

McLaren Automotive Limited

Annual Report and Financial Statements

For the year ended 31 December 2015

Registered number: 01967717



McLaren Automotive Limited

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McLaren Automotive Limited

Chairman's Statement

In last year's McLaren Automotive Chairman's Statement I referred to our ethos of 'doing better tomorrow, what we have done well today'.

It is therefore pertinent that on the 3rd December 2015, at the conclusion of another successful and profitable year for McLaren Automotive, my fellow Directors and I ratified the company's 'Track22' strategy. This strategy provides the blueprint for the company's ambitious development and growth, as well as the timeframe for its achievement. The Track22 strategy was launched externally at the Geneva Motorshow in March 2016 and its key tenets are further detailed in this report.

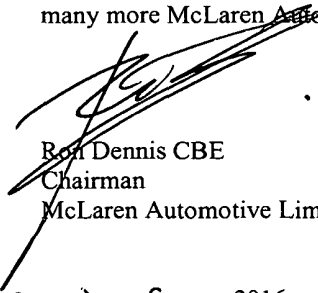
The formal adoption of this strategy, six years after the launch of the company, and focussing on the next six years, is also a clear indication that McLaren Automotive is swiftly moving from its start-up phase to a consolidated and mature position as a globally significant sports car and super car manufacturer. In 2015 McLaren Automotive progressed from delivering one new car or derivative per year, as originally planned, to a company that managed the complexities of multiple model introductions. Five all new cars or derivatives were launched in 2015 – more than the total number of new car launches in the history of the company to date.

2015 was also a year of transition for the company. December 2015 marked the end of production of the category-defining McLaren P1™ and McLaren P1GTR™ models, whilst only a month earlier the McLaren Production Centre produced the first of its much anticipated Sports Series cars – a new customer entry point into McLaren ownership. As the company increases production volume, from 1,654 in 2015 up to a total of around 4,500 per year, Sports Series cars are expected to become the bedrock of sales, accounting for around two thirds of total volume.

As the scale of the business grows, so does the talented team needed to deliver the cars. In 2015, our employee population grew by 18% to over 1,500 people. This increased by a further 250 employees in the first quarter of 2016 with the creation of a second shift at the McLaren Production Centre, a clear indicator of the strong global demand for McLaren cars.

I have absolute belief in the strategic direction and ambitious targets we have set for the company, and the scale of research and development investment agreed to help achieve our objectives.

Our Track22 strategy will not only secure McLaren Automotive's long-term future – it will ensure that we celebrate many more McLaren Automotive milestones in the years to come.



Ron Dennis CBE
Chairman
McLaren Automotive Limited

24 June 2016

McLaren Automotive Limited

Strategic Report

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to McLaren Automotive Limited and its subsidiary undertakings when viewed as a whole.

Review of the business

2015 saw McLaren Automotive Limited ("McLaren Automotive") achieve a third year of operating profitability, in only the fifth year since opening the first McLaren retailer and the start of vehicles sales. The company generated an operating profit of £23.5m (2014 – £20.8m) and a profit before tax of £5.4m. In 2014 a profit before tax of £15.0m was reported, however, following the adoption of FRS 102 in these financial statements this profit has been restated to a loss of £4.0m. The impact of the adoption of FRS 102 is explained further in note 28, however, the difference relates to valuation losses on forward exchange hedging contracts that are now recognised on balance sheet under FRS 102. However, these results reflect the drive towards a stable and profitable business and are in line with the expectations of the Board. These profits were generated from turnover that declined slightly from £475.5m in 2014 to £450.6m in 2015 due to the cadence of model lifecycles. This turnover was generated from the delivery of 1,393 McLaren Super Series models, 106 McLaren P1™, 49 McLaren P1™ GTR and 106 of the new Sports Series to customers. 2015 saw the remainder of the limited McLaren P1™ examples delivered to customers as well as the track-only McLaren P1™ GTR with its first track event held in Barcelona in the autumn.

The McLaren Automotive strategy to release at least one new model or variant each year was taken to extremes in 2015 with more models introduced over 12 months than in any of the four years since the company launched the McLaren MP4-12C. At the Geneva International Motor Show in March 2015 the company revealed the production intent McLaren P1™ GTR, alongside the limited production McLaren 675LT that sold out within a few months of its debut. At the New York Auto Show in early April 2015 the McLaren 570S was revealed as the first variant of the new Sports Series - the brands most attainable model yet. This was followed by a second variant, the McLaren 540C in Shanghai at the end of April 2015. At Pebble Beach in California in August 2015, McLaren Automotive returned to the USA's most glamorous automotive event with a selection of vehicles including a one-off McLaren 570S finished by McLaren Special Operations.

Launches of new products have continued in 2016. At the Geneva International Motor Show in March 2016, the fourth year McLaren Automotive has attended, the McLaren 570GT was revealed and is the third and most luxurious variant in the Sports Series. This was accompanied by the limited production McLaren 675LT Spider, which was sold-out before launch and will be delivered alongside the McLaren 650S and McLaren 675LT in the Super Series. At Geneva, McLaren Automotive announced its new six-year Business Plan, Track22, with the commitment to invest 20-25% of turnover in Research and Development for future products and technology. Over six years, this represents an investment of £1Bn and will lead to the launch of 15 all-new cars or derivatives. Furthermore, in support of the business, on 30 January 2015 £114.6m of loans from shareholders were settled for equity bolstering the Company's balance sheet and cementing the shareholders confidence in the Company's Business Plan. Also, in May 2016, McLaren Automotive also issued 73,764 shares to a new shareholder (McKall Holdings) for £21.3m. McKall Holdings also purchased the entire equity stake of McLaren Technology Group.

