

McLaren Holdings Limited
Annual report and consolidated
financial statements
Registered number 10756310
31 December 2022



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Strategic Report

Principal Activities

McLaren Holdings Limited (the "Company") alongside its subsidiaries (comprising the "Group") is a leader in high-performance supercars and related products. During the year under review the Group constituted the Automotive business, whilst the prior year also included the McLaren Applied business (disposed in August 2021) and a joint venture investment in McLaren Racing (disposed in August 2021).

Automotive

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

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

Applied

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

Racing

The Group's joint venture investment in McLaren Racing was sold by the Group to McLaren Group Limited, its parent company, in August 2021. Racing participated in motor racing events, primarily Formula 1 which included the design, development, manufacture and racing of Formula 1 cars.

Business Review

Product line-up

Our vehicles are categorised into four product families, being GT, Supercar, Ultimate and Motorsport. Our 2022 product range comprised the following vehicles:

- **GT:** GT Coupe
- **Supercar:** Artura Coupe, 720S Coupe, 720S Spider, 765LT Coupe, 765LT Spider
- **Ultimate:** Elva
- **Motorsport:** 720S GT3, 720S GT3X

In addition to these vehicles, our wholesale volumes in 2022 also include a small number of other models, including some from the now discontinued Sports series. The current product range is available in all key markets, except for China in which only the GT is currently sold. The Elva and 765LT are limited edition models, which are now sold out, and the production run is expected to complete in H1 2023.

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The Artura is McLaren's first high performance hybrid supercar to be launched on our new lightweight carbon vehicle architecture, and forms part of our supercar category. It is a plug-in hybrid, capable of up to 30km of emission-free driving and is the first application of the new McLaren Carbon Lightweight Architecture. The powertrain comprises an all-new twin-turbocharged 3.0-litre V6 petrol engine with an E-motor and energy-dense battery pack and its super-lightweight engineering makes it the lightest in its class. Wholesales of Artura commenced in H2 2022 – see Market and business developments below.

On 21 June 2022 McLaren revealed the new Artura GT4 race car. The Artura GT4 shares much of its technology with the Artura road car, but to meet racing requirements it is not a hybrid and has many bespoke motorsport components such as its steering wheel, engine control system and braking. An intensive test and development programme continues ahead of the 2023 season when the first customer cars are expected to compete.

On 19 August 2022 we revealed our latest vehicle, the McLaren Solus GT, which has been designed with a striking central, single-seat, closed-cockpit design with jet aircraft-style sliding canopy. It has a unique monocoque chassis with motorsport-derived powertrain and weighs less than 1,000kg. The 5.2 litre V10 engine revs to more than 10,000rpm and produces in excess of 840PS and 650Nm, enabling 0-100km/h in 2.8 seconds and a top speed of more than 200mph. The Solus GT is limited to just 25 cars, with all 25 already under order and first cars will be delivered to customers in 2023.

Market and business developments

The market for certain components, including semiconductors, remains challenging across many parts of the economy. Whilst we have greater confidence in the availability of such components compared to the start of 2022, availability remains tight and pricing elevated, compared to pre-COVID-19 periods. This reduced our ability in 2022, especially in H1, to meet orders as quickly we would otherwise expect.

With post-COVID-19 supply chain disruptions alongside other global events (e.g. conflict in Ukraine), we have seen cost inflation in a number of areas. There has also been volatility in the foreign exchange market, especially with the USD during 2022. We continue to manage such costs through hedging, working closely with our suppliers and seeking efficiency savings.

The launch of the Artura was initially delayed due to COVID-19 and component shortages and other supply chain challenges. Wholesales of Arturas commenced in August 2022 however in Q4 2022 certain technical upgrades were identified to ensure Artura customers enjoy optimum long-term performance. This resulted in delays to wholesale shipments and customer deliveries reducing the number of Arturas delivered in 2022. Production and wholesales of the Artura recommenced in Q1 2023.

Volumes

Wholesale volumes by region were:

Region	2022 Units	2021 Units	Change %
Europe	517	473	9.3%
North America	947	883	7.2%
Asia Pacific	384	412	-6.8%
China	206	240	-14.2%
Rest of World	134	130	3.1%
Global	2,188	2,138	2.3%

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Volumes in 2022 have been adversely impacted by industry wide supply chain challenges and delays to the Artura. However improving component availability saw stronger volumes in the second half of 2022, resulting in a 2.3% year-on-year increase in wholesale volumes. Retail volumes for 2022 were 2,038 units (2021: 2,673), slightly below wholesale volumes. This has meant our dealers continue to hold relatively low levels of stock, in turn maintaining a high level of demand for our vehicles. This strong demand is reflected in our order book, which was 1,953 vehicles at 31 December 2022 (2021: 1,861). This position reflects continuing demand for our brand and vehicles, strong interest in the Artura, but partially offset by the fulfilment of orders for 720S, 765LT and Elva all of which complete their productions run in H1 2023.

Capital structure

In July 2022 McLaren Group Limited announced that it had received commitments for £125.0m of capital in the form of convertible preference shares from its shareholders, with an initial £80.0m tranche received at announcement and the remaining balance of £45.0m received in September 2022. This £125.0m of funds was invested into the Group as ordinary share capital. Following the equity raise, McLaren Group Limited subscribed for ordinary share capital in the Company, resulting in a cash inflow of £125.0m into the Group.

In order to help manage the impact on liquidity of 2022 Artura wholesale delays, the Group completed the sale of certain heritage cars to its lead shareholder for consideration of £100.0m. Since this time the parent of the Company, McLaren Group Ltd, has been in active discussions with its key shareholders regarding a broader recapitalisation of the McLaren Group to provide additional funding to support its long-term product investment plan. In March 2023, shareholders of McLaren Group provided £70.0m in additional funding, and this was invested in the Group as ordinary share capital as part of the ongoing recapitalisation process.

Intangible investment

The Group continued to invest in the development of new products and services, with intangible capital expenditure of £164.6m in 2022 (2021: £156.3m). The majority of this was invested in already announced vehicles such as the Artura and the Solus GT, or the development of future models especially in relation to new Ultimate and Super Series models.

Key performance indicators

The directors consider the data listed below to be the principal Key Performance Indicators (KPIs). These are used to assess progress towards achieving the Group's strategies over the medium term and performance against these measures is reviewed regularly.

i) Financial performance indicators

KPI	2022 £m	2021 £m	Change %
Turnover	627.8	610.4	2.9%
Adjusted EBITDA (Note 5)	(3.0)	179.2	-101.7%
Loss before tax	(274.9)	(67.5)	307.3%
Cash and cash equivalents	100.7	76.7	31.3%
Total cash flow	23.0	10.1	127.7%

Turnover

- Rationale: The ability to deliver and grow revenue is an important measure of a business's appeal to customers and its competitive position in the market in which it operates.

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- Performance: Turnover was up in 2022 due to the increase in wholesale volumes by 2.3%.

Adjusted EBITDA / Loss before tax

- Rationale: Delivery and growth of EBITDA and profit before tax represent key measures of the Group's operating and overall performance to investors and external stakeholders against our strategic priorities. Adjusted EBITDA is defined as loss/profit before taxation, adding back interest payable/receivable and similar charges, depreciation, amortisation and impairment and share in loss of joint venture (see note 5 in financial statements for further information). The interest added back excludes foreign exchange gains and losses apart from those resulting from the retranslation of the USD senior secured notes.
- Performance: Despite higher wholesale volumes, EBITDA fell £182.2m having been adversely impacted in 2022 by Artura delays, supply chain constraints, foreign exchange losses and inflationary pressures, although the impact of these has been partially offset by the gain on sale of heritage cars. The loss before tax in 2022 has also been impacted by foreign exchange losses on the retranslation of the USD notes.

Cash and cash flow

- Rationale: Cash provides a view of the available resources and liquidity of the Group, whilst the total cash flows of the Group provide an assessment of the cash generation of the business and its ability to invest in its future growth / generate shareholder value.
- Performance: Supply chain constraints and delays to the Artura resulted in an operating cash outflow in 2022, whilst investing cash flows reflected continued spend on the product line-up. These outflows were however offset by cash inflows arising on the equity raise and the sale of heritage cars.

ii) Non-financial performance indicators

Volumes	FY 2022 Units	FY 2021 Units	Change %
Production	2,496	2,183	14.3%
Wholesale	2,188	2,138	2.3%
Retail	2,038	2,673	-23.8%

Production and wholesale volumes

- Rationale: The number of new vehicles manufactured and sold by the Group is a key driver of the financial performance of the Group and an indicator of demand.
- Performance: Production and wholesale volumes have both shown a year-on-year improvement compared to 2021, despite 2022 continuing to be negatively impacted by supply chain constraints and Artura delays.

Retail volumes

- Rationale: Whilst the number of sales made by dealers does not directly impact the Group's financials, it is a key indicator of demand for the Group's products.
- Performance: Retail volumes were down year-on-year, held back by wholesale volumes and a relatively limited number of vehicles on hand in our dealers.

New vehicle development - the success of our programmes is assessed through our ability to achieve key milestones in the development cycle to the research and development phases of new car models or variants,

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to the point they are approved to be launched and go into production. Key measures need to be achieved before the project is passed to proceed to the next key milestone for review.

Employee measures – key to the successful delivery of our strategic objectives is maintaining, developing and motivating our employees. Measures used to assess our success include the successful recruitment of high quality people to fill senior vacancies and driving down voluntary attrition across the business.

Group performance review

Overview

Revenue was £627.8m for the year ending 31 December 2022, a period-on-period increase of £17.4m (2.9%) which was broadly consistent with the 2.3% increase in wholesale volumes. Despite production being adversely impacted in 2022 by industry wide supply chain constraints and delays to the Artura, we were able to increase production volumes by 14.3%.

The operating loss for 2022 was £131.3m, compared to a loss in 2021 of £16.9m. However within this performance are a number of significant items with 2022 including a £86.5m gain on the sale of heritage cars and certain costs associated with the delay to the Artura, whilst 2021 included a £33.1m share of Racing's net loss, a net gain of £67.7m on the sale and lease back of the Group's headquarters, a £41.2m loss on the discontinued operations of Applied and a £79.5m gain on sale of McLaren Racing Investment. The loss before tax has increased in 2022 due to foreign exchange losses arising on the strengthening of the USD.

Profit and loss account

	2022 £m	2021 £m
Turnover	627.8	610.4
Cost of Sales	(506.1)	(443.7)
Administrative expenses	(205.2)	(225.1)
Other operating income	39.8	36.8
Other gains/(losses)	86.5	194.7
Share of loss from joint venture	-	(33.1)
Amortisation, depreciation and impairment	(174.1)	(156.9)
Operating loss	(131.3)	(16.9)
Finance costs (net)	(143.6)	(50.6)
Loss before taxation	(274.9)	(67.5)
Tax on loss	(59.8)	61.4
Loss for the financial period	(334.7)	(6.1)

Revenue and cost of sales

Automotive revenue increased £34.1m to £627.8m largely as a result of wholesale volumes being up 2.3%. This increase in volume reflected strong sales of the limited 765LT and the commencement of sales of Artura, partly offset by supply chain disruptions affecting the remainder of the models. Performance in 2022 has also seen a stronger USD, which has benefitted sales into the Americas.

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The 2021 financial year included £16.7m of Applied revenue, with none in the current year following the disposal of the business in August 2021.

The Group reported cost of sales of £506.1m in 2022 (2021: £443.7m, £429.9m continuing operations) with the year-on-year increase reflecting the higher wholesale volumes combined and certain costs associated with the Artura delay including an inventory provision of £34.2m and higher costs associated with the implementation of technical upgrades required to the Artura.

Administrative expenses

Administrative expenses were £205.2m, a reduction of £19.9m (£12.8m excluding the impact of discontinued operations) compared to 2021, reflecting cost reductions across the business and disposal of the applied business. This reduction was despite the higher rent expense in 2022 following the sale and leaseback of the Group's headquarters in 2021 and inflationary pressures.

Other operating income

Other operating income increased by £3.0m to £39.8m due to the Group continuing to provide certain services to Applied following its disposal, whilst in 2021 the Applied business formed part of the consolidated group for most of the reported period.

Other gains and losses

Other gains and losses in 2022 reflect the gain of £86.5m (2021: £80.8m) on the sale of heritage assets, whilst 2021 included a £67.7m gain on the sale and leaseback of the Group's headquarters, loss on disposal of Applied of £33.3m and gain on disposal of Racing of £79.5m.

