McLaren Racing Limited

Annual report and financial statements

Registered number 01517478

31 December 2020

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Strategic report

Principal activities

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

Business review

Impact of Covid-19

The Covid-19 pandemic has had an enormous impact on the global economy. Social distancing measures, while being necessary to tackle and contain the outbreak, have caused mass disruption to social and economic activities across the globe.

Our priority is our people and due to the global Coronavirus pandemic, the Company swiftly took the following actions to protect the health and safety of our people and to ensure the business is well placed to resume operations as smoothly as possible in the future:

- Withdrew from the Formula 1 Australian Grand Prix following a positive test of a team member. Following this decision, the Australian Grand Prix was cancelled and the race season rescheduled to begin in July.
- Request employees work from home where possible to protect their wellbeing and to comply with Government guidelines.
- Minimised access to the McLaren Technology Centre to employees and introduced stringent biosecurity measures in line with Government guidance.
- Temporarily furloughed employees in line with Government regulations.
- Asked those employees who are not furloughed to take a temporary reduction in pay.
- Worked with the FIA, Formula One and our competitor teams to introduce changes to the existing and new Sporting, Technical and Financial regulations in order to reduce the cost of Formula One racing.

McLaren brought the race team back from furlough at the beginning of June to be ready for the first race in July.

Racing season and commercial view

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

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

The improved track performance helped drive sponsorship acquisition. Whilst for 2019 McLaren added British American Tobacco, Estrella Galicia, Huski Chocolate, Arrow and Coca Cola to its impressive list of partners, for 2020 we announced more new names including Splunk, Darktrace, Automation Anywhere and Unilever. Sponsorship revenues held up well following the pandemic, helped by the successful completion of a 17-race season in the second half of 2020. Going into 2021, McLaren Racing has already exceeded

Strategic report *(continued)*

Business Review *(continued)*

the sponsorship target meaning that it expected to not only have year-on-year growth in Formula 1 prize money (from the fourth place finish in 2019) but also in sponsorship. However, as the calendar was significantly altered and most of the 2020 events were behind closed doors, there was a significant impact on prize money.

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

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

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

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

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

The key measures within the new agreement are:

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

The Company's strategy is to build performance in the team, looking forward to the new regulations which are due to come into force from 2021 and 2022. McLaren has played a full part in agreeing these regulations and welcomes the measures to control costs and improve revenues for teams. As a result, the Company plans to reduce the net cost of competing in Formula 1 over the next five years but at the same time take advantage of the new regulations to improve the competitiveness of the team.

As a result of our racing programme, over the past 50 years the Company has established a large collection of heritage race cars and other vehicles which chronicle our racing history and have been used to serve as promotional vehicles for the brand within the McLaren Technology Centre ("MTC") and also at museums, retailers and heritage track days around the world. Each year, three or four vehicles are typically added to this collection which are the cars that have run in that season's Formula 1 World Championship.

Managing such a large collection takes significant resource and during 2017 Executive management of the Company made the decision to establish a programme to sell a specific and limited number of these cars to specialist collectors from around the world. The results for 2020 include profits on sales of heritage cars of £174.9m (2019: £6.7m) largely generated as a result of the sale in December 2020 of a portfolio of heritage cars to McLaren Services Limited which enabled the majority of the Company's outstanding intercompany loan to be cleared.

Strategic report *(continued)*

Investment in McLaren Racing Limited

Also in December 2020, McLaren announced a deal to attract significant new long-term investment into McLaren Racing Limited led by MSP Sports Capital, the US-based sports investment group, to help drive its plan to return to the top in Formula 1 and continue its growth as a global sports franchise. MSP is co-investing with its strategic partners UBS O'Connor, LLC. and The Najafi Companies, whilst an additional tranche of funding is provided by UBS O'Connor LLC & the investment group Caspian.

MSP Sports Capital is a diversified sports investment group with strategic stakes in properties at the intersection of global media rights, distribution technologies, content creation, sponsorship, esports, betting, and data. MSP Sports Capital's principals are experienced, well-known figures in the sports industry, as owners, investors and operators in Major League Baseball (MLB), National Basketball Association (NBA), ESPN, and sports management.

Through this transaction, the Company secured a total investment of £185m in the form of convertible loan notes and warrants. These warrants are convertible at any time at the option of the warrant holders, for £0.01, into equity shares of the Company. The warrants have given the investors voting and dividend rights on an 'as-converted' basis. As at 31 December 2020, the investors cumulatively held 21.05% in the Company on a diluted basis.