McLaren Automotive continues to expand its worldwide dealership network through careful selection of franchised dealers in strategically important markets. By the end of 2015 80 dealers had been appointed (2014 – 71) spread across 31 global markets.

McLaren Automotive has continued to invest in new road car projects. During 2015 the company invested £123.9m, up from £91.8m in 2014. This investment in product includes the new Super and Sports Series models. These new models and the commitments made within Track22 will take the company forward to its plan of producing over 4,500 vehicles a year by the end of 2022. McLaren Automotive expects to continue to deliver strong results against its ambitious Business Plan, Track22, in 2016. Sales of McLaren Super Series are expected to remain in line with 2015, however, sales of McLaren Sports Series will show significant growth.

McLaren Automotive operates in an international environment with sales denominated primarily in US dollars, Japanese Yen, Chinese Yuan and Euros. Purchases are transacted primarily in Sterling and Euros.

McLaren Automotive Limited

Strategic Report (continued)

Key performance indicators

The directors consider turnover, sales and production volumes, profit before tax, cash flow and performance against engineering programme milestones to be the principal Key Performance Indicators (KPIs). These are used to assess progress towards achieving McLaren Automotive's strategies over the medium term and performance against these measures is reviewed regularly.

Principal risks and uncertainties

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

During 2016 currency exposure will remain high as over 85% of worldwide sales revenues are denominated in all non-Sterling major currencies. The principal risks are exposure to the US Dollar and Euro. McLaren Automotive operates under a Treasury Policy and accordingly has a hedging portfolio in place to cover a proportion of these cash flows.

Interest exposure is governed by the rate at which long term loans are agreed and the rate contracted with shareholders.

Future developments

The directors expect the general level of activity to exceed 2015 in the forthcoming year. Track 22 forecasts a 50% increase in turnover in two years' time and a doubling of turnover by 2022. This is as a result of continued investment in new road car projects. This will require continued compliance with new legislation and the development of new class leading technologies to maintain our competitive advantage in the market.

Details of significant events since the balance sheet date are contained in note 29 to the financial statements.



Mike Flewitt
Chief Executive Officer

24 June 2016

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

McLaren Automotive Limited

Directors' report

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2015.

Principal activity

The principal activity of Group is the design, development and manufacture of high performance sports cars'

Results

The profit on ordinary activities before taxation was £5.4m (2014 loss - £4.0m). As a result of a tax charge of £2.6m (2014 - £2.9m) the profit on ordinary activities for the year after taxation amounted to £2.8m (2014 – loss of £6.9m).

Research and development

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

Existence of branches outside the UK

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

- Bahrain
- Japan

Going concern

The directors have a reasonable expectation that the Company and the Group have 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 the statement of accounting policies in the financial statements.

Financial risk management objectives and policies

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

Cash flow risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses a mixture of foreign exchange forward and option contracts to hedge this exposure based on forecast cash inflows and out flows over a 36 month period.

Credit risk

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

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

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

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

Moreover, the majority of receivables are with our franchised dealer network, all of whom have been appointed by McLaren Automotive.

McLaren Automotive Limited

Directors' report (continued)

Financial risk management objectives and policies (continued)

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of long-term and short-term debt finance.

Further details regarding liquidity risk can be found in the Statement of accounting policies in the financial statements.

Dividends

The directors do not propose a dividend for the year ended 31 December 2015 (2014 - £nil).

Directors

The directors, who served throughout the year, except as noted, were as follows:

R Dennis	Chairman
Mike Flewitt	Chief Executive Officer
Richard Molyneux	Chief Financial Officer (Resigned 31/12/15)
M A Ojeh	
Shaikh Mohammed Bin Essa Al Khalifa	
Mahmood Al Kooheji	
Hisham Al Saie	
Peter Lim	
Roberto Aguirre	(Appointed 3/5/16)

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Political and charitable donations

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

Disabled employees

The policy of the Group and its subsidiaries is to give full and fair consideration to employment application by disabled persons and to ensure that disabled employees received appropriate training and career development opportunities.

Employee consultation

The Group is committed to ensure 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 does take reasonable steps to ensure that all employees, existing and prospective, are given fair and equal opportunity regardless of sex, race, ethnicity, religion or disability.

McLaren Automotive Limited

Directors' report (continued)

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

During the year, Deloitte LLP was appointed in office as auditor of the Group/Company and a resolution to reappoint them was signed at the Board meeting in March 2016.

Approved by the Board and signed on its behalf by:



Mike Flewitt
Chief Executive Officer

24 June 2016

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

McLaren Automotive Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 group and company and of the profit or loss of the group and company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping 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. They 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 the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of McLaren Automotive Limited

We have audited the financial statements of McLaren Automotive Limited for the year ended 31 December 2015 which comprise the Consolidated Statement of Comprehensive income, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

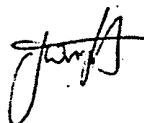
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



James Wright FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Crawley, United Kingdom
28 June 2016

McLaren Automotive Limited

Consolidated statement of comprehensive income for the year ended 31 December 2015

	Note	2015 £000	2014 £000
Turnover	3	450,627	475,516
Cost of sales		(232,424)	(258,964)
Gross profit		218,203	216,552
Administrative expenses		(118,780)	(102,372)
Operating profit before depreciation and amortisation		99,423	114,180
Depreciation		(4,599)	(4,832)
Amortisation		(71,277)	(88,592)
Operating profit		23,547	20,756
Finance costs (net)	4	(18,197)	(24,755)
Profit/(loss) on ordinary activities before taxation	5	5,350	(3,999)
Tax on profit on ordinary activities	8	(2,569)	(2,877)
Profit/(loss) for the financial year	9	2,781	(6,876)
(Loss)/Gain on revaluation of foreign subsidiaries		(194)	448
Total comprehensive income for the year		2,587	(6,428)

In the current and preceding year the Company made no material acquisitions or disposals.