Share of loss of joint ventures

No Share of Racing results were taken in 2022 following the disposal of the Racing investment in 2021 to the Group's parent company McLaren Group Limited.

Amortisation, depreciation and impairment

Amortisation increased by £2.1m to £143.2m following a change in the basis of measuring amortisation to straight-line rather than by reference to vehicle volumes, to better align with others in our industry. Depreciation reduced to £9.8m (2021: £14.5m) due to the sale and leaseback of the Group's headquarters in 2021. The Group recognised an impairment charge of £21.1m (2021: £1.3m) relating to product development spend on certain product attributes which were discontinued during the year.

Finance costs

Net finance costs increased £90.2m to £143.6m compared to £53.4m in 2021 due to 2022 including a £98.9m foreign exchange loss while 2021 included a loss of £15.4m. The foreign exchange loss in 2022 reflects the strengthening of the USD which has most notably impacted the USD denominated senior secured notes, while 2021 in turn benefitted from a weakening USD. Underlying interest expense on borrowings has remained broadly consistent period-on-period.

Income tax

The Group recognised an income tax charge of £59.8m compared to a £61.4m credit in 2021. Previously recorded deferred tax assets of £62.3m (2021: nil) were derecognised in the year where taxable profits to offset these losses were not probable based on our current business plan.

Cash flow statement

The Group had a net cash inflow of £23.0m compared to £10.1m in 2021.

Cash flow from operating activities

Cash outflows from operating activities were £6.4m compared to £70.8m in the comparative period, being an improvement of £64.4m. Operating cash outflows before movements in working capital increased by £75.3m to £80.2m largely for the reasons already described above in relation to the Group's operating loss. The working capital inflow of £74.2m reflects lower inventory, higher creditors and an increase in customer

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deposits. This compared to a working capital outflow of £58.9m in 2021 which had been driven by the readiness to launch Artura and the resulting increase in inventory.

Cash flow from investing activities

There was a net cash outflow from investing activities of £69.4m compared to an inflow of £176.1m in 2021. The current year benefited from net proceeds of £100.0m on the sale of heritage cars whilst in 2021 vehicle development costs were offset by proceeds of £167.8m on the sale and leaseback of the Group's headquarters, receipt of proceeds of £81.8m for its sale of investment in McLaren Racing to McLaren Group and proceeds of £93.6m for the sale of heritage assets to McLaren New Co. Underlying capital expenditure is broadly flat year-on-year.

Cash flow from financing activities

Net cash flows from financing activities were an inflow of £98.8m, compared to an outflow of £95.2m in 2021.

Financing cash flows in 2022 included £125.0m on the issue of new shares and interest paid of £39.5m. In 2021, financing cash flows comprised £195.7m from the issue of new shares and £436.1m from the new USD denominated senior secured note. Partially offsetting this was the repayment of bank loans of £68.9m and the previous senior secured note of £621.2m.

Interest paid has increased year on year due to the stronger USD and an increase in interest rates.

Company performance review

The Company's loss for the year was £149.6m (2021: loss £18.4m) and at 31 December 2022 the Company had net assets of £483.9m compared to £508.5m at the start of the year. The loss and the reduction in net assets of the Company reflects a non-cash impairment charge recognised during the year against subsidiary investments and foreign exchange losses reflecting the strengthening of the USD. During the current financial year the Company received £125.0m in the form of ordinary shares from its parent, McLaren Group Limited.

Principal risks and uncertainties

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

Risk	Mitigation
Macroeconomic <ul style="list-style-type: none"> Events such as a public health crisis (e.g. COVID-19) or significant market disruption (e.g. conflict in Ukraine) may adversely impact the Group, its suppliers, customers and dealers, and the macroeconomic environment in which they operate. Deteriorating economic position of key markets could adversely affect customer demand, supplier performance, exchange rates, interest rates, availability and price of financing facilities etc, which may in turn impact the Group's performance and financial position. 	<ul style="list-style-type: none"> Annual strategic plan and budget, as well as regular reforecasts taking into account market trends and the current economic environment. Regular operational and financial reviews of the business by senior management and Board of Directors. Monitoring industry trends, engagement with other industry participants and advisors.

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<p>Development</p> <ul style="list-style-type: none"> Development of new vehicles requires significant upfront investment for which there is no certainty that the programmes will be delivered on time, profitably, to plan or in a technologically competitive way. 	<ul style="list-style-type: none"> See below regarding 'Demand and Brand' and 'Technological.' Programme delivery management and regular progress reporting and oversight.
<p>Financial</p> <ul style="list-style-type: none"> Liquidity risk must be carefully managed to ensure sufficient funds are available to run the operations of the business and fund capital expenditure to develop vehicles for the future. Movements in foreign exchange may adversely impact the financial results and position of the Group. 	<ul style="list-style-type: none"> Cash managed and reported daily, together with weekly cash / liquidity forecasts. Annual budget and long-term plan processes alongside regular reforecasts, which include assessment of available liquidity and potential downside scenarios. Work closely with advisors to raise additional funds / liquidity as required. Hedging policy in place, which guides the level of hedging to have in place to mitigate foreign exchange risk.
<p>Demand and Brand</p> <ul style="list-style-type: none"> Demand for and appeal of the McLaren brand and vehicles, is subject to customer preferences, competitor offerings and industry trends. An inability to maintain the position of the McLaren brand or develop high quality desired vehicles may impair customer perception of the brand and product, adversely impacting financial performance. 	<ul style="list-style-type: none"> Annual strategic plan which considers the Group's existing vehicles, product plan, trends, customer preferences, competitor products and opportunities in the market. Business case for key projects, assessed by senior management and Board of Directors. Quality controls in place, including focus on 'right first time' to maintain vehicle quality and ensure delivery to customers at the expected standard. Careful management and cultivation of the McLaren brand, ensuring cooperation and alignment across lines of business. Focus on quality and scale of dealer network.
<p>Technological</p> <ul style="list-style-type: none"> Changing preferences or regulations, such as in relation to electric vehicles and connectivity, may reduce demand for or increase the cost of developing or manufacturing the Group's vehicles. 	<ul style="list-style-type: none"> Analysis and assessment of which features of vehicles are developed in-house or obtained from our high quality supplier base. Assessment of strategic partnership opportunities with key partners especially with the industry shift towards hybrid / electric vehicles over the decade.

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	<ul style="list-style-type: none"> Launched the McLaren Composites Technology Centre (MCTC) in 2018 to be a world-leader in innovating lightweight carbon fibre and composites. See above regarding 'Demand and Brand' on meeting market demands and trends.
<p>Supply Chain</p> <ul style="list-style-type: none"> Disruptions to supply chains, unavailability of components (e.g. semiconductors) or a decline in the quality of goods and services purchased may adversely affect operations. We rely on our dealer network to provide sales and services. We do not own our McLaren dealers and virtually all of our sales are made through our network of dealerships located throughout the world. If our dealers are unable to provide sales or service quality that our clients expect or do not otherwise adequately project the McLaren image and its exclusivity, the brand may be negatively affected. 	<ul style="list-style-type: none"> Developed close relationships with suppliers and dealerships to ensure proactive engagement on potential risks and disruptions (e.g. COVID-19 and semiconductor shortages). Cross functional reviews to identify supply issues and develop actions to resolve. At the peak of semiconductor shortages, daily reviews were held with regular reporting to senior management and the board. Application of procurement processes to ensure selection of suppliers that can meet the requirements of the Group (e.g. quality, volume, frequency, price etc).

Section 172 Companies Act 2006

This sets out how the Directors comply with the requirements of Section 172 Companies Act 2006 and how these requirements have impacted the Board's decision making throughout 2022.

The Companies (Miscellaneous Reporting) Regulations 2018 require all companies that meet specified size requirements to provide a corporate governance statement. Corporate Governance refers to the way that the Group is governed as well as the interaction between its managerial bodies, its shareholders and other stakeholders. The purpose is to adopt appropriate rules and procedures to support and improve the internal controls systems. The Group has always maintained strong governance procedures and welcomes the opportunity to make a formal disclosure.

The Group has continued to apply the Wates Corporate Governance Principles for large private companies which were issued in December 2018. The disclosures which provide support for how the directors meet the requirements of Section 172 Companies Act 2006 is included in the Governance Report on pages 17 to 21 and is also available on the Group's website www.mclaren.com.

Section 172 Decisions

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

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

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b) The interest of the company's employees

The Board understands the importance and benefit of having a broad range of skills, experiences, perspectives, and backgrounds in our teams and continuously strives to attract, engage, and retain a diverse range of talented people.

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

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

The Board regularly reviews how the Group maintains positive relationships with all its stakeholders. It understands the importance of the Group's supply chain in delivering the long-term plans of the Group and the CEO's of all businesses bring a wealth of key industry knowledge in their respective fields.

Our partners play a vital role in our progression and development with the core aim to strive for excellence together. For example with over 140 years of experience, and a presence in over 160 countries Pirelli is one of the leading manufacturers of performance tyres, and the perfect partner for McLaren. The bespoke tyres for the 12C and the McLaren P1™ are the result of close collaboration between Pirelli's researchers and McLaren's engineers at Woking, with the dual objective of harnessing all the power of the car while ensuring total control. In 2022 as we and our partners have faced constant supply chain pressures, we have worked even more closely with our suppliers to understand their requirements and challenges and to put in place support where required to ensure they are able to deliver the goods and services we need at the quality and to the timing required by our production processes.

Understanding the needs and aspirations of our customer is critical to the success of the business. The Group regularly engages with both our global dealer network and the owners of our vehicles for feedback on our current models and what they would like to see in the future. We also regularly hold events which allow our customers to test their vehicles or other McLaren's in different environments and with the support of experienced drivers. Such events are sometimes run in conjunction with both the Racing and Automotive businesses, such as at Formula 1 events, so that our customers can be part of the wider McLaren brand and experience.

The Group's principal risks and uncertainties set out risks that can impact the long-term success of the Group and how these risks interact with our stakeholders. The Directors actively seek information on the interaction with stakeholders to ensure that they have enough information to reach appropriate conclusions about the risks faced by the Group and how these are reflected within the long-term plans.

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

McLaren is committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) across the Group, where appropriate. Further information on the Group's initiative and commitment to the environment and society can be found on the Directors' Report on page 22.

McLaren supports communities in several ways and aims to make a positive contribution to improving people's life chances, especially those of young people. Developing the next generation of automotive

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expertise is vitally important to McLaren. As the Group continues to grow, the need for a skilled workforce to design, develop, build and sell its cars is also expanding. McLaren partners with various organisations and charities and has likewise worked with the BBC on educational science programming for primary school age groups and above. The Group continually strives to improve, innovate and contribute towards a better future.

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

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

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

McLaren is celebrating its 60th birthday in 2023 and remains privately owned. The Group is supported by its shareholders and providers of debt funding in providing the capital to further its business objectives. They rely on the Board to protect and manage their investment in a responsible and sustainable way that generates value for them. The Group holds quarterly meetings for all investors to join at which the Group Executives present the current financial and operational results. Investors are invited to ask questions and seek clarification from the Executive. The Group interfaces with the shareholders on a regular basis through corporate events and the Group Board meetings, which contains independent non-executives alongside the executive directors.

Directors

There were 4 directors during the year of which three were male and one was female. The Company had no employees in the year, as all directors were employed by another related company.

Signed by order of the Board



C Ferry
Director
17 May 2023

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Surrey GU21 4YH

Directors' Report

The Directors' present their Annual Report and the audited Consolidated Financial Statements of the Group and Company for the year ended 31 December 2022.

Future developments and post balance sheet events

On 14 March 2023 the Group confirmed that shareholders of McLaren Group Limited had provided £70.0m in additional funding, as part of an ongoing recapitalisation process. This £70.0m of funds was invested into the Group as ordinary share capital. A broader recapitalisation involving the Group's existing shareholders to fully fund McLaren's product development strategy was noted as being subject to ongoing shareholder discussion with further updates on this process to be provided in due course.

The UK government has announced its intention to end the sale of new petrol and diesel vehicles by 2030, with some limited exceptions. The Artura represents a best-in-class, next generation hybrid supercar for which we are seeing very strong demand and we expect to sell throughout the decade. We continue to assess the availability of suitable technology to enable us to deliver an all-electric vehicle that meets McLaren's needs and standards, and gives customers the ultimate driving experience.

Other future developments and important events affecting the Group since the year end, are explained in the Strategic report on pages 3 to 13.

Research and development

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

Existence of branches outside of the UK

The Group has branches, as defined in section 1046(3) of the Companies Act 2006, outside of the UK, in Bahrain, Spain and Japan.