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

Key performance indicators

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

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

Stripping out the sale of heritage cars to McLaren Services Limited and the new investment in December 2020 and despite the impact of Covid-19 underlying results were strong and ahead of Budget with EBITDA improving to a loss of £52.1m (2019: £69.1m) through stringent cost control measures. This was despite a fall in turnover as a result of reductions in Prize Money and Sponsorship through the impact of Covid-19. The company's cash position was strengthened by the aforementioned sale of cars and investment, allowing for the repayment of all outstanding related party loans by the year-end.

Future developments & Subsequent Events

Since its purchase of Formula One, Liberty Media has made its intent clear of expanding the reach of the sport into new geographic and demographic markets. Whilst the impact of Covid-19 in 2020 has had a material impact on the scale and scope of the race season, the success of F1's covid bubbles means that Formula One has a high level of confidence in a proposed 23 race season for 2021 which should see the introduction of new races in Holland & Saudi Arabia. Beyond 2021, Miami has been announced as a new race location from 2022 to help strengthen the sport's presence in the commercially important US market and discussions continue with promoters in Vietnam and other territories. Whilst such expansion will place additional workload on the Race Team it will also provide increased revenue streams whilst adding value to our partner brands.

2021 and 2022 sees the introduction of new Sporting, Technical and Financial regulations that will herald some of the most significant changes to the sport in a generation. The Financial regulations introduce an operating cost cap that aims to increase competitiveness within the sport whilst helping to create a more

Strategic report *(continued)*

Future developments & Subsequent Events *(continued)*

sustainable financial business model. Understanding these new rules and then designing and building a car that produces maximum benefit from these changes will be critical to continuing the progress we have seen over the past two seasons.

Alongside these changes, a return to a Mercedes powertrain for the 2021 season will further enhance our ability to meet the Company's objectives and compete for podium places in the near future. In addition we have been pleased to announce our driver line-up for 2021. Having excelled in his rookie year and further impressed in 2020, Lando Norris will be driving for the team again in 2021. He will be joined by the incredibly talented and experienced Daniel Ricciardo (7 Formula One wins and 31 podiums).

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

Principal risks and uncertainties

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

The new regulations for 2021 and 2022 provide significant challenge to all those involved in F1 however with that comes opportunity. We believe the new partnership with Mercedes will provide a powertrain that will provide us with opportunities to achieve our objectives and challenge for positions towards the front of the grid in the near future.

With regards to the wider economic and sporting environment, clearly the impact of Covid-19 has been significant on 2020 although the introduction of strong testing and containment measures meant 17 races were still able to take place. Whilst we are now racing once again and 23 races are scheduled for the 2021 season the long-term impact on future years remains uncertain.

Brexit considerations

With a formal Brexit agreement now in place the business has been able to introduce and establish new operating procedures and processes to ensure the movement of goods and travel are not unduly impacted by the new rules.

Section 172 Companies Act 2006

Following secondary legislation, and in line with the previous year the company has reviewed the available Corporate Governance codes and elected to apply the Wates Corporate Governance Principles for large Private Companies. These provide a framework for the Company 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.

Section 172 Decisions

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

The McLaren Racing Limited board minutes evidence detailed discussions at board level. Executive Management approves a 5-year plan annually, or where the need arises (i.e. COVID-19), against which it monitors both operational and financial performance. The plan is updated and revised for the changes to the FIA sporting regulations. The Company agree a set of sporting performance indicators and reviews its funding requirements against these. In approving the strategy, the Directors also consider external factors including the development of the F1 industry together with the global economic and market conditions impacting sponsorship and the general business environment.

b) The interest of the company's employees

The Company 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

Strategic report *(continued)*

b) The interest of the company's employees *(continued)*

range of talented people. Understanding the importance of the Company's employees to the long-term success of the business, it regularly communicates to its employees through presentations, internal emails and newsletters. The McLaren Group's intranet and the Company structure give our employees the opportunity to interact with members of the Board and other key management personnel. The business has town hall presentations after each Grand Prix, open to all employees, at which the Racing Executive and Technical management inform and update employees on the team's performance, plans and outlook. Employees are encouraged to ask questions about the team's purpose, goals and direction. Employee surveys are undertaken to receive feedback about the employee experience at McLaren, the results of which are carefully analysed and discussed by the Board. Employees are offered a range of development opportunities including formal programmes, mentoring, coaching and e-learning that enable the Board to identify and develop the skills and knowledge it needs to succeed now and in the future.

