision are:

- the control of costs and cost capping;
- more equitable revenue distribution of prize money;
- the growth of Formula 1 as a business with a wider fan base reaching new markets; and
- exploitation of digital channels and environments such as e-sports.

The Group's strategy is to build performance in the team, looking forward to the new regulations which are due to come into force from 2021. McLaren is playing its full part in agreeing these regulations and welcomes the measures to control costs and improve revenues for teams. As a result, the Group plans to reduce the net cost of competing in Formula 1 over the next five years but at the same time take advantage of the new regulations to improve the competitiveness of the team.

As a result of our racing programme, over the past 50 years the Group has established a large collection of heritage race cars and other vehicles which chronicle our racing history 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. Each year, three vehicles are typically added to this collection which are the cars that have run in that season's Formula 1 World Championship.

Managing such a large collection takes significant resource and during 2017 Executive management of the Group made the decision to establish a programme to sell a specific and limited number of these cars to specialist collectors from around the world. Deposits have been received for the cars identified for sale and, while a small number were delivered in 2017, the majority were prepared and delivered through 2018 with the balance to be delivered in 2019. The results for 2018 include profits on sales of heritage cars of £10.0m.

### **Key performance indicators**

The Directors regularly review multiple KPIs in order to monitor overall business performance. Most significant amongst these is Championship position because success on track has a direct impact on prize money, sponsorship and stakeholder engagement. In the year, our Championship position improved 3 places to 6th.

Additional areas of focus include monthly review of financial performance against Budget and Prior Year specifically in regards to turnover, cost base and cash flow which ensure appropriate management focus on the Company's financial health.

## **Strategic report (continued)**

### **Future developments**

The Company's objective is to build and strengthen our relationship with Renault and compete for podium places in the near future.

In order to achieve these aims our focus is to ensure we continue to attract and retain the best drivers, engineers and support staff and provide sufficient funding to the racing programme to build a car that can challenge at the top of the sport.

### **Principal risks and uncertainties**

Formula One itself is likely to see significant change over the next few years following its acquisition by Liberty Media, there will likely be changes in the way it is run, regulated and marketed, no doubt leading to challenges but also opportunities to reach new markets.

As ever the key direct risks and uncertainties faced by the business are: continuing to be competitive in F1, ability to gain and retain sponsorship, control of the cost base of developing F1 cars and staff recruitment and retention. All of these are obviously linked.

We believe the new partnership with Renault Sport Racing SAS will provide a powertrain will provide us with opportunities to achieve our objectives and challenge for podium positions in the near future.

### **Brexit considerations**

The current uncertainty regarding the way the UK leaves the EU makes it very difficult to plan for, with multiple scenarios having to be considered and addressed. The Group continues to keep the progress of the exit discussions under review but considers the impact of the UK's exit on the financial results of the Group to be low.

For further details of future developments, risks and uncertainties, please refer to the Annual Report of McLaren Group Limited.

On behalf of the Board



**P Buddin**

*Director, McLaren Racing Limited*

10 May 2019

### **Registered Office:**

McLaren Technology Centre  
Chertsey Road  
Woking  
Surrey  
GU21 4YH

## **Directors' report**

The Directors present their annual report and the audited financial statements of the Company and independent auditors' report, for the year ended 31 December 2018.

### **Results**

The loss for the financial year amounted to £84,473,000 (2017: loss of £13,147,000).

### **Future developments and events after the balance sheet date**

The future developments of the Company are explained in the Strategic report on pages 3 to 5.

Following the formation of the new McLaren Group in July 2017, the Group has established a new operational and management structure. The McLaren Group is now formed of three clear divisions: Applied Technologies, Automotive and Racing. The layer of McLaren Technology Group Limited has now been removed from the corporate structure as a parent company, but will continue to operate to provide shared management services to the Group. As part of this corporate simplification exercise, the Group transferred the supporting businesses of McLaren Marketing Limited and Team McLaren Limited into McLaren Racing Limited in January 2019.

### **Research and development**

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

### **Going concern**

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in note 3b on page 16.

### **Financial risk management objectives and policies**

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

Foreign exchange and liquidity risk are managed via McLaren Group Limited, as the Company participates in the Group's centralised treasury arrangements. The Group uses long-term and short-term debt finance, and forward foreign exchange contracts to manage the net position of the Group as a whole.