Going concern

In July 2022 the Group received £125.0m of capital in the form of ordinary shares from its parent, McLaren Group Limited, with an initial £80.0m tranche received in July and the remaining balance of £45.0m in September 2022. In November 2022 the Group announced that it had identified certain technical upgrades that were required to ensure Artura customers enjoy optimum long-term performance. These upgrades resulted in delays to wholesale shipments and customer deliveries which had an associated impact on the Group's revenue and liquidity. In order to help manage through this issue, the Group completed the sale of certain heritage cars to its lead shareholder for consideration of £100.0m.

On 14 March 2023 the Group confirmed that shareholders of McLaren Group Limited had provided £70.0m in additional funding, as part of an ongoing recapitalisation process. This £70.0m of funds was invested into the Group as ordinary share capital. A broader recapitalisation involving the Group's existing shareholders to fully fund McLaren's product development strategy was noted as being subject to ongoing shareholder discussion with further updates on this process to be provided in due course.

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

Directors' Report

The Board remains positive of the future direction and long-term product plan of the business, but likewise recognises risks to performance such as supply chain constraints, required spend on development programmes and possible delays to the launch of new vehicles. The Board recognises that additional funding is needed to fund the future plans of the business and in order to meet liabilities as and when they fall due in the period of 12 months from the date of approval of the financial statements. As noted above the broader recapitalisation is subject to ongoing shareholder discussion and as such this funding is not secured at this time. These conditions indicate a material uncertainty which may cast significant doubt over the Group's and the Company's ability to continue as a going concern. These financial statements do not include any adjustments that would arise if the Group and the Company were unable to continue as a going concern.

Financial risk management objectives and policies

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

Foreign exchange risk

The Group is exposed to currency exchange rate risk due to a significant proportion of its revenue/receivables and cost of sales being denominated in non-Sterling currencies. The Group uses a mixture of foreign exchange forward and option contracts to hedge this exposure based on forecast cash inflows and outflows over a 24-month period.

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

Credit risk

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

The Group's receivables are at risk to the extent that a customer may be unable to pay the debt as it is due. The risk is mitigated by the strong on-going customer relationships with a dealership network carefully selected by McLaren. The credit risk on cash, liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of long term and short-term deposit and funding facilities available to it, including revolving credit facilities, liquid funds, trade finance and other working capital facilities. As the Group approaches the maturity of its borrowing facilities it will look to refinance these in the capital markets via a mix of bank lending and capital markets issuance (Senior Secured Notes) providing additional funding required for the Group's strategic plans. Cash and liquidity deposits are currently placed with counterparties that have minimum investment grade credit ratings of BBB- or higher.

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

Directors' Report

Price risk

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

The luxury performance car market is generally affected by global macroeconomic conditions and many factors affect the level of consumer spending in the luxury performance car industry, including the state of the economy as a whole, stock market performance, interest and exchange rates, inflation, political uncertainty, the availability of consumer credit, tax rates, unemployment levels and other matters that influence consumer confidence.

Our sales have historically been comparatively resilient in periods of economic turmoil. Sales of luxury goods tend to decline during recessionary periods when the level of disposable income tends to be lower or when consumer confidence is low. Significant inflationary pressures appeared in 2021 in many of the markets in which we operate and this trend has continued to worsen throughout 2022.

Heritage Assets

Over the last 50 years the Group has established a large collection of heritage race cars and other vehicles which chronicle our racing heritage and have been used to serve as promotional vehicles for the brand within the McLaren Technology Centre (MTC) and also at museums, retailers and heritage track days around the world.

As at 31 December 2022 the collection numbered some 18 vehicles which were held at a cost of £9.4m. There is a market for these assets, and the Group may determine as appropriate to sell a specific and limited number of these cars to specialist collectors from around the world.

As noted in the Strategic Report the Group's completed the sale of certain heritage cars to its lead shareholder for consideration of £100.0m in 2022.

Dividends

The Directors do not propose a dividend for the year ended 31 December 2022 (2021: £nil).

Directors

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

Z Brown

P S Walsh

C Ferry

M Leiters – appointed 01.07.22

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.

Directors' Report

Political donations

No political donations were made during the current or previous year. We do not support any political party, and do not partake in any activity that could be interpreted as mutual dependence / favour with any political body or person.

Disabled employees

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

Employee engagement

The Group is committed to ensuring that its people are actively engaged in the ongoing management and future direction of the business. Employee involvement is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the group plays a major role in maintaining its ongoing success. Regular formal, and informal, briefings are held with all sections of the workforce.

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

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

Statement of corporate governance arrangements

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

The Group applies the Wates Corporate Governance Principles for large private companies. They provide a framework for the Group to demonstrate how the Board makes decisions for the long-term success of its stakeholders together with a disclosure as to how they ensure compliance with the requirements of Section 172 of the Companies Act 2016.

Principle 1 – Purpose and leadership

McLaren was founded by Bruce McLaren and his ethos still permeates the organisation today. Bruce worked his way up through club races in and around his native Auckland, New Zealand, and won his first grand prix at just 22. The youngest-ever winner at the time, he had the mind of an engineer and formed a racing team in 1963 to build his own cars. Years later, we have won 20 Formula 1 World Championships (12 driver and 8 constructor championships) and established our luxury road car division where his spirit continues to inspire every car that we build today. Thriving in the summit of the luxury automotive and motorsport world has bred a spirit of dedication. Our people maintain that commitment, courage and creativity throughout the business in the unrelenting search for excellence.

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

We do everything for a reason; before we embark on any activity, we must know why we are doing it and then be able to measure its impact and evaluate its success.

Directors' Report

If we can't measure something, we don't know if we have improved. We do not compromise. The Group operates in the area of Automotive, and perpetuates stakeholder engagement through a formal shareholder agreement. Through concurrent meetings of the operating companies' management with the Board, this achieves a consistent approach and governance.

We support the communities we are part of and aim to make a positive contribution to improving people's life chances, especially those of young people. The Group is committed to investing in its charities. Automotive's global charity partner is children's charity Plan International. Plan International and McLaren Automotive together pledge to support, empower, and inspire the next generation to reach their full potential. The partnership brings together Automotive's long-standing commitment to inspire and encourage young people to take up careers in science, technology, engineering, and maths (STEM), with Plan International's track record of challenging gender stereotypes to support girls globally to stay in school and open opportunities to pursue fulfilling careers.

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

Principle 2 – Board composition

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

The Board of McLaren Holdings Limited reflects the interest and ambitions of our stakeholders and introduces perspectives originating in businesses outside those in which the Group operates. The Board supervises the work of the Executive Management and is responsible for challenging performance and agreeing strategic direction, while the Executive Management drives the operations and management of the business. We believe that the size and composition of our Board is appropriate for the scale of the Group.

Each of our operating entities has a Chief Executive Officer with skills that complement the activities of that business. They come together at regular intervals to ensure that our values, approach and decision making across the Group is consistent and sustained. The Group believes that the size and composition of the Boards with their breadth of experience is appropriate to our business.

The McLaren Group Remuneration and Nomination Committee has a planned Board Effectiveness review as part of their remit.

Principle 3 – Director responsibilities

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

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

Directors' Report

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

The successful delivery of the long-term plans relies on key inputs and positive relationships with a wide range of stakeholders and so the Board approves an updated five year strategic plan on an annual basis. The Board receives regular data on the main business activities for each of the Group Companies in respect of financial matters, risks and opportunities and operational matters. During the year the Board continued its focus on cash management and regularly reviews the Group's cash flows, and overall financial resilience of the Group. The information is collated by the Group's finance team who are recruited with the skills and expertise to safeguard the quality of the data produced.

The McLaren Group has operated an outsourced internal audit function since the start of 2021, reporting to McLaren Group's Audit and Risk Committee. The Audit team has a defined annual programme of work and reports against this to the Committee on a quarterly basis. In the event that they became aware of a specific matter the Internal Auditor has direct access to the Committee Chair. To support good governance the Audit Committee regularly reviews the relationship with the external auditors.

Principle 4 – Opportunity and risk

The Executive Management (as delegated by the Board) has responsibility for maintaining sufficient and effective internal controls and risk management systems in relation to financial reporting is secured by Executive management.

The Group has systems and controls in place that manage, rather than eliminate, the risk of failure to achieve its annual plan. The Group has in place a formal process for risk management including the maintenance of division and group wide risk registers. The output provides reasonable but not an absolute assurance against a risk materialising. Once the risks are analysed based on likelihood and impact of occurrence they are considered by senior management with deep dives into the key and recurring items as appropriate. Similarly, data collection allows focus on the changes to those measures over time.

Once considered by the Executive the risk register is presented to the McLaren Group Audit and Risk Committee and the Group Board. Any points raised by the Board are discussed in subsequent management meetings.

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

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

1. **Risk identification:** To gain a full understanding of any risk that McLaren faces which might create, prevent, accelerate or delay the Group's achievements;
2. **Current control identification:** To establish whether our existing controls environment adequately mitigates the risk;
3. **Prioritising risks:** To rank risks in order of their potential impact and likelihood of occurring;
4. **Risk response planning:** Proactive management of those risks which are at an unacceptably high level and which require additional treatment;
5. **Risk reporting:** To inform decisions and ensure that McLaren's risk profile is adequately managed; and

Directors' Report

6. **Monitor and review:** To ensure that the planned risk response actions are put into place and continue to be effective.

McLaren Group Limited has an Audit and Risk Committee comprised of four Non-Executive Directors to ensure that the interests of shareholders across the group are properly protected in relation to financial reporting and internal control.

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

The Audit and Risk Committee assesses the effectiveness of the external auditor's performance every year after completion of the annual audit.

Principle 5 – Remuneration

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

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

Principle 6 – Stakeholders

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

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

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

Directors' Report

The Board promotes transparency in the Group's dealing with external stakeholders and representatives of government. We engage with governments, regulators, industry bodies and our stakeholder community in a constructive manner to promote good governance. We also ensure we act in accordance with the governance systems of the countries we operate in. Automotive customers expect the service from a supercar company that is met by a dedicated retailer network, after sales events and on-going customer satisfaction engagement.

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

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

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

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

Climate, environment and sustainability

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

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

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

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

to which we remain committed and compliant.

In October 2021 the Financial Stability Board's Task Force for Climate-related Financial Disclosures published an updated report recommending that climate-related risks and opportunities should be incorporated into companies' risk management and strategic planning processes. The task force also recommended that these risks and opportunities should be quantified and reported on. Whilst recognising that the Group currently builds and races vehicles that run on fossil fuels, the Group has a policy of sustainability and reducing its direct carbon emissions. Progress towards this target is recorded in the 'Streamlined energy and carbon report' (SECR), below. The Group has achieved certification from the Carbon Trust for energy and carbon management methodology. The Audit and Risk Committee has been presented with a strategy to consider governance, strategy, risk, and metrics. During 2022 the Group

Directors' Report

continued to embed sustainability throughout all employee roles and as work progresses in this area, information will continue to be disclosed within the SECR and in the strategic report.

Environmental policy

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

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

- Manage our energy consumption and CO₂ emissions,
- Establish effective resource utilisation,
- Manage waste and recycling practices,
- Maintain control over our transport and logistics operations

Objectives

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

This environmental policy statement commits the McLaren Group of companies to:

- Preventing and reducing pollution, including a reduction in CO₂ emissions of 2.5% year on year, and zero waste to landfill.
- Fulfilling all applicable regulatory and other obligations in terms of environmental protection as our bare minimum level of performance.
- Compliance with all permits issued under Local Authority Pollution Prevention and Control legislation.
- Encouraging employee contributions, views, involvement and dialogue in all environmental matters. We will provide suitable training and support to all employees in relation to this policy, giving them ownership and pride in achieving our objectives and goals and recognising contribution as part of a fulfilling career at McLaren.
- Ensuring that stakeholders in our business are aware of our Environmental Policy and that the policy and standards are promoted to our suppliers, partners and customers, encouraging others to implement environmental management measures in their own businesses.
- Embedding the principles of 'best performance' (health and safety, quality and environmental concerns) to our design, development, manufacturing and operational processes at MTC, track side and in transport logistics.
- Manage water in a way that conserves this scarce resource by minimising unnecessary water consumption.
- Periodically evaluate our activities to identify significant environmental concerns and put in place management action plans.
- Develop sustainable procurement policies and standards for our suppliers, franchisees and licensees and collaborate with them to identify opportunities for sustainable practices across materials, packaging, logistics and supply chain models.
- Manage our land holdings to promote biodiversity and conserve the natural environment.