There is no material difference between the result reported in the statement of comprehensive income and the result on an unmodified historical cost basis.

McLaren Automotive Limited

Consolidated balance sheet At 31 December 2015

	Note	2015 £000	2014 £000
Fixed assets			
Intangible assets	11	404,759	337,415
Tangible assets	12	68,099	70,048
		<u>472,858</u>	<u>407,463</u>
Current assets			
Stocks	14	39,308	26,388
Debtors: due within one year	15	140,496	107,452
Cash at bank and in hand		18,954	10,189
		<u>198,758</u>	<u>144,029</u>
Creditors: Amounts falling due within one year	16	<u>(195,058)</u>	<u>(145,183)</u>
Net current assets/(liabilities)		<u>3,700</u>	<u>(1,154)</u>
Total assets less current liabilities		<u>476,558</u>	<u>406,309</u>
Creditors: Amounts falling due after more than one year	17	<u>(127,500)</u>	<u>(178,697)</u>
Provisions for liabilities	18	<u>(13,901)</u>	<u>(9,687)</u>
Net assets		<u>335,157</u>	<u>217,925</u>
Capital and reserves			
Called-up share capital	22	26	22
Share premium account		469,061	354,420
Profit and loss account		(133,658)	(136,439)
Foreign currency translation reserve		(272)	(78)
Shareholders' funds		<u>335,157</u>	<u>217,925</u>

The financial statements of McLaren Automotive Limited were approved by the board of directors and authorised for issue on 24 June 2016. They were signed on its behalf by:



Mike Flewitt
Chief Executive Officer

McLaren Automotive Limited

Company balance sheet At 31 December 2015

	Note	2015 £000	2014 £000
Fixed assets			
Intangible assets	11	403,521	335,151
Tangible assets	12	68,015	69,930
		<u>471,536</u>	<u>405,081</u>
Current assets			
Stocks	14	34,795	18,993
Debtors due within one year	15	158,669	135,189
Cash at bank and in hand		9,489	5,201
		<u>202,953</u>	<u>159,383</u>
Creditors: Amounts falling due within one year	16	<u>(204,382)</u>	<u>(162,397)</u>
Net current liabilities		<u>(1,429)</u>	<u>(3,014)</u>
Total assets less current liabilities		470,107	402,068
Creditors: Amounts falling due after more than one year	17	(127,500)	(178,697)
Provisions for liabilities	18	<u>(13,904)</u>	<u>(9,711)</u>
Net assets		<u>328,703</u>	<u>213,660</u>
Capital and reserves			
Called-up share capital	22	26	22
Share premium account		469,061	354,420
Profit and loss account		<u>(140,384)</u>	<u>(140,782)</u>
Shareholders' funds		<u>328,703</u>	<u>213,660</u>

The financial statements of McLaren Automotive Limited (registered number 01967717) were approved by the board of directors and authorised for issue on 24 June 2016. They were signed on its behalf by:



Mike Flewitt
Chief Executive Officer

McLaren Automotive Limited

Consolidated statement of changes in equity At 31 December 2015

Equity attributable to equity shareholders of the Company

	Called-up share capital £000	Share premium account £000	Foreign Currency Trans reserve £000	Profit and loss account £000	Total £000
At 31 December 2013 as previously stated	22	354,420	(526)	(137,247)	216,669
Changes on transition to FRS 102 (see note 28)	-	-	-	7,684	7,684
At 1 January 2014 as restated	22	354,420	(526)	(129,563)	224,353
Profit/(loss) for the financial year	-	-	448	(6,876)	(6,428)
At 31 December 2014 as restated	22	354,420	(78)	(136,439)	217,925
Profit/(loss) for the financial year	-	-	(194)	2,781	2,587
Total comprehensive income					
Conversion of related party loans to equity	4	114,641	-	-	114,645
At 31 December 2015	26	469,061	(272)	(133,658)	335,157

McLaren Automotive Limited

Company statement of changes in equity At 31 December 2015

	Called-up share capital £000	Share premium account £000	Profit and loss account £000	Total £000
At 31 December 2013 as previously stated	22	354,420	(132,240)	222,202
Changes on transition to FRS 102 (see note 28)	-	-	7,711	7,711
At 1 January 2014 as restated	22	354,420	(124,529)	229,913
Profit for the financial year	-	-	(16,253)	(16,253)
At 31 December 2014 as restated	22	354,420	(140,782)	213,660
Profit for the financial year	-	-	398	398
Total comprehensive income				
Conversion of related party loans to equity	4	114,641	-	114,645
At 31 December 2015	26	469,061	(140,384)	328,704

McLaren Automotive Limited

Consolidated cash flow statement For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Net cash flows from operating activities	23	111,900	93,996
Cash flows from investing activities			
Proceeds from sale of equipment		164	382
Purchase of equipment		(5,153)	(6,375)
Interest received		5	12
Purchase of intangible assets		(138,622)	(109,021)
Net cash outflow from investing activities		(143,606)	(115,002)
Net cash outflow from Tax paid		(2,957)	(6,024)
Cash flows from Financing Activities			
Interest paid		(2,488)	(1,239)
Draw down on revolving facility		45,000	31,200
Net cash inflow from financing activities		42,512	29,961
Net increase in cash and cash equivalents		7,849	2,931
Cash and cash equivalents at beginning of year		10,189	7,158
Effect of foreign exchange rate changes		916	100
Cash and cash equivalents at end of year		18,954	10,189
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		18,954	10,189
Cash and cash equivalents		18,954	10,189

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

a. General information and basis of accounting

McLaren Automotive Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 3. The nature of the group's operations and its principal activities are set out in the strategic report on pages 2 to 3.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 28.