The Company's credit risk is primarily attributable to its trade receivables. The Company 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 ongoing customer relationships. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

For further details of the Company's risks, please refer to the Annual report of McLaren Group Limited.

### **Heritage Assets**

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

## **Directors' report (continued)**

As at 31 December 2018 the collection numbered some 176 vehicles which were held at a deemed cost of £71.5m, of which £13.7m were held in inventory.

Managing such a large collection takes significant resource and during 2017 executive management of the McLaren Technology Group Limited and McLaren Racing Limited made the decision to establish a programme to sell a specific and limited number of these cars to specialist collectors from around the world. This programme is expected to continue for the foreseeable future.

### **Dividends**

The Directors do not propose a dividend for the year ended 31 December 2018 (2017: £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:

J Allert – appointed 25/07/18  
Z Brown – appointed 25/07/18  
P Buddin – appointed 25/07/18  
J Cooper  
T Murnane  
J Neale  
M Ojeh – resigned 26/06/18

The changes in Directors were as a result of the Group restructure. See the financial statements of McLaren Group Limited for further information.

### **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.

### **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 consultation and engagement**

The Company is committed to ensuring that its people are actively engaged in the ongoing management and future direction of the business. Regular formal, and informal, briefings are held with all sections of the workforce that cover the business's performance.

All employees are incentivised by a bonus scheme linked to on-track performance of the race team.

The Company takes reasonable steps to ensure that all employees, existing and prospective, are given fair and equal opportunity regardless of sex, race, ethnicity, religion or disability.

## **Directors' report (continued)**

### **Statement of directors' responsibilities in respect of the financial statements**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the 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 profit or loss of the Company 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 will continue in business.

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

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

### **Statement of disclosure of information to auditors**

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the 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 Company's auditors are aware of that information.


### **Independent auditors**

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



**Directors' report (continued)**

The Directors' report was approved by order of the Board of Directors on 10 May 2019 and signed by its order.



**T Murnane**  
*Secretary, McLaren Racing Limited*

10 May 2019

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

## **Independent auditors' report to the members of McLaren Racing Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion, McLaren Racing Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss 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 financial statements (the "Annual report"), which comprise: the balance sheet as at 31 December 2018; the profit and loss account; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

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

#### **Independence**

We remained independent of the Company 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.

#### **Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

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

**Reporting on other information**

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

**Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2018 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 Company and its 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 set out on page 8, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

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

**Auditors' responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://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 received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



James Cadzow (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

10 May 2019

## Profit and loss account

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
<b>Turnover</b>		<b>123,641</b>	196,552
Cost of Sales		<u>(169,546)</u>	<u>(153,323)</u>
<b>Gross (loss)/profit</b>		<b>(45,905)</b>	43,229
Administrative expenses		<b>(67,430)</b>	(70,747)
Other operating income		<u>10,972</u>	<u>12,428</u>
<b>Operating loss</b>	5	<b>(102,363)</b>	(15,090)
Income from interests in associated undertakings		<u>490</u>	-
<b>Profit before interest and taxation</b>		<b>(101,873)</b>	(15,090)
Interest receivable and similar income	7	<u>28</u>	<u>(1,002)</u>
<b>Loss before taxation</b>		<b>(101,845)</b>	(16,092)
Tax on loss	8	<u>17,372</u>	<u>2,945</u>
<b>Loss for the financial year</b>		<b><u>(84,473)</u></b>	<b><u>(13,147)</u></b>

## Statement of comprehensive income

for the year ended 31 December 2018

	2018 £000	2017 £000
<b>Loss for the financial year</b>	<b>(84,473)</b>	(13,147)
<b>Other comprehensive income:</b>		
Deferred tax movement on revaluation reserve	<u>795</u>	<u>25</u>
<b>Total comprehensive expense for the year</b>	<b><u>(83,678)</u></b>	<b><u>(13,122)</u></b>