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

Directors' Report

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

The work we do in this area is not undertaken in isolation and we work with our blue-chip commercial partners sharing best practice and concentrating efforts where possible for greater impact.

The external accreditation and evidence-based commitment to climate and environment issues is supported by renewed certification from The Carbon Trust. The process of certification measures absolute footprint and carbon intensity reduction in tonnes of CO₂ and includes a qualitative assessment of environmental management including waste as well as scoring the business on a benchmark with industry peers. The boundary defined for certification is for all McLaren's UK operations which covers our principal engineering, manufacturing and commercial activities together with all international travel and freight.

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

The global trend to sustainable and renewable energy sources, supported by international regulatory requirements directly impacts automotive vehicle product certification directly for vehicle emissions and power train technology and indirectly for required capital investment in associated technology and capability. The Group welcomes these macro trends and our business plans and product strategy reflects the developing requirements. McLaren Automotive continuously monitors the impact of climate change policies on vehicle regulations globally, and actively contributes to ongoing Government discussions particularly within the UK, EU and more specifically for our segment in the US and China.

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

- (iii) Infrastructure resilience risk in our engineering and manufacturing support systems such as IT server rooms, building control systems, as a result of the rising temperature and associated flood risks.

The McLaren Technology Centre and McLaren Production Centres were developed with sustainability and biodiversity in mind and maintained and developed to a high standard. Over the 20 years since the construction of the McLaren Technology Centre, what were once considered one-in-twenty-year climate events are assessed to have increased in likelihood. We monitor these risks, ensure we have suitable insurance arrangements in place and build into our financial plans any expenditure to manage and mitigate risks as necessary. We do not consider any other assets as at risk.

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

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

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

- a) Prevent and reduce pollution including CO₂ emissions of 2.5% year on year.

Directors' Report

- b) Maintain our commitment to zero waste to landfill. This was initially achieved in 2016, and still is in 2022. We continue to make significant progress in recycling and the management of plastics to protect land and water. We have also implemented controlled waste streaming processes resulting in greater amounts of waste to energy recovery.
 - c) Fulfil all regulatory requirements and obligations to environmental protection as a minimum.
 - d) Comply with all permits issued under local authority pollution, prevention and control legislation.
 - e) Encourage employee contribution in environmental matters including training and support to relevant employees giving them ownership and pride in achieving our objectives.
2. Reputational and revenue risk from potential product non-compliance in rapidly changing global vehicle emissions regulations in our automotive business.

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

In addition to the specialist environmental management teams the Group has strengthened its risk management processes and governance by implementing a board level Audit and Risk Committee to oversee these and other material business risks.

Streamlined energy and carbon reporting ('SECR')

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

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

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

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

Directors' Report

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

Directors' confirmations

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

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

Independent auditors

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

The financial statements on pages 33 to 77 were approved by the Board of Directors on 17 May 2023 and signed by order of the Board:



C Ferry
Director
17 May 2023

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

Independent auditors' report to the members of McLaren Holdings Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's loss and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2022; the Consolidated profit and loss account, the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity and the Consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3b to the financial statements concerning the group's and the company's ability to continue as a going concern. Due to delays to wholesale shipments and customer deliveries which has had an associated impact on the group's revenue and liquidity as well as risks to future performance from supply chain constraints, investment required for development programmes and possible delays to the launch of new vehicles, the group and company will require additional funding in order to be able to meet their liabilities as they fall due in the period of 12 months from the date of approval of the financial statements. This additional funding has not yet been secured. These conditions, along with the other matters explained in note 3b to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

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

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

- considering the extent to which the group's and company's future cash flows might be adversely affected by delays to wholesale shipments, customer deliveries and supply chain constraints;
- reviewing management's cash flow forecasts, assessing the existing sources of finance and considering the overall impact on liquidity; and
- considering the adequacy of the disclosures in the financial statements, particularly Note 3b, Summary of significant accounting policies - going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Overview

Audit scope

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

Key audit matters

- Material uncertainty related to going concern (group and company)
- Capitalisation of development costs (group)
- Assessment of investments and certain long lived assets for impairment (group and company)

Materiality

- Overall group materiality: £6.3M (2021: £5.9M) based on 1% of revenue from continuing operations.
- Overall company materiality: £14.7M (2021: £12.6M) based on 1% of total assets but restricted to group materiality allocation.
- Performance materiality: £4.7M (2021: £4.5M) (group) and £11.0M (2021: £9.5M) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

The assessment of investments and certain long lived assets for impairment (group and company) is a new key audit matter this year. Accounting for sale and leaseback (group), which was a key audit matter last year, is no longer included because of the reduced relevance of this transaction on the group's financial position as at 31 December 2022 and performance for the year ended on that date. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Capitalisation of development costs (group)</i></p> <p>As disclosed in Note 12 to the consolidated financial statements, the group had £803.0M of capitalised new production development costs as at 31 December 2022 (£785.8M as at 31 December 2021).</p> <p>There is judgement involved in determining whether or not such development costs meet the relevant criteria for capitalisation under FRS 102 and this increases the risk of error or misstatement.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> • Reviewing and testing management's capitalisation criteria for development costs on new and ongoing programmes, including feasibility studies for new projects and business plans for new and ongoing projects, against the requirements of FRS 102; • Understanding and evaluating the design and operating effectiveness of management's review and approval of project related vendor costs; • Verifying the existence and accuracy of capitalised project costs by substantively testing a sample of costs capitalised in the year back to supporting documentation and confirming that they met the criteria for capitalisation; and • Assessing the overall appropriateness of salary costs capitalised by comparing these to budgets. <p>Based on the procedures performed, we noted no material issues from our work.</p>
<p><i>Assessment of investments and certain long lived assets for impairment (group and company)</i></p> <p>As disclosed in the company balance sheet, the company had investments in subsidiaries totalling £177.4M as at 31 December 2022. This primarily consisted of direct ownership of the McLaren Automotive Limited sub-group, the McLaren Services Limited sub-group and McLaren Finance Plc.</p> <p>In addition, as per the consolidated balance sheet, the carrying value of the group's fixed assets at 31 December 2022 was £895.9M.</p> <p>During the year, management assessed these assets for impairment and, as part of the process, calculated the recoverable amounts of these assets. These recoverable amounts were compared with the corresponding carrying values and consequently, an impairment of £96.7M in respect of the company's investments was recognised. No impairment charge was recognised in respect of the group's fixed assets.</p> <p>The recoverable amounts of the assets were determined from value in use calculations. The key assumptions for the value in use calculations included (i) expected future revenue and profit growth rates, including the terminal growth rate; and (ii) the discount rates to be applied to the estimated future cash flows.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> • Obtaining management's discounted cash flow model at 31 December 2022 and ensuring that it was in line with the current Board approved forecast and consistent with the expectations of future business performance observed elsewhere within our work; • Understanding the process for the Board's review and approval of the cash flow forecast underlying the model used at 31 December 2022; • Testing the mathematical accuracy of the model; • Engaging our valuation specialists to assist in the assessment of the reasonableness of certain key assumptions in the model, including the discount and long term growth rates applied; • Reviewing the key strategies and plans being put in place by management and evaluating the reasonableness of the related assumptions for future profitability and revenue growth; and • Considering the adequacy of disclosures in the consolidated financial statements. <p>Based on the procedures performed, we noted no material issues from our work.</p>

How we tailored the audit scope

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

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

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

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's and company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk and their climate commitments as disclosed in the Climate, environment and sustainability section of the Director's report. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements.

Materiality

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

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

	Financial statements - group	Financial statements - company
<i>Overall materiality</i>	£6.3M (2021: £5.9M).	£14.7M (2021: £12.6M).
<i>How we determined it</i>	1% of revenue from continuing operations	1% of total assets but restricted to group materiality allocation
<i>Rationale for benchmark applied</i>	The group's principal focus is selling luxury sports cars and developing the McLaren brand and reputation using its high technology skills and knowledge to build sports and supercars. The group's business plan reiterates a commitment to invest in research and development for future products and technology in order to achieve pre-pandemic levels of revenue. Revenue is also one of the key metrics used by management in assessing the performance of the group. As a result, revenue rather than profit or loss is considered to be the most relevant measure of performance.	The company is the ultimate holding company of the group's investments and is not in itself profit-oriented. The strength of the balance sheet is the key measure of financial health that is important to the shareholders, since the primary focus for the company is on the payment of dividends. As a result, total assets are considered to be the most relevant benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £1.1M to £5.6M. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £4.7M (2021: £4.5M) for the group financial statements and £11.0M (2021: £9.5M) for the company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £313,850 (group audit) (2021: £297,250) and £734,650 (company audit) (2021: £631,587) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations considered to have a direct effect on the financial statements;
- enquiring of management and the Audit & Risk Committee about existing and potential litigation and claims, and known or suspected instances of non-compliance with laws and regulations and fraud;
- addressing the risk of fraud through management override of controls by testing the appropriateness of certain journal entries posted with unusual account combinations, such as, journals crediting revenue where the debit is to an unexpected account;
- challenging assumptions and judgements made by management in their significant accounting estimates that involved considering future events that are inherently uncertain. In particular, in relation to the capitalisation and recoverability of development costs, the recoverability of investments and certain long lived assets and the recoverability of deferred tax assets; and
- communicating relevant identified laws and regulations and potential fraud risks to all engagement team members and reminding them to be alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Gregory Briggs (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
17 May 2023

Consolidated Profit and Loss Account

For the year ended 31 December 2022

		2022	2021	2021	2021
		Continuing	Continuing	Discontinued	Total
	Note	Operations	Operations	Operations	
		£m	£m	£m	£m
Turnover	5	627.8	593.7	16.7	610.4
Cost of Sales		(506.1)	(429.9)	(13.8)	(443.7)
Administrative expenses		(205.2)	(218.0)	(7.1)	(225.1)
Other operating income		39.8	36.5	0.3	36.8
Other gains/(losses)	7	86.5	228.0	(33.3)	194.7
Share of loss from joint venture	15	-	-	(33.1)	(33.1)
Impairment of assets		(21.1)	(0.9)	(0.4)	(1.3)
Depreciation		(9.8)	(12.0)	(2.5)	(14.5)
Amortisation		(143.2)	(140.0)	(1.1)	(141.1)
Operating (loss)/profit	7	(131.3)	57.4	(74.3)	(16.9)
Interest receivable and similar income	9	0.2	2.3	-	2.3
Interest payable and similar expenses	9	(143.8)	(52.9)	(2.8)	(55.7)
Gain on sale of share in subsidiary	10	-	2.8	-	2.8
(Loss)/profit before taxation		(274.9)	9.6	(77.1)	(67.5)
Tax on (loss)/profit	11	(59.8)	57.8	3.6	61.4
(Loss)/profit for the financial year		(334.7)	67.4	(73.5)	(6.1)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the Company profit and loss account. The loss for the year is presented in the Company balance sheet on page 36.

The notes on pages 40 to 77 form an integral part of these consolidated financial statements.

All operations in 2022 relate to continuing operations. See note 6 for further information on discontinued operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Loss for the financial year		(334.7)	(6.1)
Other comprehensive (expense)/income:			
Deferred tax charge on revaluation reserve	11	3.0	1.1
Deferred tax on cash flow hedges	11	(0.6)	2.1
Cash flow hedges:			
- Change in value of hedging instrument		(32.6)	(20.7)
- Reclassifications to profit and loss		29.0	(2.3)
Gain on foreign currency translation reserve		8.2	1.7
Total comprehensive expense for the year		(327.7)	(24.2)

The notes on pages 40 to 77 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet
As at 31 December 2022

	Note	2022 £m	2021 £m
Fixed assets			
Intangible assets	12	830.3	819.6
Tangible assets	13	56.2	61.4
Heritage assets	14	9.4	21.8
		895.9	902.8
Current assets			
Inventories	16	167.6	195.3
Debtors	17	231.0	287.5
Cash at bank and in hand		100.7	76.7
		499.3	559.5
Creditors: Amounts falling due within one year	18	(413.8)	(339.5)
Net current assets		85.5	220.0
Total assets less current liabilities		981.4	1,122.8
Creditors: Amounts falling due after more than one year	19	(511.7)	(459.9)
Provisions for liabilities	22	(54.6)	(45.1)
Net assets		415.1	617.8
Capital and reserves			
Called up share capital	26	0.1	0.1
Share premium account		964.5	839.5
Revaluation reserve		5.4	12.9
Capital contribution reserve		2.0	2.0
Merger reserve		218.5	218.5
Other reserves		(7.2)	(10.6)
Accumulated losses		(768.2)	(444.6)
Total equity		415.1	617.8

The notes on pages 40 to 77 form an integral part of these consolidated financial statements.