The functional currency of McLaren Automotive Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

McLaren Automotive Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

b. Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings. Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

c. Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 and 3. The financial position and finance structure of the company is also described in the Directors' Report.

As discussed more fully in the Strategic Report on pages 2 and 3, the Company recently announced the new Track 22 business plan. This ambitious plan predicts that McLaren Automotive will launch at least 15 new vehicles or variants by December 2022 and will see the Company invest £1 billion in new products. This will take production volumes up to around 4,500 units per year and will see turnover double by the end of the plan as well as the Company remaining profitable. Importantly, this plan is fully funded. Therefore, the Directors continue to adopt the going concern basis of accounting in the preparation of the financial statements.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

1. Accounting policies (continued)

d. Intangible fixed assets – research & development

Intangible fixed assets represent development costs incurred on new car programmes and are capitalised in accordance with section 18 of FRS 102. These are stated at historical cost and will be amortised over the lifecycle of the car programme to which they relate. Development costs include materials, direct labour and the cost of work outsourced to third parties.

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

Research expenditure is written off as incurred.

The intangible fixed asset balance is amortised over the sales life-cycle volumes of the associated car programme.

e. Intangible assets –IT Infrastructure

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

f. Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line/reducing balance basis over its expected useful life, as follows:

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

No depreciation is provided until the assets are brought into use.

Depreciation is not provided on freehold land, as in the directors' opinion the residual value exceeds cost.

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

g. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

McLaren Automotive Limited

Notes to the financial statements (continued) **For the year ended 31 December 2015**

1. Accounting policies (continued)

g. Financial instruments (continued)

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Derivative 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 at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the statement of comprehensive income immediately.

(iii) Fair value measurement

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

h. Stocks

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

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

1. Accounting policies (continued)

i. Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet 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 balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

j. Turnover

Turnover represents the value of goods sold and services provided in the year, exclusive of value added tax.

Revenue from the sale of vehicles is recognised when the significant risks and rewards of ownership of the vehicles have passed to the customer, which is normally considered to be the point of despatch to the dealer, when the car is imported into the destination country, or when the vehicles are received by the dealer.

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.

Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

k. Employee benefits

Pensions – the company pays contributions to personal pension schemes, with the costs being charged to the profit and loss account.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

1. Accounting policies (continued)

l. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Other exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see above);
- exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income; and
- in the case of the consolidated financial statements, exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in other comprehensive income and reported under equity.

m. Leases

The Group as lessee

Assets held under finance leases, hire purchase contracts and other similar arrangements, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, 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. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Financial instruments

When the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Details of fair value measurements can be found in note 20

McLaren Automotive Limited

Notes to the financial statements (continued) **For the year ended 31 December 2015**

Inventory provisions

Inventory provisions include, obsolescence and write-downs which take into account historical information related to sales volume and stock counts and represent the expected write-down between the estimated net realisable value and the original cost. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution

Warranty provisions

A provision is made against all vehicles once wholesaled. This provision takes into account the historical average warranty claims made on vehicles by customers, together with the average amount reclaimed from suppliers.

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

McLaren Automotive Limited

Notes to the financial statements (continued) **For the year ended 31 December 2015**

3. Turnover

The directors consider there to be only one class of business operated by the Group, being the manufacture and sale of high-performance sports motor vehicles and associated revenue streams. All amounts presented in these accounts are from that one class of business. An analysis of geographical location has not been included as it is deemed by the Directors that such information would lead to a competitive advantage to the Group's key competitors.

4. Finance costs (net)

	2015 £000	2014 £000
Bank loans and overdrafts	1,882	943
On related party loans	750	750
Bank charges	775	264
Finance leases and hire purchase contracts	30	41
Net exchanges losses	14,765	22,769
Bank interest received	(5)	(12)
	<u>18,197</u>	<u>24,755</u>

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2015 £000	2014 £000
Depreciation of tangible fixed assets (note 12)	4,599	4,832
Amortisation of other intangible assets (note 11)	71,277	88,592
Research and development costs expensed in the profit and loss	525	2,593
Operating lease rentals	2,920	3,012
Foreign exchange loss	14,765	3,804
Loss on disposal of fixed assets (note 12)	2,332	879

Amortisation of intangible assets is included in administrative expenses.

The analysis of the auditor's remuneration is as follows:

	2015 £000	2014 £000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	59	60
Fees payable to the company's auditor and its associates for other services to the Group		
The audit of the company's subsidiaries	25	15
Total audit fees	84	75
Other taxation advisory services	-	271
Total fees	84	346

Fees payable to Deloitte LLP and its associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

No services were provided pursuant to contingent fee arrangements.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

6. Staff numbers and costs

The average monthly number of employees (*including executive directors*) was:

Group	2015 Number	2014 Number
Production	469	384
Engineering	395	426
Administration	628	473
	<u>1,492</u>	<u>1,283</u>

Their aggregate remuneration comprised (*including directors*):

	2015 £000	2014 £000
Wages and salaries	60,991	47,919
Social security costs	6,108	5,288
Other pension costs (see note 25)	1,580	1,265
	<u>68,679</u>	<u>54,472</u>

7. Directors' remuneration and transactions

	2015 £000	2014 £000
Directors' remuneration		
Emoluments	2,295	3,063
Company contributions to money purchase pension schemes	66	85
	<u>2,361</u>	<u>3,148</u>