## Balance sheet

as at 31 December 2018

	Note	2018 £000	2017 £000
<b>Fixed assets</b>			
Tangible assets	9	25,052	24,159
Heritage assets	10	57,760	56,551
Investments	11	7,479	-
		<u>90,291</u>	<u>80,710</u>
<b>Current assets</b>			
Inventories	12	43,121	46,825
Debtors	13	51,900	32,980
Cash at bank and in hand		1,676	67
		<u>96,697</u>	<u>79,872</u>
<b>Creditors: Amounts falling due within one year</b>	14	<u>(196,427)</u>	<u>(85,802)</u>
<b>Net current liabilities</b>		<u>(99,730)</u>	<u>(5,930)</u>
<b>Total assets less current liabilities</b>		<u>(9,439)</u>	<u>74,780</u>
<b>Creditors: Amounts falling due after more than one year</b>	15	<u>(472)</u>	<u>(1,013)</u>
<b>Net (liabilities) / assets</b>		<u>(9,911)</u>	<u>73,767</u>
<b>Capital and reserves</b>			
Called up share capital	18	50	50
Revaluation reserve		52,804	56,109
(Accumulated losses) / retained earnings		<u>(62,765)</u>	<u>17,608</u>
<b>Total equity</b>		<u>(9,911)</u>	<u>73,767</u>

The notes on pages 16 to 34 are an integral part of these financial statements.

The financial statements of McLaren Racing Limited on pages 13 to 34 were approved by the Board of Directors on 10 May 2019 and signed on its behalf by:



**P Buddin**  
Director

**Statement of changes in equity**  
for the year ended 31 December 2018

	Called up share capital £000	Revaluation reserve £000	Retained earnings / (Accumulat ed losses) £000	Total equity £000
<b>At 1 January 2017</b>	<b>50</b>	<b>58,127</b>	<b>28,712</b>	<b>86,889</b>
Loss for the financial year	-	-	(13,147)	(13,147)
Other comprehensive income	-	25	-	25
Total comprehensive expense for the year	-	25	(13,147)	(13,122)
Transfer	-	(2,043)	2,043	-
<b>At 31 December 2017</b>	<b>50</b>	<b>56,109</b>	<b>17,608</b>	<b>73,767</b>
<b>At 1 January 2018</b>	<b>50</b>	<b>56,109</b>	<b>17,608</b>	<b>73,767</b>
Loss for the financial year	-	-	(84,473)	(84,473)
Other comprehensive income	-	795	-	795
Total comprehensive expense for the year	-	795	(84,473)	(83,678)
Transfer	-	(4,100)	4,100	-
<b>At 31 December 2018</b>	<b>50</b>	<b>52,804</b>	<b>(62,765)</b>	<b>(9,911)</b>

The transfer of reserves of £4,100K (2017: £2,043K) is in respect of the revaluation movement on the sale of heritage cars.

## **Notes to the financial statements**

### **1. General Information**

McLaren Racing Limited (the "Company") is a private limited company incorporated in the United Kingdom and registered in England. The address of the registered office is given on page 5. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 3 to 5.

The Company is limited by shares.

### **2. Statement of compliance**

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

### **3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **a. Basis of Preparation**

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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.

#### **b. Going concern**

The Company's activities, together with the factors likely to affect its future development and position are set out in the Strategic report on pages 3 to 5.

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company obtained a financial support letter from McLaren Group Limited, also the ultimate controlling party, to enable the Company to operate for the next 12 months.

On the 20 July 2017, the shareholders of both McLaren Technology Group and McLaren Automotive Limited combined both Groups under a newly formed company, McLaren Holdings Limited, which is owned 100% by the newly formed ultimate parent company McLaren Group Limited. A new financing arrangement was put in place at a holding company level through issuance of a five year high yield Bond worth circa £560m, with the funds used to buy out one of the shareholders, pay down existing bank loan facilities and leave a cash surplus of circa £93m. A new revolving credit facility for £90m was also put in place.

Following the raising of the bond in July 2017 and the issue of new equity of £203.1m during 2018 and 2019, the Directors have assessed the updated Business plan and future cash flows for the Group and are assured of the ongoing funding of the Company and have therefore prepared the financial statements on a going concern basis. The Company's Directors therefore are confident that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.



## **Notes to the financial statements (continued)**

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

#### **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 its ultimate parent company, McLaren Group Limited, includes the Company's cash flows in its own consolidated financial statements;
- (ii) from the financial instrument disclosures, required under FRS 102 paragraphs 11.41 to 11.48 and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statements disclosure; and
- (iii) from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7.