The financial statements on pages 33 to 77 were authorised for issue by the Board of Directors on 17 May 2023 and signed on its behalf by:



C Ferry
Director

Registered number: 10756310

Company Balance Sheet
As at 31 December 2022

	Note	2022 £m	2021 £m
Fixed assets			
Investments	15	177.4	274.1
Current assets			
Debtors	17	1,214.0	925.7
Cash at bank and in hand		77.9	63.4
		1,291.9	989.1
Creditors: Amounts falling due within one year	18	(474.9)	(299.7)
Net current assets		817.0	689.4
Total assets less current liabilities		994.4	963.5
Creditors: Amounts falling due after more than one year	19	(510.5)	(455.0)
Net assets		483.9	508.5
Capital and reserves			
Called-up share capital	26	0.1	0.1
Share premium account		964.5	839.5
Capital contribution reserve		2.0	2.0
Accumulated losses		(482.7)	(333.1)
Total equity		483.9	508.5

The Company's loss for the year was £149.6m (2021: loss £18.4m).

The financial statements on pages 33 to 77 were authorised for issue by the Board of Directors on 17 May 2023 and signed on its behalf by



C Ferry
Director

Registered number 10756310

Consolidated Statement of Changes in Equity
for the year ended 31 December 2022

	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital contribution reserve £m	Other Reserves £m	Revaluation reserve £m	Accumulated losses £m	Total equity £m
At 1 January 2021	0.1	643.8	218.5	2.0	8.6	42.6	(469.3)	446.3
Loss for the financial year	-	-	-	-	-	-	(6.1)	(6.1)
Total comprehensive (loss)/profit for the financial year	-	-	-	-	(19.2)	(29.7)	30.8	(18.1)
Total comprehensive expense	-	-	-	-	(19.2)	(29.7)	24.7	(24.2)
Issue of shares	-	195.7	-	-	-	-	-	195.7
At 31 December 2021	0.1	839.5	218.5	2.0	(10.6)	12.9	(444.6)	617.8
At 1 January 2022	0.1	839.5	218.5	2.0	(10.6)	12.9	(444.6)	617.8
Loss for the financial year	-	-	-	-	-	-	(334.7)	(334.7)
Total comprehensive profit/(loss) for the financial year	-	-	-	-	3.4	(7.5)*	11.1	7.0
Total comprehensive expense	-	-	-	-	3.4	(7.5)	(323.6)	(327.7)
Issue of shares	-	125.0	-	-	-	-	-	125.0
At 31 December 2022	0.1	964.5	218.5	2.0	(7.2)	5.4	(768.2)	415.1

*Includes transfer of revaluation gain of £13.0m (2021: £0.5m) to accumulated losses, upon sale of underlying assets.

Company Statement of Changes in Equity
for the year ended 31 December 2022

	Called up share capital £m	Capital contribution reserve £m	Share premium account £m	Accumulated losses £m	Total Equity £m
At 1 January 2021	0.1	2.0	643.8	(314.7)	331.2
Shares issued in August 2021	-	-	195.7	-	195.7
Loss for the financial year / Total comprehensive loss for the financial year	-	-	-	(18.4)	(18.4)
At 31 December 2021	0.1	2.0	839.5	(333.1)	508.5
At 1 January 2022	0.1	2.0	839.5	(333.1)	508.5
Shares issued in August 2022	-	-	125.0	-	125.0
Loss for the financial year / Total comprehensive loss for the financial year	-	-	-	(149.6)	(149.6)
At 31 December 2022	0.1	2.0	964.5	(482.7)	483.9

Consolidated Cash Flow Statement
for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Net cash used in operating activities	27	(6.0)	(63.8)
Taxation paid		(0.4)	(7.0)
Net cash used in operating activities		<u>(6.4)</u>	<u>(70.8)</u>
Cash flow from investing activities			
Addition of intangible assets		(164.6)	(156.3)
Addition of tangible assets		(5.1)	(5.6)
Proceeds from disposal of heritage assets	14	100.0	93.6
Proceeds from disposal of investment	15	-	81.8
Proceeds from disposal of tangible assets (net of associated transaction costs)	13	0.3	167.8
Disposal of subsidiary (net of cash disposed)		-	(5.2)
Net cash generated (used in)/from investing activities		<u>(69.4)</u>	<u>176.1</u>
Cash flow from financing activities			
Repayment of obligations under finance lease		(1.7)	(2.0)
Receipt/(Repayment) of revolving loan facility		15.0	(68.9)
Interest paid		(39.5)	(34.9)
Proceeds from issue of Ordinary shares		125.0	195.7
Repayment of senior secured notes		-	(621.2)
Proceeds from issue of senior secured notes (net of associated transaction costs)		-	436.1
Net cash generated from/(used in) financing activities		<u>98.8</u>	<u>(95.2)</u>
Net increase in cash and cash equivalents		23.0	10.1
Cash and cash equivalents at beginning of year		76.7	66.7
Effect of foreign exchange rate changes		1.0	(0.1)
Cash and cash equivalents at end of year		<u>100.7</u>	<u>76.7</u>
Cash and cash equivalents consists of:			
Cash at bank and in hand		<u>100.7</u>	<u>76.7</u>
Cash and cash equivalents		<u>100.7</u>	<u>76.7</u>

The notes on pages 40 to 77 form an integral part of these consolidated financial statements.

Notes to the Financial Statements

1. General information

McLaren Holdings Limited ("the Company") and its subsidiaries (together "the Group") is privately owned company limited by shares and incorporated in the United Kingdom and registered in England 10756310. The address of the registered office is given on page 25. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 3 to 13.

2. Statement of compliance

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

3. Summary of significant accounting policies

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

a. Basis of preparation

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

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

b. Going concern

In July 2022 the Group received £125.0m of capital in the form of ordinary shares from its parent, McLaren Group Limited, with an initial £80.0m tranche received in July and the remaining balance of £45.0m in September 2022. In November 2022 the Group announced that it had identified certain technical upgrades that were required to ensure Artura customers enjoy optimum long-term performance. These upgrades resulted in delays to wholesale shipments and customer deliveries which had an associated impact on the Group's revenue and liquidity. In order to help manage through this issue, the Group completed the sale of certain heritage cars to its lead shareholder for consideration of £100.0m.

On 14 March 2023 the Group confirmed that shareholders of McLaren Group Limited had provided £70.0m in additional funding, as part of an ongoing recapitalisation process. This £70.0m of funds was invested into the Group as ordinary share capital. A broader recapitalisation involving the Group's existing shareholders to fully fund McLaren's product development strategy was noted as being subject to ongoing shareholder discussion with further updates on this process to be provided in due course.

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

Notes to the Financial Statements

The Board remains positive of the future direction and long-term product plan of the business, but likewise recognises risks to performance such as supply chain constraints, required spend on development programmes and possible delays to the launch of new vehicles. The Board recognises that additional funding is needed to fund the future plans of the business and in order to meet liabilities as and when they fall due in the period of 12 months from the date of approval of the financial statements. As noted above the broader recapitalisation is subject to ongoing shareholder discussion and as such this funding is not secured at this time. These conditions indicate a material uncertainty which may cast significant doubt over the Group's and the Company's ability to continue as a going concern. These financial statements do not include any adjustments that would arise if the Group and the Company were unable to continue as a going concern.

c. Exemptions for qualifying entities under FRS 102

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

The Company has taken advantage of the following exemptions:

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

d. Basis of consolidation

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

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where the Group owns more than 50% of the equity but has joint control over the financial and operating policies of an entity, it accounts for that entity as a joint venture using the equity method of accounting.

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

Any subsidiary undertakings or joint venture sold or acquired during the year are accounted for as described above up to, or from, the dates of change of control or change of significant influence respectively.

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

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

Notes to the Financial Statements

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

e. Foreign currency

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

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

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

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

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

f. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the Group and value added taxes. The Group bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

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

Notes to the Financial Statements

Other Income

(i) Government grants

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

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

A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs is recognised in income in the period in which it becomes receivable. Under the COVID-19 Job Retention Scheme (CJRS) in the UK, HMRC reimbursed a portion of the wages of employees who have been furloughed and as such amounts received were recognised in the profit and loss account over the same period as the payroll costs to which they relate.

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

(ii) Management fees

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

(iii) R&D Tax credits

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

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

g. Research and development

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

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

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

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

Notes to the Financial Statements

h. Employee benefits

Employee benefits include the following items:

(i) **Defined contribution pension plans**

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

(ii) **Short-term benefits**

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

(iii) **Annual bonus plan**

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

(iv) **Termination benefits**

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

i. Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

(i) **Current tax**

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

(ii) **Deferred tax**

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

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

Notes to the Financial Statements

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

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

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

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income.

j. Intangible assets

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

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

A change in accounting estimate has been applied from 1st January 2022 to change the method of amortisation of production development costs from a wholesale lifecycle basis to a straight-line basis, where the useful economic life is defined as the period of production of the corresponding vehicle. The change in accounting estimate was made to better align with others in our industry and has resulted in an increased amortisation charge in the year of £34.7m, lowering the closing net book value of the associated assets to £599.2m.

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

Amortisation is provided over the estimated useful lives of the assets taking into account factors such as expected period of use, likely technological advancements etc. IT Infrastructure expenditure is capitalised and amortised on a straight-line basis over 10 years from the date of implementation. Bespoke and limited volume programme development costs are amortized across the programme lifecycle based on units produced. For all other intangible assets, amortisation is calculated using the straight-line method to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, up to 10 years for development costs.

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

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

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.

Notes to the Financial Statements

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

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

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

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

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

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

l. Heritage assets

The Group has a collection of heritage vehicles, treated as heritage assets, which are stated at cost less accumulated impairment losses. Cost includes any costs that are directly attributable to bringing the asset to its working condition for its intended use.

The vehicles are maintained by the business on a regular basis with maintenance costs being charged to the profit and loss account when incurred. The cars are deemed to have indeterminate lives and therefore are not depreciated but instead are assessed for impairment.

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

m. Borrowing costs

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

n. Leased assets

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Finance leased assets

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

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

Notes to the Financial Statements

Operating leased assets

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

Lease incentives

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

Sale and leaseback

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

o. 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 discount rate that represents the current market risk-free rate and the risks inherent in the asset. The forecast cash flows are based on the Group's approved business plan that was in effect as at the reporting date.

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

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

p. Investments

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

q. Inventories

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

Costs of raw materials and consumables are ascertained on an average cost basis and cost of finished goods and work in progress, includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimating

Notes to the Financial Statements

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.

r. Cash and cash equivalents

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

s. Provisions and contingencies

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

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

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

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

t. Financial instruments

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

(i) Financial assets

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

The impairment loss is recognised in profit or loss.

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

(ii) Financial liabilities

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

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

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

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

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

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

(iii) **Foreign currency derivative financial instruments**

Forward foreign exchange contracts are derivatives which are not basic financial instruments. The Group uses derivative financial instruments to reduce exposure to foreign exchange risk movements. The Group does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in other comprehensive income where part of an effective cash flow hedge (see note 3v below) or otherwise in the profit and loss in finance costs or finance income as appropriate.

(iv) **Fair value measurement**

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique that maximises the use of relevant observable inputs and minimise the use of unobservable units. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing and transaction.

(v) **Offsetting**

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

u. Hedge accounting

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

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

Cash flow hedges

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

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

v. 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.

w. Related party transactions

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

(i) Capitalisation of research and development costs

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

Notes to the Financial Statements

(ii) Sale and leaseback

In 2021, the Group completed a sale and leaseback on its head-office and carried out an assessment to consider whether the resulting lease was an operating or finance lease. This assessment took into account available accounting guidance, with specific consideration given to, but not limited to, the transfer of risks and rewards, any transfer of ownership of the asset at the end of the lease, the lease term, the present value of lease payments, nature of the asset, availability of break clauses, extension options etc. Following the completion of this analysis, it was concluded based on the facts and circumstance of this transaction, that the lease was most appropriately treated as an operating lease.

(b) Key accounting estimates and assumptions

(i) Impairment of tangible and intangible assets

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

If there are events or changes in circumstances that indicate that the carrying amount of the assets will not be recovered, there is a need to estimate the recoverable amount by determining future cash flows and applying an appropriate discount rate (refer to Note 3j and 3o for further details). Management completed an assessment of these assets for impairment at year end and, as part of the process, calculated their recoverable amount. The recoverable amount was compared with the corresponding carrying value. See note 15 for details of the key assumptions and sensitivity analysis.