	2015 Number	2014 Number
The number of directors who:		
Are members of a money purchase pension scheme	<u>2</u>	<u>2</u>

	2015 £000	2014 £000
Remuneration of the highest paid director:		
Emoluments	1,058	1,554
Company contributions to money purchase schemes	<u>30</u>	<u>50</u>

Directors' advances, credits and guarantees

Details of transactions with directors during the year are disclosed in note 27.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

8. Tax on profit on ordinary activities

The tax charge comprises:

	2015 £000	2014 £000
Current tax on profit on ordinary activities		
Foreign tax	510	4,433
Current year tax charge	510	4,433
 Adjustments in respect of prior years		
Foreign tax	164	-
Total current tax	674	4,433
 Deferred tax		
Origination and reversal of timing differences	(181)	(1,895)
Adjustment in respect of prior years	85	339
Effect of reduction in future tax rate	1,905	
Effect of change in exchange rates	86	-
Total deferred tax (see note 19)	1,895	(1,556)
Total tax charge on profit on ordinary activities	<u>2,569</u>	<u>2,877</u>

The standard rate of tax applied to reported profit on ordinary activities is 20.25 per cent (2014: 21.5 per cent). The applicable tax rate has changed following the substantive enactment of the Finance Act 2014. During the year beginning 1 January 2016, the net reversal of deferred tax assets is expected to decrease the corporation tax charge for the year by £2m. This is due to the utilisation of tax losses against taxable profits in the parent company, McLaren Automotive Limited.

There is no expiry date on timing differences, unused tax losses or tax credits.

McLaren Automotive Limited

Notes to the financial statements (continued)

For the year ended 31 December 2015

8. Tax on profit on ordinary activities (continued)

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2015 £000	2014 £000
Group profit on ordinary activities before tax	5,350	(3,999)
Tax on Group profit on ordinary activities at standard UK corporation tax rate of 20.25 per cent (2014: 21.5 per cent)	1,084	(860)
Effects of:		
- Expenses not deductible for tax purposes	(366)	776
- Capital allowance in excess of depreciation	159	6
- Utilisation of tax losses	(2,103)	-
- Tax Incentives	-	(310)
- Tax losses carried forward	1,003	2,917
- Movement in short term timing differences	847	683
- Effective tax rates in foreign jurisdictions	(114)	1,221
- Adjustments to tax charge in respect of previous periods	164	-
- Deferred tax movement	1,895	(1,556)
Group total tax charge for period	2,569	2,877

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

9. Profit attributable to the Company

The profit for the financial year dealt with in the financial statements of the parent Company was £399,000 (2014: loss £16,254,000). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent Company.

10. Dividends on equity shares

No dividends were paid in the year. No final dividend is proposed by the company. No dividend was paid or proposed in 2014.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

11. Intangible fixed assets

	Group			Company		
	New production development costs £000	IT systems development costs £000	Total £000	New production development costs £000	IT systems development costs £000	Total £000
Cost						
At 1 January 2015	440,104	24,488	464,592	440,104	24,488	464,592
Additions	123,851	14,771	138,622	123,851	14,771	138,622
At 31 December 2015	563,955	39,259	603,214	563,955	39,259	603,214
Amortisation						
At 1 January 2015	127,177	-	127,177	129,441	-	129,441
Charge for the year	71,277	-	71,277	70,252	-	70,252
At 31 December 2015	198,454	-	198,454	199,693	-	199,693
Net book value						
At 31 December 2015	365,500	39,259	404,759	364,262	39,259	403,521
At 31 December 2014	312,927	24,488	337,415	310,663	24,488	335,151

Development costs have been capitalised in accordance with the requirements of FRS 102 and are therefore not treated, for dividend purposes, as a realised loss.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

12. Tangible fixed assets

Group	Freehold land and buildings £000	Leasehold premises and improvements £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
Cost or valuation							
At 1 January 2015	52,789	5,684	27,161	1,720	9,787	1,585	98,726
Additions	15	679	1,375	481	1,026	1,577	5,153
Disposals	(15)	(971)	(10,656)	(592)	(3,007)		(15,241)
Transferred			3,162			(3,162)	
Exchange adjustment	-	-	1	-	4	-	5
At 31 December 2015	<u>52,789</u>	<u>5,392</u>	<u>21,043</u>	<u>1,609</u>	<u>7,810</u>	<u>-</u>	<u>88,643</u>
Depreciation							
At 1 January 2015	2,771	3,876	17,190	1,492	3,349	-	28,678
Charge for the year	1,011	162	1,940	135	1,351	-	4,599
Disposals	-	(781)	(9,422)	(418)	(2,123)	-	(12,744)
Exchange adjustment	-	-	-	-	11	-	11
At 31 December 2015	<u>3,782</u>	<u>3,257</u>	<u>9,708</u>	<u>1,209</u>	<u>2,588</u>	<u>-</u>	<u>20,544</u>
Net book value							
At 31 December 2015	<u>49,007</u>	<u>2,135</u>	<u>11,335</u>	<u>400</u>	<u>5,222</u>	<u>-</u>	<u>68,099</u>
At 31 December 2014	<u>50,018</u>	<u>1,808</u>	<u>9,971</u>	<u>228</u>	<u>6,438</u>	<u>1,585</u>	<u>70,048</u>

Plant, machinery, tools and equipment includes finance leased assets with a cost of £387,463 (2014- £387,463) and accumulated depreciation of £189,213 (2014 - £139,651). The depreciation charge on these assets for the year was £39,650 (2014 - £49,562).