#### **d. Consolidated financial statements**

The Company is a wholly owned subsidiary of McLaren Group Limited. It is included in the consolidated financial statements of McLaren Group Limited which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is McLaren Group Limited. The address of the parent's registered office is McLaren Technology Centre, Chertsey Road, Woking, Surrey, GU21 4YH.

#### **e. Foreign currency**

The Company's functional and presentational currency is the pound sterling.

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

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

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within interest receivable/(payable).

## **Notes to the financial statements (continued)**

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

#### ***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 Company and value added taxes.

Revenue represents sponsorship fees, other motor racing revenue receivables and sales by the Company to external customers, excluding value added tax. Sponsorship income is deferred and recognised over the period in which the Company performs its obligations under the sponsorship contract. 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. Other motor racing revenue is recognised when the Company has performed its obligations in order to earn the revenue.

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

Where the Company is party to a joint arrangement which is not an entity, its part of the income and expenditure, assets, liabilities and cash flows have been included in these financial statements.

Interest income is recognised using the effective interest method.

#### ***g. Long-term contracts***

Long-term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover, less foreseeable losses and payments on account not matched with turnover. Contract work in progress is recorded as turnover on the following bases. On contracts which provide for delivery of own manufactured units or components, turnover is recorded when deliveries are made to customers. In respect of initial research and development contracts, turnover is determined by reference to the value of work carried out to date. No profit is recognised until the contract has advanced to a stage where the total profit can be assessed with reasonable certainty. Provision is made for the full amount of foreseeable losses on contracts.

#### ***h. Research and development***

Research expenditure is recognised to the profit and loss account in the period it is incurred. Development expenditure is capitalised only where there is a clearly defined project, the expenditure is separately identifiable, the outcome of the project can be assessed with reasonable certainty, aggregate costs are not expected to exceed related future sales and adequate recourses exist to enable the project to be completed. Research and development tax credit is treated as grant income under IAS20 and recognised as other income in the Profit and loss account. Any withheld portion to be treated as Deferred tax asset and to be offset against future taxable profit.

#### ***i. Employee benefits***

##### ***(i) Defined contribution pension plans***

The Company participates in 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 Company pays fixed contributions to a separate entity. Once the contributions have been paid the Company 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 Company in independently administered funds.

##### ***(ii) Short-term benefits***

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

## **Notes to the financial statements (continued)**

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

#### **i. Employee benefits (continued)**

##### **(iii) Annual bonus plan**

The Company operates a number of annual bonus plans for employees. An expense is recognised in the profit and loss account when the Company 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.

#### **j. Taxation**

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

Current or deferred taxation assets and liabilities are not discounted.

##### **(i) Current tax**

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

##### **(ii) Deferred tax**

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

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

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

Deferred tax 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. 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 on a straight-line basis over the estimated useful lives of the assets at the following rates:

Leasehold premises and improvements	- the shorter of 5 years or the lease life
Plant, machinery, tools and equipment	- 5 years
Motor vehicles	- 4 years
Fixtures, fittings and office equipment	- 5 years

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

## **Notes to the financial statements (continued)**

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

#### **k. Tangible assets (continued)**

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.

#### **l. Heritage assets**

McLaren Racing Limited has a collection of heritage vehicles, made up of 148 racing cars, 4 F1 road cars, 4 historic vehicles and 20 spare F1 racing car monocoques. Under previous UK GAAP the Company had a policy of revaluing Heritage assets every 5 years. On transition to FRS 102 the Company elected to follow the cost model and use the previous revaluation at 31 December 2013 as the deemed cost for the assets. Heritage assets are stated at cost less accumulated depreciation. 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 Directors do not consider the value of the car to decrease and therefore adopting the depreciation and impairment policy of 0% on cost.

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

#### **m. Leased assets**

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

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

##### **(i) Finance leased assets**

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

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

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

## **Notes to the financial statements (continued)**

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

#### **m. Leased assets (continued)**

##### **(ii) Operating leased assets**

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

#### **n. 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 and loss account.

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.

#### **o. Investments**

Investment in subsidiary companies is held at cost less accumulated impairment losses.

#### **p. Inventories**

Inventories are stated at the lower of cost and net realisable value.