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

The Board regularly reviews how the company maintains positive relationships with all its stakeholders. It understands the importance of the company's supply chain in delivering it's long-term plans. The CEO of McLaren Racing Limited, Zak Brown has a wealth of commercial and relevant industry knowledge having raced professionally around the world for ten years before founding Just Marketing International which grew to become the largest motorsport marketing agency in the world. The Company's principal risks and uncertainties set out risks that can impact its long-term success and how these risks interact with our stakeholders. The Board 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 Company and how these are reflected within the long-term plans.

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

The McLaren Group's environmental policy, to which McLaren Racing Limited subscribes, outlines the Group's commitment to protect against the long-term critical depletion of natural resources and lasting damage to species, habitats, biodiversity and climate. McLaren Racing Limited was the first Formula 1 team to be officially recognised by the Carbon Trust for taking action on climate change and was the first recipient and gold standard of the FIA Institute Environmental Award.

McLaren Racing Limited supports communities in several ways and aims to make a positive contribution to improving people's life chances, especially those of young people. Developing the next generation of automotive expertise is vitally important to McLaren and the company backs apprentice programmes that offer unique opportunities to develop alongside established industry experts.

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

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

Strategic report *(continued)*

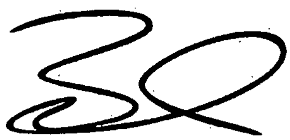
Section 172 Decisions *(continued)*

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

McLaren is nearly 60 years old and remains privately owned. The Racing Team is supported by a long-term investment into McLaren Racing Limited in December 2020 led by MSP Sports Capital alongside UBS O'Connor, LLC., The Najafi Companies & the investment group Caspian to help drive its plan to return to the top in Formula 1 and continue its growth as a global sports franchise.

These stakeholders rely on the Board to protect and manage their investment in a responsible and sustainable way that generates value for them. The Group hold regular management meetings for all the Executive to share knowledge and ensure consistency across operations. The Group interfaces with the stakeholders on a regular basis through corporate events and the Group Board meetings, held at the Woking office, which contains independent non-executives alongside the executive directors.

On behalf of the Board



28.07.2021

Zak Brown
Director, McLaren Racing Limited

Registered Office:
McLaren Technology Centre
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Woking
Surrey
GU21 4YH

Directors' report

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

Results

The profit for the financial year amounted to £85,838,000 (2019: loss of £71,443,000).

Research and development

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

Going concern

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

Further details regarding the adoption of the going concern basis can be found in note 3b on page 19.

Financial risk management objectives and policies

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

Foreign exchange and liquidity risk are managed by the Company using detailed cashflow forecasting to highlight and mitigate areas of exposure. Where possible USD and EUR commercial contracts are used to provide natural hedges against foreign exchange exposure.

The Company's credit risk is primarily attributable to its trade receivables. The Company is at risk to the extent that a customer may be unable to pay the debt as it is due. The risk is mitigated by the strong on-going customer relationships. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

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

Heritage Assets

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

In December 2020 McLaren Racing Limited arranged the sale of a portfolio of its heritage cars to McLaren Services Limited for a consideration of £197.0m, which was used to offset the intercompany loan.

As at 31 December 2020 the collection numbered some 98 (2019: 159) vehicles which were held at a deemed cost of £27.2m (2019: £60.9m), of which £4.1m (2019: £5.7m) were held in inventory.

Directors' report *(continued)*

Heritage Assets *(continued)*

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

Dividends

The Directors do not propose a dividend for the year ended 31 December 2020 (2019: £nil).

Directors

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

Z Brown
A Seidl
M Al Khalifa – appointed 17/12/20
J Allert – resigned 28/05/20
P Buddin – resigned 22/12/20
C Griffiths – appointed 22/12/20
J Moorad – appointed 17/12/20
T Murnane – resigned 22/12/20
J Najafi – appointed 17/12/20
J Neale – resigned 22/12/20
S Ojjeh – appointed 22/12/20
R Trelles Zabala – appointed 18/12/20
P Walsh – appointed 17/12/20
B Wasson – appointed 22/12/20
C Ferry – appointed 29/06/21

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Disabled employees

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

Employee consultation and engagement

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

Directors' report *(continued)*

Employee consultation and engagement *(continued)*

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

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

Stakeholder statements

Employees

From the perspective of the board, as a result of the group governance structure, the group board has taken the lead in carrying out the duties of a board in respect of the company's employees, including engaging with them, having regard to their interests and the effect of that regard (including on the principal decisions taken by the company during the financial year). The board of the company has also considered relevant matters where appropriate. An explanation of how the group board has carried out these responsibilities (for the group and for the entity) is set out on page y of the group's annual report, which does not form part of this report.