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

12. Tangible fixed assets (continued)

Company	Freehold land and buildings £000	Leasehold premises and improvements £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
Cost or valuation							
At 1 January 2015	52,789	5,608	27,141	1,720	9,669	1,585	98,512
Additions	15	679	1,375	481	1,016	1,577	5,143
Disposals	(15)	(971)	(10,656)	(592)	(3,007)	-	(15,241)
Transferred			3,162			(3,162)	
At 31 December 2015	<u>52,789</u>	<u>5,316</u>	<u>21,022</u>	<u>1,609</u>	<u>7,678</u>	<u>-</u>	<u>88,414</u>
Depreciation							
At 1 January 2015	2,771	3,842	17,184	1,492	3,293	-	28,582
Charge for the year	1,011	137	1,937	135	1,340	-	4,560
Disposals	-	(781)	(9,422)	(417)	(2,123)	-	(12,743)
At 31 December 2015	<u>3,782</u>	<u>3,198</u>	<u>9,699</u>	<u>1,210</u>	<u>2,510</u>	<u>-</u>	<u>20,399</u>
Net book value							
At 31 December 2015	<u>49,007</u>	<u>2,118</u>	<u>11,323</u>	<u>399</u>	<u>5,168</u>	<u>-</u>	<u>68,015</u>
At 31 December 2014	<u>50,018</u>	<u>1,766</u>	<u>9,957</u>	<u>228</u>	<u>6,376</u>	<u>1,585</u>	<u>69,930</u>

Plant, machinery, tools and equipment includes finance leased assets with a cost of £387,463 (2015- £387,463) and accumulated depreciation of £189,213 (2014 - £139,651). The depreciation charge on these assets for the year was £39,650 (2014 - £49,562).

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

13. Fixed asset investments

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Subsidiary undertakings	-	-	1	1
Total	-	-	1	1

Principal Group investments:

The parent Company and the Group have investments in the following subsidiary undertakings, associates and other significant investments.

The principal investments of the company are:

	Country of incorporation or principal business address	Principal activity	Holding* Ordinary share capital
McLaren Automotive Incorporated	United States of America	Sports Car Retailer	100%
McLaren Automotive Asia Pte Limited	Singapore	Sports Car Retailer	100%
McLaren Automotive Distribution (Shanghai) Company Limited	China	Sports Car Retailer	100%
McLaren Automotive Events Limited	United Kingdom	Events Company	100%

McLaren Automotive Incorporated has an authorised share capital of 1,000 common stock shares with a par value of US\$1 each. The issued share capital of McLaren Automotive Incorporated is \$1,000 which is 100% owned by McLaren Automotive Limited. The cost and net book value of this investment is £618 (2014 - £618).

McLaren Automotive Asia Pte Limited has an authorised share capital of 1 common stock shares with a par value of SGD \$1 each. The issued share capital of McLaren Automotive Asia Pte Limited is \$1 which is 100% owned by McLaren Automotive Limited. The cost and net book value of this investment is £0.77 (2014 - £0.77).

McLaren Automotive Distribution (Shanghai) Company Limited has issued share capital of CNY 12,418,433 which is 100% owned by McLaren Automotive Asia Pte Limited. The cost and net book value of this investment is SGD \$2,462,800 = £1,292,800 (2014 – SGD \$2,462,800 = £1,292,800)

McLaren Automotive Events Limited was incorporated in September 2015 and has an authorised share capital of 1 share with a par value of £1 each. The issued share capital of McLaren Automotive Events Limited is £1 which is 100% owned by McLaren Automotive Limited. The cost and net book value of this investment is £1 (2014 - £0)

All subsidiary undertakings have been included in the consolidation.

McLaren Automotive Limited

Notes to the financial statements (continued)

For the year ended 31 December 2015

14. Stocks

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Raw materials and consumables	19,669	10,346	19,655	10,331
Work in progress	9,715	3,676	9,715	3,676
Finished goods and goods for resale	9,924	12,366	5,425	4,986
	<u>39,308</u>	<u>26,388</u>	<u>34,795</u>	<u>18,993</u>

15. Debtors

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	30,670	45,361	31,664	14,154
Amounts owed by Group undertakings	-	-	22,807	-
Amounts owed by related parties	16	575	16	62,729
Other debtors	3,589	6,592	3,128	5,700
Financial assets (see note 20)	2,718	2,817	2,718	2,817
Prepayments and accrued income	59,107	6,072	57,417	5,800
Deferred tax asset (see note 19)	44,396	46,035	40,919	43,989
	<u>140,496</u>	<u>107,452</u>	<u>158,669</u>	<u>135,189</u>

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

16. Creditors – amounts falling due within one year

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Trade creditors	37,674	34,144	41,741	37,117
Amounts owed to Group undertakings	-	-	19,420	-
Amounts owed to related parties	3,826	18,720	3,826	22,530
Other taxation and social security	1,734	1,576	1,734	1,492
Other creditors	54,286	29,110	48,370	44,288
Financial liabilities (see note 20)	15,441	12,143	15,441	12,143
Accruals and deferred income	82,097	49,490	73,850	44,827
	<u>195,058</u>	<u>145,183</u>	<u>204,382</u>	<u>162,397</u>

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

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Bank loans	95,000	50,000	95,000	50,000
Amounts owed to related parties	32,500	128,697	32,500	128,697
	<u>127,500</u>	<u>178,697</u>	<u>127,500</u>	<u>178,697</u>

The bank loans are secured on freehold properties with a carrying value of £49m (2014: £50m). The terms of the loans restrict the Group from making significant acquisitions or disposals without the consent of the lender. Interest is payable on the bank loan at a variable rate of up to LIBOR + 2.25% on the principal amount. The bank loan is a four year revolving facility of £120,000,000 secured against the McLaren Production Centre.