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

Racing cars have an expected life of one year and all expenditure on the production and maintenance of such cars is charged to profit and loss account during the racing season in which the racing car is used. The board considers that research and development continues to play a vital role in the Company's success. The Company carries forward to the following year certain development costs incurred in the current year which relate to the production of next season's racing car.

The Directors consider this policy to be appropriate because the considerable and valuable effort expended in preparing a racing car is recognised as an asset and charged in the period in which the corresponding racing arises and benefit is therefore derived.

Heritage cars are held at deemed cost, including any costs that are directly attributable to bringing the asset to its working condition for its intended. Under previous UK GAAP the Company had a policy of revaluing Heritage assets every 5 years. On transition to FRS 102 the Company elected to follow the cost model and use the previous revaluation at 31 December 2013 as the deemed cost for the assets.

## **Notes to the financial statements (continued)**

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

#### **p. Inventories (continued)**

During 2017, management decided to establish a programme of selling heritage cars. At that point, those cars identified for sale were transferred to inventory. This list is reviewed and updated on a regular basis, and where appropriate cars will be transferred between heritage assets and inventory as required.

#### **q. Cash and cash equivalents**

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

Bank overdrafts are shown within borrowing in current liabilities.

#### **r. Provisions and contingencies**

Provisions are recognised when the Company 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.

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. The increase in the provision due to passage of time is recognised as a finance cost.

#### **s. Financial instruments**

The Company 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 and loss account.

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

##### **(ii) Financial liabilities**

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

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is

## **Notes to the financial statements (continued)**

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

#### **s. Financial instruments (continued)**

##### **(ii) Financial liabilities (continued)**

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.

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the profit and loss in finance costs or finance income as appropriate. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

##### **(iii) 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.

#### **t. 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.

#### **u. Related party transactions**

The Company discloses transactions with related parties which are not wholly owned within the same group. It 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 Company's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

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

Management have considered the areas of judgement and estimation and do not believe there are any that hold significant risks of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

## Notes to the financial statements (continued)

### 5. Operating loss

Operating loss is stated after charging:	2018 £000	2017 £000
Depreciation	5,423	3,679
Operating lease rentals	7,057	6,971
Auditors' remuneration – audit of these financial statements	36	36
Loss on disposal of fixed assets	112	164
Profit on disposal of subsidiary	-	-
	<u>          </u>	<u>          </u>

### 6. Employees and directors

#### Employees

	2018 £000	2017 £000
Employee costs during the year:		
Wages and salaries	51,991	43,877
Social security costs	6,104	5,169
Other pension costs	1,696	1,502
	<u>59,791</u>	<u>50,548</u>

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

	2018 Number	2017 Number
Production	357	354
Design & Engineering	261	260
Administration	96	92
	<u>714</u>	<u>706</u>

#### Directors

The Directors' emoluments were as follows:	2018 £000	2017 £000
Aggregate emoluments excluding pensions and highest paid director	675	-
Pension contributions excluding the highest paid director	11	-
Highest paid director's emoluments	3,708	582
Highest paid director's pension contributions	-	11
	<u>4,394</u>	<u>593</u>



## Notes to the financial statements (continued)

### 6. Employees and directors (continued)

	2018 Number	2017 Number
Number of directors who are members of a defined contribution pension scheme	1	1

Jonathan Neale, Paul Buddin and Tim Murnane are also directors of other companies within the McLaren Group, and their remuneration for services to the Group have been borne by another company. The share of the total emoluments of these directors allocated in respect of services to this company is £1,136K (2017: £1,163K).

### 7. Interest receivable and similar income

	2018 £000	2017 £000
<b>(a) Interest receivable and similar income</b>		
On group loans	(1,494)	70
Net exchange gain/(loss)	1,522	(1,072)
	<u>28</u>	<u>(1,002)</u>

### 8. Tax on loss

<b>(a) Tax credit included in profit or loss</b>	2018 £000	2017 £000
<b>Current tax:</b>		
- UK corporation tax on losses for the year	(6,378)	1,443
- Foreign corporation tax on profits for the year	71	45
- Adjustments in respect of prior years	(8)	(337)
Total current tax	<u>(6,315)</u>	<u>1,151</u>
<b>Deferred tax:</b>		
- Origination and reversal of timing differences	(12,548)	(4,218)
- Adjustments in respect of prior years	380	92
- Impact of change in tax rate	1,111	30
Total deferred tax (see note 18)	<u>(11,057)</u>	<u>(4,096)</u>
<b>Tax on loss</b>	<u>(17,372)</u>	<u>(2,945)</u>