Other stakeholders

Similarly, from the perspective of the board, as a result of the group governance structure, the group board has taken the lead in carrying out the duties of a board in respect of the company's other stakeholders. The board of the company has also considered relevant matters where appropriate. An explanation of how the directors on the group board have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year, is set out (for the group and for the entity) on page z of the group's annual report, which does not form part of this report.

Climate, environment and sustainability

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

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

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

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

and we remain committed and compliant.

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.

Directors' report *(continued)*

Climate, environment and sustainability *(continued)*

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

Of particular focus is our commitment to:

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

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

This environmental policy statement commits the company to:

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

Risk is assessed in terms of the impact of climate change on the business, and conversely the direct and indirect impact of the business on climate and the environment.

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

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

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

Directors' report *(continued)*

Objectives (continued)

The external accreditation and evidence-based commitment to climate and environment issues is supported by renewed certification from The Carbon Trust. The process of certification measures absolute footprint and carbon intensity reduction in tonnes of CO_2 and includes a qualitative assessment of environmental management including waste as well as scoring the business on a benchmark with industry peers. The boundary defined for certification is for all McLaren's UK

operations which covers out principal engineering, manufacturing and commercial activities together with all international travel and freight.

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

   The global trend to sustainable and renewable energy sources, supported by international regulatory requirements directly impacts racing vehicle product certification directly for vehicle emissions and power train technology and indirectly for required capital investment in associated technology and capability. The company welcomes these macro trends and our business plans and product strategy reflects the developing requirements. In racing the company plays a proactive role in a broad range of sustainability projects with the regulating bodies and other teams. During the year the company was proud to once again achieve another 'gold standard' award from the FIA for its voluntary motorsport environmental framework, which McLaren Racing was the first team to adopt. McLaren Racing has also signed up to a target of 'net zero' by 2030 in support of Formula One Managements drive for sustainability.

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

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

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

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

   a) Prevent and reduce pollution including CO_2 emissions of 2.5% year on year.
   b) Maintain our commitment to zero waste to landfill. This was initially achieved in 2016, and still is in 2020. We continue to make significant progress in recycling and the management of plastics to protect land and water. We have also implemented controlled waste streaming processes resulting in greater amounts of waste to energy recovery.
   c) Fulfil all regulatory requirements and obligations to environmental protection as a minimum.
   d) Comply with all permits issued under local authority pollution, prevention and control legislation.
   e) Encourage employee contribution in environmental matters including training and support to relevant employees giving them ownership and pride in achieving our objectives.

Directors' report *(continued)*

Objectives (continued)

2020 has been a challenging year with global pandemic impacting our business. Global travel and site occupancy have been greatly restricted. Consequently, energy consumption and waste production have reduced this year which in turn will have driven down our environmental impact. The company remains

committed to our long-term goals and objectives on sustainability. In addition to the specialist environmental management teams the company has strengthened its risk management processes and governance by implementing a board level Risk and Audit committee to oversee these and other material business risks.

Streamlined energy and carbon reporting ('SECR')

	Current reporting Year 2020	**Comparison reporting year 2019**
	UK and offshore	**UK and offshore**
Energy consumption used to calculate emissions /kWh	17,969,816	24,507,839
Emissions from combustion of gas tCO2e (Scope 1)	466.28	596.80
Emissions from combustion of fuel for transport purposes tCO2e (Scope 1)	456.61	907.63
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel tCO2e (Scope 3)	44.31	63.55
Emissions from purchased electricity tCO2e (Scope 2, location-based)	3,108.36	4,414.02
Total gross CO2e based on above	**4,075.56**	**5,981.99**
Intensity ratio: tCO2e gross figure (total GHG emissions per FTE)	**4.85**	**7.24**

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

Methodology

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

Directors' report *(continued)*

Energy efficiency action

The McLaren Group and McLaren Technology Centre where McLaren Racing Limited is based has recently been awarded the Carbon Trust standard for ongoing efforts to reduce carbon intensity.