Amounts owed to related parties are loans from shareholders. Repayment of those loans can only be demanded if agreed by a McLaren Automotive Limited board resolution.

The Company has granted a floating charge on its assets to secure bank loans and overdrafts of £120,000,000 (2014: £120,000,000).

McLaren Automotive Limited

Notes to the financial statements (continued)

For the year ended 31 December 2015

17. Creditors – amounts falling due after more than one year (continued)

Borrowings are repayable as follows:

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Shareholder convertible debt				
Between one and two years	-	128,697	-	128,697
	-	128,697	-	128,697
Shareholder loans				
More than five years	32,500	-	32,500	-
	32,500	-	32,500	-
Bank loans				
Between two and five years	95,000	50,000	95,000	50,000
	95,000	50,000	95,000	50,000
Total borrowings including finance leases				
Between one and two years	-	128,697	-	128,697
Between two and five years	95,000	50,000	95,000	50,000
More than five years	32,500	-	32,500	-
	127,500	178,697	127,500	178,697

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

18. Provisions for liabilities

	End of service gratuity provision £000	Warranty £000	Total £000
Group			
At 1 January 2015	14	9,673	9,687
Charged to profit and loss account	-	14,958	14,958
Utilisation of provision	-	(10,744)	(10,744)
	<hr/>	<hr/>	<hr/>
At 31 December 2015	14	13,887	13,901
	<hr/>	<hr/>	<hr/>
	End of service gratuity provision £000	Warranty £000	Total £000
Company			
At 1 January 2015	14	9,697	9,711
Charged to profit and loss account	-	14,958	14,958
Utilisation of provision	-	(10,765)	(10,765)
	<hr/>	<hr/>	<hr/>
At 31 December 2015	14	13,890	13,904
	<hr/>	<hr/>	<hr/>

The warranty provision relates to the 3 year warranty given to customers with each vehicle purchased. The Group and Company are liable for the parts and labour costs associated with repairing manufacturing faults arising on vehicles during the warranty period.

The end of service gratuity provision relates to a payment that the Group and Company have to make to all Bahrain based employees on termination of their employment with the company.

Product warranties

The provision for product warranties relates to expected warranty claims on products sold in the last three years. It is expected that the majority of this expenditure will be incurred in the next financial year and that all will be incurred within three years of the balance sheet date.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

19. Deferred tax asset

Deferred tax assets and liabilities are offset only where the Company has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Company.

	2015	
	£000's	
At 1 January 2015	46,035	
Foreign currency translation reserve	170	
Charge to profit and loss account	(1,809)	
At 31 December 2015	<u>44,396</u>	

	2015	2014
	£	£
Depreciation charged in excess of capital allowances	(577)	(345)
Other short term timing differences	2,179	4,219
Losses carried forward	<u>42,794</u>	<u>42,189</u>
	<u>44,396</u>	<u>46,063</u>

There are tax losses available to be offset against future profits arising from the same trade of £203,741,000 (2014: £190,196,000). A deferred tax asset has been recognised in respect of these losses carried forward. It is considered likely that the Group will generate profits in future periods against which these losses will be offset.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

20. Financial instruments

The carrying values of the Group and Company's financial assets and liabilities are summarised by category below:

	Group	
	2015	2014
	£000	£000
Financial Assets		
Measured at fair value and designated in an effective hedging relationship		
• Derivative financial assets (see note 21)	2,718	2,817
	<u>2,718</u>	<u>2,817</u>
Financial liabilities		
Measured at fair value and designated in an effective hedging relationship		
• Derivative financial liabilities (see note 21)	15,441	12,143
	<u>15,441</u>	<u>12,143</u>

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	Group	
	2015	2014
	£000	£000
Fair value gains and losses		
On Financial assets measured at fair value through the profit and loss	3,832	246
On Financial liabilities measured at fair value through the profit and loss	<u>(7,229)</u>	<u>(19,211)</u>

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

21. Derivative financial instruments

	Current		Non-current	
	2015 £000	2014 £000	2015 £000	2014 £000
Group				
Derivatives that are designated and effective as hedging instruments carried at fair value				
Assets				
Forward foreign currency contracts	2,718	2,817	-	-
	<u>2,718</u>	<u>2,817</u>	<u>-</u>	<u>-</u>
Liabilities				
Forward foreign currency contracts	15,441	12,143	-	-
	<u>15,441</u>	<u>12,143</u>	<u>-</u>	<u>-</u>

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		MTM	
	2015	2014	2015 £000	2014 £000	2015 £000	2014 £000
Sell						
USD	1.5506	1.6214	212,694	164,818	(10,195)	(6,312)
JPY	179.5613	171.4292	29,277	15,726	(318)	1,423
CNY	9.6578	9.8020	41,714	36,956	(297)	(484)
AUD	2.0808	-	3,459	-	(94)	-
SGD	2.3628	2.4121	2,153	2,178	(248)	(312)
HKD	11.6625	12.0421	4,632	7,278	(87)	30
Buy						
EUR	1.3315	1.2381	72,869	90,020	(1,484)	(3,671)
					<u>(12,723)</u>	<u>(9,326)</u>

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

Losses of £3,397,000 (2014: losses of £18,965,000) were recognised in profit or loss.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

22. Called-up share capital and reserves

	2015 £000	2014 £000
Allotted, Authorised, called-up and fully-paid		
2,617,499 ordinary shares of 1p each		
(2014 - 2,222,174 ordinary shares of 1p each)	26	22

On 30 January 2015, McLaren Automotive Limited converted a loan owed by Bahrain Mumtalakat Holding Company into equity. \$150,000,000 loan plus \$22,200,000 of accrued interest was converted. The USD to GBP exchange rate at the date of transaction was 1.5019, resulting in a final conversion amount of £114,644,336. The price paid per share was £290, resulting in a new issue of 395,325 shares.

23. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	2015 £000	2014 £000
Operating profit	23,547	20,756
Adjustment for:		
Non-cash foreign currency translation of foreign subsidiaries	(71)	(500)
Exchange (loss)/gain	(11,745)	461
Depreciation	4,599	4,832
Amortisation	71,277	88,592
Profit on sale of tangible fixed assets	2,332	879
Operating cash flow before movement in working capital	89,939	115,020
Increase in stocks	(12,684)	(4,690)
Decrease in debtors	(31,456)	(17,729)
Increase in creditors	61,911	(2,216)
Decrease in provisions	4,190	3,611
Cash generated by operations	111,900	93,996

Included with in exchange gain/(loss) is the revaluation of foreign currency shareholder loans and interest that did not have any cash impact.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

24. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

At 31 December 2015, the group was committed to making the total lease payments under non-cancellable operating leases of:

	2015 Land and buildings £000	2014 Land and buildings £000
Group		
- within one year	2,748	2,938
- between two to five years	1,983	1,758
- after five years	1,015	1,425
	<u>5,746</u>	<u>6,121</u>
Company		
- within one year	2,346	2,331
- between two to five years	1,101	1,101
- after five years	1,015	1,290
	<u>4,462</u>	<u>4,722</u>

25. Employee benefits

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees of all divisions. The total expense charged to profit or loss in the period ended 31 December 2015 was £1,580,000 (2014: £1,265,000).

26. Contingent liabilities

McLaren Automotive Limited has given a guarantee in favour of HM Revenue & Customs. As at 31 December 2015, the amount of the guarantee stood at £160,000 (2014 - £160,000).

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

27. Related party transactions

Transactions with related companies during the year were as follows:

Group and Company	Year ended 31 December 2015 £000	Balance outstanding at 31 December 2015 £000	Year ended 31 December 2014 £000	Balance outstanding at 31 December 2014 £000
Related party sales				
McLaren Technology Group and subsidiaries	1,699	16	2,003	264
Directors	826	-	1,928	311
	<u>2,525</u>	<u>16</u>	<u>3,931</u>	<u>575</u>

Group and Company	Year ended 31 December 2015 £000	Balance outstanding at 31 December 2015 £000	Year ended 31 December 2014 £000	Balance outstanding at 31 December 2014 £000
Related party purchases				
McLaren Technology Group and subsidiaries	39,166	31,201	38,727	29,493
Bahrain Mumtalakat Holding Company	-	7,500	-	117,924
	<u>39,166</u>	<u>38,701</u>	<u>38,727</u>	<u>147,417</u>

Pursuant to the exemption by Financial Reporting Standard 8, 'Related Party Disclosures', transactions with other undertakings within the McLaren Automotive Group have not been disclosed with these financial statements.

McLaren Automotive Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

28. Explanation of transition to FRS 102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Derivatives

Forward foreign currency contract are recorded on the balance sheet at fair value and accounted for at fair value through the profit and loss account. Under previous UK GAAP these were recorded at contracted rates, with gains or losses being offset against the foreign exchange gains and losses on the related financial assets and liabilities.

Deferred Tax

Under FRS 102, deferred tax is recognised on a timing difference plus approach, whereas previous UK GAAP required a timing difference approach. Consequently deferred tax has been recognised on all fair value measurements.

Reconciliation of equity

	Group		Company	
	At 1 January 2014 £000	At 31 December 2014 £000	At 1 January 2014 £000	At 31 December 2014 £000
Equity reported under previous UKGAAP	216,669	225,604	222,202	221,311
Adjustments to equity on transition to FRS 102				
1 Forward foreign currency contracts	9,611	(18,965)	9,639	(18,965)
2 Deferred tax	(1,927)	3,602	(1,927)	3,602
Equity reported under FRS 102	224,353	217,925	229,914	213,660

Reconciliation of profit or loss for 2014

	Group £000	Company £000
Profit for the financial year under previous UK GAAP	8,487	(891)
1 Forward foreign currency contracts	(18,965)	(18,965)
2 Deferred tax	3,602	3,602
Profit for the financial year under FRS 102	(6,876)	(16,254)

Notes to the reconciliation of profit or loss for 2014

Derivatives

McLaren Automotive Limited

Notes to the financial statements (continued) **For the year ended 31 December 2015**

Forward foreign currency contract are recorded on the balance sheet at fair value and accounted for at fair value through the profit and loss account. Under previous UK GAAP, these were recognised on an accruals basis at contracted rates.

Deferred Tax

Deferred tax has been recognised on fair value re-measurements on financial and non-financial assets (as detailed above).

Lease Incentives

The group and company have not applied paragraphs 20.15A or 20.25A to lease incentives where the lease commenced before the date of transition to FRS 102. It has continued to recognise any residual benefit or cost associated with these lease incentives on the same basis that applied prior to transition to FRS 102.

29. Post balance sheet events

In May 2016 McLaren Automotive Limited issued new share capital to a new Shareholder, McKal Holdings. The price paid per share was £290, resulting in a new issue of 73,764 shares. In addition to these new Shares, McKal holdings purchased 96,529 of McLaren Automotive Shares from the McLaren Technology Group Limited, leaving that company with no further shareholding in McLaren Automotive Limited.

30. Ultimate controlling party

Bahrain Mumtalakat Holding Company is the majority shareholder in McLaren Automotive limited, however, no one shareholder has a controlling interest in McLaren Automotive Limited.