(ii) Capitalisation of research and development costs

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

(iii) Valuation and recoverability of deferred tax assets

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

Based on the business plans of the Group, tax losses with a carrying value of £105.5m have been recognised during 2022 where taxable profits to offset these losses were not expected to be available until after 2030.

(iv) Warranty costs

The Group provides product warranties under which the performance, quality and standard of the vehicle sold is guaranteed for a defined period of time. A provision is recognised at the point of sale for the estimated future cost of such a warranty. The estimated future costs of these warranty obligations are based on historical claims data and other assumptions regarding the warranty costs of each model. Whilst the Group has significant experience estimating the future warranty costs to the business, the uncertain nature of these future costs, such as the identification of quality issues after launch, could require adjustments based on the facts and circumstances existing at the time, and such changes would impact both the provision and the results of operations.

Notes to the Financial Statements

(v) Recoverability of the Company's investment in subsidiaries

The Directors regularly consider the recoverability of the carrying amount of the investment in subsidiaries alongside the factors that could indicate that the carrying amount could be impaired. Such factors include expected cash flow generation from the underlying assets held by the subsidiaries. If there are events or changes in circumstances that indicate that the carrying amount will not be recovered, there is a need to estimate the recoverable amount by determining future cash flows and applying an appropriate discount rate.

Management completed an assessment of its investment in McLaren Automotive Limited for impairment at year end and, as part of the process, calculated its recoverable amount. The recoverable amount was compared with the corresponding carrying value and consequently, an impairment of £96.7m was recognised. See note 15 for details of the key assumption and sensitivity analysis.

5. Segment information

Description of business segments and principal activities

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

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

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

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

Turnover by business segment	2022 £m	2021 £m
Automotive	627.8	593.7
Applied (Discontinued Operation)	-	18.5
Corporate services	58.9	56.8
	<u>686.7</u>	<u>669.0</u>
Less inter-segmental turnover	<u>(58.9)</u>	<u>(58.6)</u>
	<u>627.8</u>	<u>610.4</u>
Turnover after the elimination of inter-segmental turnover:		
Automotive	627.8	593.7
Applied (Discontinued Operation)	-	16.7
	<u>627.8</u>	<u>610.4</u>

The above 2021 segment breakdown is different to the face of the profit and loss account as this is stated before intergroup transactions in Applied are eliminated.

In 2021 turnover and EBITDA included the revenue and profit arising from the transfer of a number of heritage car assets from McLaren Racing to the Corporate Services segment at market value. The revenue and profit arising on this transaction was eliminated on consolidation.

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Analysis of turnover by region

Region	2022 £m	2021 £m
Europe	172.4	217.2
North America	279.8	227.2
Asia Pacific	101.1	93.8
China	45.4	44.0
Rest of World	29.1	28.2
Global	627.8	610.4

	2022 £m	2021 £m
Analysis of turnover by category		
Sales of goods	558.3	540.5
Rendering of services	68.2	68.6
Royalties	1.3	1.3
	627.8	610.4

Rendering of services includes commissions of £34.5m (2021: £34.1m).

Adjusted EBITDA by business segment	2022 £m	2021 £m
Automotive	(82.7)	(10.2)
Applied (Discontinued Operation)	-	(4.8)
Corporate services	(6.8)	(3.3)
Corporate services – Gain on sale of heritage cars*	86.5	80.8
Corporate services – Gain on sale of investment*	-	79.5
Corporate services - Gain on sale and leaseback of buildings *	-	67.7
Applied - Loss on disposal of business *	-	(33.3)
Corporate Services - Gain on sale of share in subsidiary *	-	2.8
	(3.0)	179.2

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

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

Notes to the Financial Statements

Adjusted EBITDA is calculated as follows:

	2022 £m	2021 £m
Loss before taxation	(274.9)	(67.5)
Interest receivable (excluding foreign exchange)	(0.2)	-
Interest payable (excluding foreign exchange)	44.9	51.1
Senior secured notes retranslation foreign exchange	53.1	7.4
Amortisation	143.2	141.1
Depreciation	9.8	14.5
Impairment of assets	21.1	(0.5)
Share of loss of joint ventures	-	33.1
Adjusted EBITDA	(3.0)	179.2

6. Discontinued operations

Group

Racing

In August 2021 the Group disposed of its shareholding in McLaren Racing to McLaren Group Limited for £81.8m, resulting in a gain on disposal of £79.5m. In 2021 prior to the disposal, the Group had recognised £33.1m as its share of McLaren Racing's loss.

Applied

On 4 August 2021, following a strategic review of the Group's structure, the Group completed the sale of its Applied business division to Greybull Capital, focusing the Group's activities on supercar manufacturing. During the previous year the Applied business, prior to disposal, contributed a post-tax loss of £40.3m. The Group received no cash consideration. The net liabilities pre-disposal were £49.6m and following a loan forgiveness, the net assets at the date of disposal were £26.4m along with contract provisions of £6.9m, resulted in a loss on disposal of £33.3m recognised in the profit and loss account.

Notes to the Financial Statements

7. Operating (loss)/profit

Operating (loss)/profit is stated after (crediting)/charging:

	2022 £m	2021 £m
Profit on disposal of tangible assets	-	(67.7)
Loss on disposal of business	-	33.3
Gain on disposal of investment	-	(79.5)
Gain on sale of heritage assets	(86.5)	(80.8)
Depreciation of tangible assets	9.8	14.5
Amortisation of intangible assets	143.2	142.3
Amortisation of deferred capital funding	-	(1.2)
Impairment of intangible assets	21.1	(0.5)
Impairment of tangible assets	-	1.8
Impairment of inventory (recognised within cost of sales)	39.7	4.5
Inventory recognised as an expense	260.0	255.4
Research & development tax credits	(9.1)	(10.0)
Operating lease charges	21.3	20.5

In 2022 the Group sold a number of heritage cars which consisted of a gross consideration of £100.0m less heritage assets disposed of £13.5m giving a net gain of £86.5m.

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

Other operating income primarily comprise research & development tax credits and expenses recharged to McLaren Racing Limited and McLaren Applied Limited.

	2022 £m	2021 £m
Fees payable to the Company's auditors and its associates for the audit of the Company's and the Group's consolidated financial statements	0.1	0.1
Fees payable to the Company's auditors and its associates for other services:		
- The audit of the Company's subsidiaries	0.6	0.6
- Audit related assurance services	0.1	0.1
- Corporate Finance Transaction Services	-	0.3
- Tax compliance services	-	0.1
Total amount payable to the Company's auditors and its associates	0.8	1.2

Notes to the Financial Statements

8. Employees and Directors

Group

Employees

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

	2022 Number	2021 Number
Production	552	555
Design & Engineering	555	634
Administration	1,368	1,319
	2,475	2,508

	2022 £m	2021 £m
Wages and salaries	142.4	150.9
Social security costs	11.1	15.7
Other pension costs	4.2	3.7
Capitalised labour costs	(47.6)	(44.5)
Staff costs charged to profit and loss	110.1	125.8

Directors

The Directors of the Company are considered to be the only Key Management Personnel of the Group. Details of transactions with Directors and members during the year are disclosed in note 29.

The directors' emoluments were as follows:

	2022 £m	2021 £m
Highest paid director emoluments	1.0	3.9
Aggregate emoluments excluding highest paid director	1.1	0.7
	2.1	4.6

Director's emoluments in 2022 included 2 directors (2021: 2 directors) paid by subsidiaries of the Group, with the remaining directors being employees of and remunerated by McLaren Group Limited, the parent of the Company. There were no pensions paid to directors. No recharges were made to the Company in relation to the remuneration of the directors who were employees of McLaren Group Limited.

Notes to the Financial Statements

9. Net interest income/(expense)

	2022 £m	2021 £m
(a) Interest receivable and similar income		
Bank interest received	0.2	-
Total interest income on financial assets not measured at fair value through profit or loss	0.2	-
Gain on derivative financial liabilities	-	2.3
Total interest receivable and similar income	0.2	2.3
(b) Interest payable and similar expenses		
	2022 £m	2021 £m
Interest payable on related party loans	(0.4)	(0.5)
Finance lease interest	(0.3)	(0.5)
Interest payable on bank loans and overdrafts	(2.3)	(2.9)
Interest payable on senior secured notes	(39.9)	(45.9)
Other interest payable and finance charges	(2.0)	(1.3)
Total interest expense on financial liabilities not measured at fair value through profit and loss	(44.9)	(51.1)
Losses on derivative financial instruments	(29.0)	-
Net exchange loss	(69.9)	(4.6)
Total interest payable and similar expenses	(143.8)	(55.7)
(c) Net interest income/(expense)		
Interest receivable and similar income	0.2	2.3
Interest payable and similar expenses	(143.8)	(55.7)
Net interest income/(expense)	(143.6)	(53.4)

10. Gain on sale of share in McLaren Racing Limited

In December 2020, McLaren Racing Limited issued 12% unsecured convertible loan notes and warrants for proceeds of £100.0m. This was the first tranche of a total committed investment of £185.0m, with the remaining due over 2021 and 2022. A further £25.0m of loan notes and warrants were issued in June 2021.

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

Notes to the Financial Statements

The determination of any resultant gain/(loss) on the effective sale of a share in the subsidiary (e.g. by issuing warrants, the Group is diluted and therefore in effect selling a portion of its interest in Racing) requires allocating the total proceeds received between the debt (loan notes) and the equity (warrants) components of the transaction. This allocation of the proceed is based on a determination of the fair value of the loan notes issued and involves judgement and estimation. The exercise resulted in £4.0m (2020: £30.0m) being allocated to equity and £21.0m (2020: £70.0m) being allocated to debt.

The gain recorded in 2021 in the consolidated financial statements is calculated in the table below:

	2021 £m
Proceeds allocated to the equity of McLaren Racing	4.0
Group's share of the above proceeds at 75.0% being the Group's retained interest in McLaren Racing (see note 15) - (A)	3.0
Carrying amount of investment of McLaren Racing on the date of sale	3.6
Carrying amount of interest transferred being 3.95% representing 5% of the shareholding sold (see note 15) - (B)	0.2
Gain on sale of share in McLaren Racing (A-B)	2.8

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

11. Tax on (loss)/profit

(a) Tax charge/(credit) included in profit or loss	2022 £m	2021 £m
Current tax:		
- UK corporation tax on loss for the period	1.7	2.5
- Foreign corporation tax on loss for the year	3.3	3.2
- Adjustments in respect of prior years	(0.3)	0.6
Total current tax	4.7	6.3
Deferred tax:		
- Origination and reversal of timing differences	(42.6)	(20.7)
- Adjustments in respect of prior years	4.9	(4.4)
- Unrecognised deferred tax	43.2	-
- Derecognition of previously recorded deferred tax assets	62.3	-
- Impact of change in tax rate	(12.7)	(42.6)
Total deferred tax (note 23)	55.1	(67.7)
Tax charge/(credit) on loss	59.8	(61.4)

Notes to the Financial Statements

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

Deferred tax:	2022 £m	2021 £m
Origination and reversal of timing differences:		
- Deferred tax on cash flow hedges	(0.6)	2.1
- Origination and reversal of timing differences	3.0	1.1
Tax credit included in other comprehensive expense	2.4	3.2

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

The tax assessed for the year is higher (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022 £m	2021 £m
Loss before taxation	(274.9)	(67.5)
Loss before taxation multiplied by the standard rate of tax in the UK of 19% (2021: 19%)	(52.2)	(12.8)
Effects of:		
- Income not subject to tax	(13.9)	(24.3)
- Unrecognised deferred tax	40.5	9.9
- Derecognition of previously recorded deferred tax assets	62.3	-
- Expenses not deductible for tax purposes	30.4	11.2
- Impact of overseas tax rates	0.8	1.0
- Adjustments in respect of prior years	4.4	(3.8)
- Withholding tax suffered	0.2	-
- Re-measurement of deferred tax	(12.7)	(42.6)
Total tax charge/(credit) for year	59.8	(61.4)

(d) Tax rate changes

The current UK corporation tax rate is 19% (2021:19%). Deferred tax balances at 31 December 2022 are measured using tax rates and laws that have been enacted or substantively enacted by the period end that are expected to apply to the reversal of the timing difference.