## Notes to the financial statements (continued)

### 8. Tax on loss (continued)

	2018 £000	2017 £000
<b>(b) Tax income included in other comprehensive income</b>		
<b>Deferred tax:</b>		
- Origination and reversal of timing differences	(795)	(25)
- Impact of change in tax rate	-	-
<b>Tax income included in other comprehensive income</b>	<b>(795)</b>	<b>(25)</b>

### (c) Reconciliation of tax credit:

The current tax charge for the year is higher than (2017: lower than) the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £000	2017 £000
Loss before taxation	<b>(102,335)</b>	(16,092)

Loss before taxation multiplied by the standard rate of tax in the UK of 19% (2017: 19.25%)

<b>(19,351)</b>	(3,098)
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Effects of:

- Income not subject to tax	(93)	(14)
- Withholding Tax suffered	71	-
- Unrecognised deferred tax	-	(14)
- Expenses not deductible for tax purposes	517	382
- Adjustments in respect of prior years	372	(245)
- Re-measurement of deferred tax – change in UK tax rate	1,111	30
<b>Tax credit for year</b>	<b>(17,372)</b>	<b>(2,959)</b>

### (d) Tax rate changes

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

## Notes to the financial statements (continued)

### 9. Tangible assets

	Leasehold premises and improve- ments £000	Plant, machinery, tools and equipment £000	Motor vehicles £000	Fixtures, fittings and office equipment £000	Assets in the course of construction £000	Total £000
<b>Cost or valuation:</b>						
At 1 January 2018	423	42,211	6,910	24,922	4,467	78,933
Additions	65	3,239	1	1,269	2,157	6,731
Transfers	-	1,672	-	862	(2,534)	-
Disposals	-	(1,070)	(12)	(206)	(15)	(1,303)
At 31 December 2018	<b>488</b>	<b>46,052</b>	<b>6,899</b>	<b>26,847</b>	<b>4,075</b>	<b>84,361</b>
<b>Accumulated depreciation:</b>						
At 1 January 2018	239	30,048	6,624	17,863	-	54,774
Charge for the year	42	3,412	96	1,873	-	5,423
Disposals	-	(716)	(12)	(158)	-	(886)
At 31 December 2018	<b>281</b>	<b>32,744</b>	<b>6,708</b>	<b>19,578</b>	<b>-</b>	<b>59,311</b>
<b>Net book value:</b>						
At 31 December 2018	<b>207</b>	<b>13,308</b>	<b>191</b>	<b>7,269</b>	<b>4,075</b>	<b>25,052</b>
At 31 December 2017	184	12,163	286	7,059	4,467	24,159

The net carrying amount of assets held under finance leases included in plant, machinery, tools and equipment is £1,253K (2017: £1,670K).

### 10. Heritage assets

	Historic Cars £000
<b>Cost and Net book value:</b>	
At 1 January 2018	56,551
Additions	316
Transfer from inventory	893
At 31 December 2018	<b>57,760</b>

## Notes to the financial statements (continued)

### 10. Heritage Assets (continued)

Five year financial summary of heritage asset transactions:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Additions	<b>316</b>	1,649
Transfer from/(to) inventory	<b>893</b>	(22,023)

McLaren Racing Limited has a collection of heritage vehicles, made up of 148 racing cars, 4 F1 road cars, 4 historic vehicles and 20 spare F1 racing car monocoques. The collection is held in several locations; at the McLaren Technology Centre, most of which is on display to visitors and employees; on display at Donington Park Race Circuit; at McLaren Automotive Dealerships; and the remainder is held in secure storage. These assets are held on the balance sheet at cost.

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

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

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

## Notes to the financial statements (continued)

### 11. Investments

The subsidiaries are:

Name	Principal activity	% Holding Ordinary share capital	Nominal value
McLaren Electronic Systems Limited	Dormant	100%	£1
McLaren Grand Prix Limited	Dissolved 29 <sup>th</sup> May 2018	100%	-
McAllico Limited (Formerly McLaren GT Limited)	Dissolved 26 <sup>th</sup> March 2018	100%	-
McLaren International Limited	Dissolved 29 <sup>th</sup> May 2018	100%	-
McLaren Marketing Limited	Marketing	100%	£7,478,757
Trysome Limited	Dissolved 4 <sup>th</sup> September 2018	100%	-

All companies are incorporated in the United Kingdom and the registered office is: McLaren Technology Centre, Chertsey Road, Woking, Surrey, GU21 4YH. It is the Director's intention that McLaren Electronic Systems Limited will be struck-off during 2019 and McLaren Marketing Limited will be made dormant and then dissolved in the near future, at the stage of signing the Annual report, no formal decision had been made to liquidate the entity.

#### **Shares in Group undertakings**

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

### 12 Inventories

	2018 £000	2017 £000
Racing car development costs	23,693	25,498
Raw materials and consumables	2,587	2,605
Finished goods and goods for resale	16,841	18,722
	<b>43,121</b>	<b>46,825</b>

## Notes to the financial statements (continued)

### 13. Debtors

	2018 £000	2017 £000
Trade debtors	2,530	536
Amounts owed by group undertakings	10,799	8,037
Amounts owed by related parties (note 21)	2	-
Other debtors	13,947	14,209
Deferred tax asset (note 17)	17,138	5,286
Prepayments and accrued income	7,484	4,912
	<b>51,900</b>	<b>32,980</b>

Amounts owed by group undertakings include business transactions, under normal commercial terms, and group loans. Group loans bear interest at Bank of England base rate, are unsecured and are repayable on demand.

Amounts owed by related parties include business transactions, under normal commercial terms. The amounts are interest free, unsecured and repayable on demand.

### 14. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Obligations under finance leases (note 16)	552	536
Trade creditors	7,985	8,276
Amounts owed to group undertakings (note 16)	141,158	33,289
Taxation and social security	3,158	2,084
Other creditors	7,269	821
Accruals and deferred income	36,305	40,796
	<b>196,427</b>	<b>85,802</b>

### 15. Creditors: amounts falling due after more than one year

	2018 £000	2017 £000
Obligations under finance leases (note 16)	472	1,013
	<b>472</b>	<b>1,013</b>

## Notes to the financial statements *(continued)*

### 16. Loans and other borrowings

	<b>2018</b>	2017
	<b>£000</b>	£000
Obligations under finance leases	<b>1,024</b>	1,549
Amounts owed to group undertakings	<b>141,159</b>	33,289
	<b>142,183</b>	34,838

Amounts owed to group undertakings include business transactions, under normal commercial terms, and group loans. Group loans attract interest at 2.5% above Bank of England base rate, are unsecured, and repayable on demand.

#### Finance leases

The future minimum finance lease payments are as follows:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	<b>589</b>	589
Later than one year and not later than five years	<b>465</b>	1,029
Total gross payments	<b>1,054</b>	1,618
Less finance charges	<b>(30)</b>	(69)
Carrying amount of liability	<b>1,024</b>	1,549

The finance leases relate to high performance, precision cutting tools and rapid prototyping machines. When the leases terms end the title of goods will pass following final payment under the contract and where necessary settlement of a nominal option to purchase fee.

## Notes to the financial statements (continued)

### 17. Deferred tax

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

	2018 £000	2017 £000
Depreciation in excess of capital allowances	(209)	1,525
Revaluation of tangible assets	11,085	11,880
Other timing differences	(219)	(224)
Tax R&D incentives	(8,547)	(6,139)
Trading losses carried forward	(19,248)	(12,328)
	<u>(17,138)</u>	<u>(5,286)</u>

The deferred tax liability expected to reverse in 2019 totals £800K (2018: £611K). This primarily relates to the revaluation of tangible assets. At the balance sheet date, the Group has UK tax losses of £112 million (2017: £64 million) which have an indefinite life. Having considered the group forecast plan deferred tax on these is fully recognised. Similarly the UK tax incentives do not expire and are fully provided.

The net deferred tax liability expected to reverse in 2019 is £800k (£611k). This primarily relates to the reversal of timing differences on acquired tangible assets and capital allowances through depreciation and amortisation, offset by expected tax deductions when payments are made to utilise provisions.