In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. In the Autumn Statement in November 2022, the government confirmed the increase in corporation tax rate to 25% from April 2023 will go ahead. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Notes to the Financial Statements

During 2021, the OECD published a framework for the introduction of a global minimum effective tax rate of 15%, applicable to large multinational groups. On 20 July 2022, HM Treasury released draft legislation to implement these 'Pillar 2' rules with effect for years beginning on or after 31 December 2023. The Group is reviewing these draft rules to understand any potential impacts.

12. Intangible assets

Group	New Production Development Costs £m	IT Systems Development Costs £m	Total £m
Cost:			
At 1 January 2022	1,732.0	75.0	1,807.0
Additions	164.2	0.4	164.6
Reclassification	0.3	-	0.3
At 31 December 2022	1,896.5	75.4	1,971.9
Accumulated amortisation and impairment:			
At 1 January 2022	946.2	41.2	987.4
Charge for the year	126.2	6.9	133.1
Impairment	21.1	-	21.1
At 31 December 2022	1,093.5	48.1	1,141.6
Net book value:			
At 31 December 2022	803.0	27.3	830.3
At 31 December 2021	785.8	33.8	819.6

Research and development costs recognised as an expense in the year were £1.5m (2021: £1.4m). New production development costs relate to expenditure on developing cars which are expected to be amortised over a period consistent with the expected life span of the associated vehicle, being typically 5-10 years. The most material balance is in relation to the Artura, the Group's first high performance hybrid supercar to be launched on its new lightweight carbon vehicle architecture. Other material balances relate to other future models in development as well as existing models such as the GT, 720S and 765LT. Spend on one model may support the development of other models and therefore the amortisation of these costs will reflect this fact.

The impairment charge results from product development spend on certain product attributes which were discontinued during the year.

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

The amortisation charge includes £nil (2021: £10.1m) absorbed into inventory.

The Company had no intangible assets at 31 December 2022 (2021: £nil).

Notes to the Financial Statements

13. Tangible assets

Group	Freehold Land and Buildings £m	Short-term Leasehold Premises and Improvements £m	Plant, Machinery, Tools and Equipment £m	Motor Vehicles £m	Fixtures, Fittings and Office Equipment £m	Assets in the Course of Construction £m	Total £m
Cost:							
At 1 January 2022	2.9	37.1	52.0	2.1	66.1	0.8	161.0
Additions	-	1.2	0.3	-	1.6	2.0	5.1
Disposals	-	(0.2)	(0.1)	-	(0.1)	-	(0.4)
Reclassification	-	2.1	-	-	(2.3)	(0.1)	(0.3)
At 31 December 2022	2.9	40.2	52.2	2.1	65.3	2.7	165.4
Accumulated depreciation and impairment:							
At 1 January 2022	-	4.5	42.4	1.2	51.5	-	99.6
Charge for the year	-	2.5	2.7	-	4.6	-	9.8
Disposals	-	-	(0.1)	-	(0.1)	-	(0.2)
At 31 December 2022	-	7.0	45.0	1.2	56.0	-	109.2
Net book value:							
At 31 December 2022	2.9	33.2	7.2	0.9	9.3	2.7	56.2
At 31 December 2021	2.9	32.6	9.6	0.9	14.6	0.8	61.4

The net carrying amount of assets held under finance leases included within fixtures, fittings and office equipment is £1.6m (2021: £3.6m).

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

Reclassification includes vehicle related costs sat in assets under construction now moved to product development intangible assets.

The Company had no tangible assets at 31 December 2022 (2021: £nil).

14. Heritage assets

Over the last 50 years the Group has established a large collection of heritage race and road cars which chronicle the Group's racing heritage and its development into a global leader in high performance supercars. These vehicles have been used to serve as promotional vehicles for the brand within the McLaren Technology Centre (MTC) as well as at museums, retailers and heritage track days around the world. The collection comprises 18 vehicles (2021: 54).

Group	
Cost and net book value:	£m
At 1 January 2022	21.8
Reclass from Inventory	1.1
Disposal	(13.5)
At 31 December 2022	9.4

Notes to the Financial Statements

Five year financial summary of heritage asset transactions:

	2022	2021	2020	2019	2018
	£m	£m	£m	£m	£m
Additions	1.1	0.4	0.2	0.3	0.3
Disposals:					
Carrying value	(13.5)	(12.8)	23.2	-	-
Sales proceeds	100.0	93.6	-	-	-

In 2022 McLaren Services disposed of heritage asset vehicles, for proceeds of £100m with a carrying value of £13.5m. This gave a net gain on disposal of £86.5m.

The Company had no Heritage assets at 31 December 2022 (2021: £ nil).

15. Investments

Group

Investment in Joint Venture

As explained in note 10, the issuance of loan notes and warrants by McLaren Racing was coincident with an agreement on a new governance structure for the business. Under the revised structure, the Group and the investors were determined to have joint control over the relevant activities of McLaren Racing making it a joint venture for the Group and, therefore, subject to equity method accounting. In 2021 the investment in McLaren Racing was disposed of and transferred to the Parent of the Group, McLaren Group Limited and therefore there are no transactions to record in 2022.

Investment in joint venture as at 31 December 2022 and 31 December 2021 was computed as follows:

	2022 £m	2021 £m
As at 1 January	-	32.6
Reduction in shareholding in Racing (see below)	-	2.8
Group's share 71% (2021:75%) of the losses of the joint venture	-	(33.1)
Disposal	-	(2.3)
As at 31 December 2022	-	-

Notes to the Financial Statements

	2022 £m	2021 £m
Carrying amount of McLaren Racing's net assets at disposal	-	-
Carrying value of diluted interest	-	(0.2)
Group's share 71% (2021: 75%) of the proceeds in McLaren Racing allocated to equity (refer note 10)	-	3.0
	<u>-</u>	<u>2.8</u>

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

Company	2022 £m	2021 £m
At 1 January	274.1	355.8
Disposal of McLaren Racing	-	(81.7)
Impairment	(96.7)	-
At 31 December	<u>177.4</u>	<u>274.1</u>

A list of subsidiaries of the Company are provided in note 31.

A non-cash impairment charge of £96.7m was recognised during the year in the standalone Company accounts, to reflect the estimated recoverable amount of investments in subsidiaries and joint ventures based on the Group's approved business plan that was in effect as at the reporting date.

The recoverable amount is a source of significant estimation uncertainty and is determined using a value-in-use calculation which required the use of assumptions. The post-tax discount rate applied to future cash flows is 13% with subsequent growth of 2% used to measure cash flow projections beyond the period covered by the board approved business plan.

As subsidiary investments have been impaired to their recoverable value in the current financial period based on the inputs noted above, a worsening in cash flows, a higher discount rate or a lower long-term growth rate would result in an additional impairment. To illustrate this sensitivity, if the discount rate had been 1% higher, this would have resulted in an additional impairment charge of £138.9m being recognised. Similarly, a reasonable change to the cash flows or the long term discount rate would also result in a material additional impairment.

Based on the impairment assessment performed for the consolidated assets, no charge was identified. At this level, even a 1% increase in the discount rate or a 10% reduction in estimated annual cash flows would not result in an impairment charge.

Notes to the Financial Statements

16. Inventories

Group

	2022 £m	2021 £m
Raw materials and consumables	65.7	80.8
Work in progress	58.2	59.1
Finished goods and goods for resale	43.7	55.4
	<u>167.6</u>	<u>195.3</u>

Inventories are stated after provisions for impairment of £41.0m (2021: £5.8m).

The Company had no inventories at 31 December 2022 (2021: £nil).

17. Debtors

Group

	2022 £m	2021 £m
Trade debtors	53.5	50.0
Amounts owed by related parties (note 29)	7.2	4.1
Taxation and social security	4.3	10.3
Other debtors	18.9	18.2
Deferred tax asset (note 23)	125.0	177.7
Derivative financial assets (notes 24 and 25)	2.9	6.2
Prepayments and accrued income	19.2	21.0
	<u>231.0</u>	<u>287.5</u>

Trade debtors are stated after provisions for impairment of £0.6m (2021: £0.4m).

Trade debtors balances falling due after more than one year are £nil (2021: £nil). Deferred tax assets of £122.9m (2021: £177.7m) are recoverable after more than one year.

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

Notes to the Financial Statements

Company

	2022	2021
	£m	£m
Amounts owed by Group undertakings	1,212.6	914.6
Deferred tax asset (note 23)	-	9.5
Prepayments and accrued income	1.4	1.6
	<u>1,214.0</u>	<u>925.7</u>

Amounts owed by group undertakings include loans and interest accrued thereon. £1,138.0m of group loans attract interest at 7.5% (2021: £858.6m, 6.25%), are unsecured and repayable on demand. £5.4m of the group loans attract interest of 7.5% (2021: £2.7m, 5%) and are repayable on demand. £4.9m (2021: £6.9m) of group loans are interest free (originally £7.5m discounted at a market rate of interest) and are repayable in July 2023. £27.1m of the group loans attract interest of 5.3% (2021: £27.1m) and are repayable by July 2023.

18. Creditors: amounts falling due within one year

Group	2022	2021
	£m	£m
Bank loans and overdrafts (note 20)	15.0	-
Obligations under finance leases (note 20)	1.6	1.7
Trade creditors	59.0	64.0
Amounts owed to related parties (note 29)	17.8	4.8
Other creditors	62.9	70.8
Taxation and social security	18.1	5.2
Derivative financial liabilities (note 24 and 25)	16.0	13.4
Accruals and deferred income	223.4	179.6
	<u>413.8</u>	<u>339.5</u>

The Group is party to a trade finance arrangement whereby a financial institution settles certain trade debtors in advance of the cash being due from the debtor. The financial institution has insurance coverage in place in the event of non-payment by the debtor. Other creditors include £17.6m (2021: £11.2m) of Trade Finance; relating to £17.6m of trade debtors (2021: £11.2m). The facility can also be used to finance finished goods of the Group and £1.6m was drawn at December 2022 (2021: £14.3m). The total facility available is up to US\$220m or equivalent, at a calculated interest rate of SONIA (Sterling Overnight Index Average) for Sterling, US LIBOR for US Dollars and Euribor (for Euros) for the applicable period plus the bank funding cost (if any) plus a margin of 1.125% plus a credit adjustment spread. In addition, other creditors also include £20.5m (2021: £18.5m) of drawn other working capital financing facilities associated with inventories of the Group, to support working capital management and cash flows.

Notes to the Financial Statements

Company	2022	2021
	£m	£m
Bank Loans and overdrafts	15.0	-
Amounts owed to group undertakings	459.7	299.6
Accruals and deferred income	0.2	0.1
	474.9	299.7

McLaren Holdings Limited is party to an unlimited cross company guarantee securing all monies due, or to become due, in respect of the overdraft and £95.0m loan facility (2021: £95.0m) provided to McLaren Holdings Limited by its bankers. As at 31 December 2022 the balance guaranteed was £nil (2021: £nil).

Amounts owed to group undertakings include group loans of £418.3m (2021: £273.6m) which accrue interest at a rate of 7.5% (2021: 6.25%), are unsecured and repayable on demand.

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

Group	2022	2021
	£m	£m
Senior secured notes (note 20)	503.2	448.1
Obligations under finance leases (note 20)	-	1.6
Amounts owed to parent undertakings	7.3	6.8
Derivative financial liabilities (note 24 and 25)	1.2	3.4
	511.7	459.9

Company	2022	2021
	£m	£m
Amounts owed to group undertakings	510.5	455.0
	510.5	455.0

Within amounts owed to group undertakings, £7.3m of group loans are interest free (originally £7.5m discounted at a market rate of interest), secured and repayable in July 2023.

The remaining amount relates to a term loan facility of USD \$620.0m (£512.3m less transaction fees), due in August 2026 at a rate of 7.5% interest. The loan facility is secured by way of a fixed and floating charge over the total assets of the Group and its subsidiaries unless designated as unrestricted.

Notes to the Financial Statements

20. Loans and other borrowings

	Group	
	2022	2021
	£m	£m
Bank loans and overdraft	15.0	-
Senior secured notes	503.2	448.1
Obligations under finance leases	1.6	3.3
Amounts owed to parent undertakings	7.3	6.9
	527.1	458.3

Bank loans and overdraft

The Group's financing facility includes a Revolving Credit Facility (RCF) of £95.0m. The balance available to draw is reduced by £40.0m committed guarantee facility, and the overdraft available of £15.0m. At 31st December 2022 there was no bank overdraft drawn (2021: £nil), and the RCF was drawn at £15.0m (2021: £nil) with a final maturity date of May 2026. Interest is charged at SONIA plus 3.75% on the drawn down amount.

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

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

Senior secured notes

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

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

Interest rates

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

Notes to the Financial Statements

Finance leases

The future minimum finance lease payments are as follows:

	2022 £m	2021 £m
Not later than one year	1.7	1.9
Later than one year and not later than five years	-	1.6
Total gross payments	1.7	3.5
Less finance charges	(0.1)	(0.2)
Carrying amount of liability	1.6	3.3

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

21. Post-employment benefits

Defined Contribution scheme

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

Group	2022 £m	2021 £m
Current year contributions	4.2	3.7

22. Provisions for liabilities

Group	Dilapidations £m	Product Warranty £m	End of Contract £m	Other £m	Total £m
1 January 2022	1.8	15.8	19.9	7.6	45.1
Additions	0.2	38.0	4.8	9.4	52.4
Amounts utilised	-	(25.2)	(13.3)	(4.4)	(42.9)
31 December 2022	2.0	28.6	11.4	12.6	54.6

Dilapidations provision

The dilapidations provision relates to the contractual obligation to reinstate all leased premises to their original condition upon cessation of the lease. The provision is measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision due to the passage of time is recognised as a finance cost. The provision is expected to be utilised between 2023 and 2038.

Product Warranty provision

The Group is liable for the parts and labour costs associated with repairing manufacturing faults arising on vehicles during the warranty period (typically three years). The provision for product warranties reflects the expected claims value during the remaining warranty period for vehicles under warranty at the reporting date. It is estimated that £34.6m (2021: £8.9m) of the provision will be utilised within 12 months.

Notes to the Financial Statements

End of Contract provision

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

Other provision

Other provisions include various legal matters where the outcome is not certain and has been estimated, provision for commitments made to customers at the point of sale, estimated customer goodwill and compensation payments and provision for costs associated with forecast CO2 vehicle limits which relate to credits that permit us to sell our cars into restricted regions where we exceed the CO2 vehicle limit. The remainder of the balance comprises individually insignificant amounts.

The Company had no provision for liabilities as at 31 December 2022 (2021: £Nil).

23. Deferred tax asset

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

Group	2022 £m	2021 £m
Depreciation in excess of capital allowances	6.4	6.3
Revaluation of heritage assets	(1.7)	(4.6)
Financial instruments	0.6	0.9
Other timing differences	11.9	8.6
Foreign exchange reserve	1.5	2.1
Tax R&D incentives	11.5	9.8
Losses carried forward	94.8	154.6
	<u>125.0</u>	<u>177.7</u>

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

At 1 January 2022	177.7
Add: net deferred tax credit for the year recognised in income statement (note 11)	7.2
Less: derecognition of previously recognised deferred tax assets (note 11)	(62.3)
Add: deferred tax charge recognised in other comprehensive (expense)/income	2.4
At 31 December 2022	<u>125.0</u>

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Company

The deferred tax asset consists of the following:

	2022 £m	2021 £m
Losses carried forward	-	2.2

The Company deferred tax assets expected to reverse in 2023 total £Nil (2022: £Nil). The trading losses do not expire.

The Group deferred tax assets expected to reverse in 2023 total £Nil (2022: £Nil). Tax losses with a carrying value of £62.3m have been derecognised during 2022 where taxable profits to offset these losses were not probable based on the current business plan.

At 31 December 2022 the Group has losses amounting to £1.0m (2021: £1.0m) in respect of UK subsidiaries which are only available for offset against future capital gains, and since it is uncertain whether these losses will be utilised, no deferred tax asset has been recognised. The trading losses do not expire.

There are also £Nil (2021: £Nil) of unrecognised trade losses in respect of overseas locations where recovery is not certain. Further, there are £424m (2021: £2.0m) of unrecognised UK trade losses where it is not probable that taxable profits will be available against which they can be utilised.

24. Financial instruments

The Group has the following financial instruments:

	Group	
	2022 £m	2021 £m
Financial assets measured at fair value through profit or loss		
- Derivative financial assets (notes 17 & 25)	2.9	6.2
Financial assets that are debt instruments measured at amortised cost		
- Trade debtors (note 17)	53.5	50.0
- Other debtors (note 17)	18.9	18.2
- Accrued income (note 17)	8.6	8.8
	<u>83.9</u>	<u>83.2</u>
Financial liabilities measured at fair value through profit and loss		
- Derivative financial liabilities (notes 18, 19 and 25)	17.2	16.8
Financial liabilities measured at amortised cost		
- Bank Loan (note 18)	15.0	-
- Senior secured notes (note 19)	503.2	448.1
- Finance leases (notes 18 and 19)	1.6	3.3
- Trade creditors (note 18)	59.0	64.0
- Other creditors (note 18)	62.9	70.8
- Accruals (note 18)	142.4	120.0
	<u>801.3</u>	<u>723.0</u>

Notes to the Financial Statements

25. Derivative financial instruments

Group	Current		Non-current	
	2022 £m	2021 £m	2022 £m	2021 £m
Assets				
Forward foreign currency contracts	2.4	5.8	0.5	0.4
Liabilities				
Forward foreign currency contracts	(16.0)	(13.4)	(1.2)	(3.4)
	(13.6)	(7.6)	(0.7)	(3.0)

The Group enters into forward foreign exchange contracts to mitigate the exchange rate risk exposure from payments and receipts in foreign currency. At 31 December 2022, the outstanding contracts mature out to October 2024. The Group has entered into fixed forward contracts and forward option contracts to sell various currencies, primarily USD and to purchase Euros.

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

The Company had no derivative financial instruments at 31 December 2022 (2021: £nil).

Forward foreign currency contracts

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

Outstanding contracts	Average contractual exchange rate		Notional value		Mark to Market	
	2022	2021	2022 £m	2021 £m	2022 £m	2021 £m
Sell						
USD	1.313	1.3670	174.4	339.9	(14.9)	(3.4)
JPY	155.6633	146.5936	30.3	55.7	(0.2)	2.9
CNY	8.6180	9.2228	25.9	37.5	(1.1)	(2.2)
AUD	1.6575	-	22.0	-	(0.3)	-
EUR	1.1373	1.1262	127.5	207.8	2.2	(8.0)
					(14.3)	(10.7)

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 £29.0m (2021: Gains of £2.3m) were recognised in profit or loss in 2022.

Notes to the Financial Statements

26. Called-up share capital and reserves

Share Capital

Group and company

	2022 £m	2021 £m
Ordinary shares of £0.01 each		
Allotted and fully paid:		
At 1 January and 31 December	0.1	0.1

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

Reserves

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

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

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

Revaluation reserve relates to the heritage assets.

Notes to the Financial Statements

27. Cash used in operating activities

Reconciliation of loss to cash used in operating activities

	2022 £m	2021 £m
Loss for the financial year	(334.7)	(6.1)
Adjustments for:		
Tax on loss	59.8	(61.4)
Net interest expense	143.6	53.4
Profit on sale of share in subsidiary	-	(2.8)
Operating loss	(131.3)	(16.9)
Depreciation and amortisation expense	153.0	155.6
Impairment of intangible assets	21.1	1.3
Share of results of joint venture	-	33.1
Increase in heritage assets	(1.1)	-
Realised net exchange (loss)/gain	(35.4)	16.7
Net loss on disposal of subsidiary	-	33.3
Profit on disposal of fixed assets	-	(67.7)
Profit on disposal of heritage assets	(86.5)	(80.8)
Net gain on disposal of investment	-	(79.5)
Operating cash outflow before movements in working capital	(80.2)	(4.9)
Decrease/(increase) in stocks and work in progress	17.5	(77.0)
(Increase)/decrease in debtors	(13.8)	81.0
Increase/(decrease) in creditors	51.2	(57.5)
Increase/(decrease) in amounts owed to related parties	9.8	(3.8)
Increase/(decrease) in provisions	9.5	(1.6)
Cash used in operating activities	(6.0)	(63.8)

Non-cash transactions

During the year new tangible assets acquired under finance leases were £Nil (2021: £Nil). In addition, £Nil (2021: £0.4m) in new tangible assets were acquired but not settled, with amounts owing to third parties at year end reflected in trade creditors and accruals.

Notes to the Financial Statements

Analysis of changes in net debt

	At 1 January 2022	Cash flows	Fair value & exchange movements	Non-Cash changes	At 31 December 2022
	£m	£m	£m	£m	£m
Cash and cash equivalents	76.7	23.0	1.0	-	100.7
Revolving credit facility	-	15.0	-	-	15.0
Senior secured notes	(448.1)	-	(53.1)	(2.0)	(503.2)
Finance Leases	(3.3)	1.7	-	-	(1.6)
Amounts owed to parent undertaking	(6.8)	-	-	(0.5)	(7.3)
Total	(381.5)	39.7	(52.1)	(2.5)	(396.4)

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

28. Financial commitments

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

Group	2022 £m	2021 £m
Payments due:		
Not later than one year	28.1	24.2
Later than one year and not later than five years	101.0	90.5
Later than five years	257.0	267.1
	<u>386.1</u>	<u>381.8</u>

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

The Group has issued guarantees and irrevocable Letter of Credits which reduces the funding available under the Group's revolving credit facility. The balance at 31 December 2022 was £27.4m (2021: £32.5m).

Capital commitments as at 31 December 2022 totalled £113.5m (2021: £66.0m).

The Company had no financial commitments at 31 December 2022 (2021: £nil).

Notes to the Financial Statements

29. Related party transactions

Transactions with related companies during the year were as follows:

Group	Year ended 31 December 2022 £m	Balance outstanding at 31 December 2022 £m	Year ended 31 December 2021 £m	Balance outstanding at 31 December 2021 £m
Sales to related parties				
Directors	-	-	0.1	-
Directors of subsidiaries	-	-	0.4	-
Mile Marketing Limited	100.4	0.4	-	-
McLaren Racing	15.4	0.9	20.5	1.3
McLaren Group	3.2	5.9	2.7	2.8
Amounts owed by related parties at 31 December		7.2		4.1
Split by:				
Amounts owed by related parties due < 1 year		7.2		4.1
Amounts owed by related parties due > 1 year		-		-
		7.2		4.1

Group	Year ended 31 December 2022 £m	Balance outstanding at 31 December 2022 £m	Year ended 31 December 2021 £m	Balance outstanding at 31 December 2021 £m
Purchases from related parties				
Mile Marketing Limited	0.4	0.4	-	-
McLaren Racing	8.9	15.3	5.3	0.9
McLaren Group	6.3	2.1	2.9	3.9
Amounts owed to related parties at 31 December		17.8		4.8
Split by:				
Amounts owed to related parties due < 1 year		17.8		4.8
Amounts owed to related parties due > 1 year		-		-
		17.8		4.8

Mile Marketing Limited is a wholly owned subsidiary of Bahrain Mumtalakat Holding Company.

Notes to the Financial Statements

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

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

30. Ultimate controlling party

McLaren Group Limited is the parent company of the Group and at 31 December 2022 McLaren Group Limited's shareholders was as follows: 59.91% Bahrain Mumtalakat Holding Company, 14.39% TAG Automotive Limited, 9.99% Nidala (BVI) Limited, 5.61% Favorita Limited, 3.96% Perlman Investments Limited, 3.59% McKal Holdings Limited, and 2.56% Altitude Holdings RSC Limited.

Bahrain Mumtalakat Holding Company, registered address Arcapita Building, 4th Floor, Building No. 551, Road 4612, Sea Front 346, Bahrain Bay, Kingdom of Bahrain (incorporated in Bahrain), is the parent Company of the largest and smallest Group of undertakings which included the Company and for which Group financial statements were prepared.

31. Subsidiaries and related undertakings

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

Name	Principal activity	Holding ordinary share capital
<i>Incorporated in the UK:</i>		
McLaren Automotive Limited	Development, manufacture and sale of high performance sports cars	100%
McLaren Automotive Events Limited	Events Company	100%
McLaren Finance Plc	Financing Company	100%
McLaren Services Limited	Managed services	100%
McLaren Support Services Limited	Managed services	100%

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

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

Notes to the Financial Statements

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

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

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

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

32. Post balance sheet events

On 14 March 2023 the Group confirmed that shareholders of McLaren Group Limited had provided £70.0m in additional funding, as part of an ongoing recapitalisation process. This £70.0m of funds was invested into the Group as ordinary share capital. A broader recapitalisation involving the Group's existing shareholders to fully fund McLaren's product development strategy was noted as being subject to ongoing shareholder discussion with further updates on this process to be provided in due course.