### 18. Called up share capital

	2018 £000	2017 £000
Authorised, called up and fully paid		
50,150 (2017: 50,150) ordinary shares of £1 each	<u>50</u>	<u>50</u>

The Company has one class of ordinary shares which carry no right to fixed income.

### 19. Financial commitments

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

	2018 £000	2017 £000
Payments due:		
Not later than one year	<u>6,180</u>	<u>6,180</u>



## Notes to the financial statements (continued)

### 20. Contingent liability

McLaren Racing Limited is party to an unlimited cross company guarantee securing all monies due, or to become due, in respect of the overdraft and £90,000K loan facility provided to McLaren Holdings Limited by its bankers. As at 31 December 2018 the balance guaranteed was £nil (2017: £10,000K). In addition, McLaren Racing Limited is party to a guarantee securing all monies due, or to become due, in respect of £370,000K of sterling-denominated Senior Secured Notes and \$250,000K of dollar-denominated Senior Secured Notes issued by the Group in July 2017.

McLaren Racing Limited has given guarantees in favour of third parties. As at 31 December 2018, the balances guaranteed were CHF 100,000 (2017: CHF 100,000) in favour of Tribunal De Premiere Instance; £nil (2017: £400,000) in favour of HM Revenue and Customs; and EUR 16,873 (2017: 16,873) in favour of Dresdner Bank AG.

### 21. Related party transactions

Transactions with related companies during the year were as follows:

	Year ended 31 December	Balance outstanding at 31 December	Year ended 31 December	Balance outstanding at 31 December
	2018 £000	2018 £000	2017 £000	2017 £000
<b>Sales to related parties</b>				
Zak Brown	7	-	-	-
Tag Group (Holdings) SA and its subsidiaries	-	-	1	-
United Autosport Ltd	49	2	-	-
M Ojeh	-	-	8	-
M Al Kooheji	-	-	1	-
<b>Amounts owed by related parties at 31 December</b>		<b>2</b>		<b>-</b>

	Year ended 31 December	Balance outstanding at 31 December	Year ended 31 December	Balance outstanding at 31 December
	2018 £000	2018 £000	2017 £000	2017 £000
<b>Purchases from related parties</b>				
Cosworth Limited	1,230	-	1,251	-
<b>Amounts owed to related parties at 31 December</b>		<b>-</b>		<b>-</b>

In certain circumstances the Company facilitates the payment of transactions on behalf of related parties, and these are then transferred at cost. Due to the nature of these transactions, no cost or income is reported however in some cases there is a year-end receivable.

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

## **Notes to the financial statements (continued)**

### **22. Ultimate parent Company and controlling party**

In the opinion of the Directors, the Company's immediate parent is McLaren Holdings Ltd.

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is McLaren Group Limited. Copies of the McLaren Group Limited consolidated financial statements are available from Companies House, Crown Way, Cardiff CF14 3UZ.

Ownership of McLaren Group Limited at 31 December 2018 was as follows: 57.74% Bahrain Mumtalakat Holding Company, 14.67% TAG Group Limited, 7.69% Nidala Limited, 5.91% Favorita Limited, 5.91% Perlman Investments Limited, 5.37% McKal Holdings Limited, 2.72% Acanitt Limited.

### **23. Other matters**

In connection with an ongoing investigation, UK government authorities have approached the Group for information concerning certain third party companies and concerning executive and other persons who have been, or are currently, associated with the Group. Upon inquiry, we have been advised that neither the Company nor any other Group companies are currently the subject of the investigation for which the requests for information relate, and we intend to fully cooperate with these requests for information.

Whether or not any such investigation is pursued, extended or results in any finding of culpability against those subject to the investigations, any negative publicity surrounding assertions against executive persons and other persons who have been, or are currently, associated with the Group could adversely affect the Group's brand and reputation and may consequently have a negative impact upon the financial performance of the Group.

### **24. Subsequent events**

In January 2019, as part of a process of corporate simplification aimed at improving the efficiency of the overall McLaren organisation, the trade and assets of the McLaren Marketing Limited, along with those of its subsidiary Team McLaren Limited, were transferred to McLaren Racing Limited.

As of the 1<sup>st</sup> January 2019 both McLaren Marketing Limited and Team McLaren Limited ceased trading and it is expected that the entities will be dissolved in the near future.