In the period covered by the report the company has purchased 13,332 MWh of sustainable biomass electricity.

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

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

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

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

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

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

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

Directors' report *(continued)*

Statement of disclosure of information to auditors

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

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

Post Balance Sheet events

On the 22nd January 2021 McLaren Triple Crown Limited was incorporated at Companies House as a subsidiary of McLaren Racing Limited. This entity will be used to hold, manage and preserve the pre-2020 heritage car collection of McLaren Racing Limited.

On the 29th April 2021 the loan notes associated with the third-party investment which took place in December 2020 as described on page 5 were listed on The International Stock Exchange. The debt is not freely transferable and is subject to the restrictions in the underlying loan note instruments and the Framework Governance Agreement between the parties.

Independent auditors

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

The Directors' report was approved by order of the Board of Directors on 28.07.2021 and signed by its order.

Z Brown
Director, McLaren Racing Limited

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

Independent auditors' report to the members of McLaren Racing Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: balance sheet as at 31 December 2020; the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

- considering the adequacy of the disclosures in the financial statements, particularly Note 3b, Summary of significant accounting policies - going concern; and
- considering the extent to which the company's future cash flows might be adversely affected by COVID-19; reviewing management's cash flow forecasts, assessing the existing sources of finance and considering the overall impact on liquidity.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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 company and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, employment regulation, health and safety legislation and other legislation specific to the motorsport industry in which the company 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. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in determining accounting estimates. Audit procedures performed by the engagement team included:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management about existing and potential litigation and claims, and known or suspected instances of non-compliance with laws and regulations and fraud;
- addressing the risk of fraud through management override of controls by testing the appropriateness of journal entries, including journal entries with unusual account combinations;
- challenging assumptions and judgements made by management in their significant accounting estimates that involved considering future events that are inherently uncertain. In particular, the valuation of loan notes and warrants; and
- communicating relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and reminding them to be alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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.

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

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

James Cadzow

James Cadzow (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Watford

28 July 2021

Profit and loss account

for the year ended 31 December 2020	Note	**2020 £000**	2019 £000
Turnover	5	**332,922**	185,740
Cost of Sales		**(196,098)**	(216,699)
Gross profit / (loss)		**136,824**	(30,959)
Administrative expenses		**(48,465)**	(56,055)
Other operating income		**14,062**	10,042
Operating profit / (loss)	6	**102,421**	(76,972)
Income from interests in associated undertakings	7	**-**	321
Profit / (loss) before interest and taxation		**102,421**	(76,651)
Interest payable and similar expenses	9	**(5,562)**	(8,283)
Profit / (loss) before taxation		**96,859**	(84,934)
Tax on profit / (loss)	10	**(11,021)**	13,491
Profit / (loss) for the financial year		**85,838**	(71,443)

All items dealt with in arriving at the loss before taxation relate to continuing operations.

Statement of comprehensive income

for the year ended 31 December 2020	**2020 £000**	2019 £000
Profit / (loss) for the financial year	**85,838**	(71,443)
Other comprehensive income:		
Deferred tax movement on revaluation reserve	**4,769**	2,011
Total comprehensive income / (expense) for the year	**90,607**	(69,432)

Balance sheet
as at 31 December 2020

	Note	2020 £000	2019 £000
Fixed assets			
Tangible assets	11	**30,468**	23,591
Heritage assets	12	**23,171**	54,895
Investments	13	**-**	-
		53,639	78,486
Current assets			
Inventories	14	**36,226**	37,223
Debtors	15	**43,269**	57,327
Cash at bank and in hand		**56,016**	691
		135,511	95,241
Creditors: Amounts falling due within one year	16	**(73,677)**	(253,070)
Net current liabilities		**61,834**	(157,829)
Total assets less current liabilities		**115,473**	(79,343)
Creditors: Amounts falling due after more than one year	17	**(74,209)**	-
Net assets / (liabilities)		**41,264**	(79,343)
Capital and reserves			
Called up share capital	20	**50**	50
Shares to be issued	21	**30,000**	-
Revaluation reserve		**18,295**	44,219
Accumulated losses		**(7,081)**	(123,612)
Total equity		**41,264**	(79,343)

The notes on pages 25 to 48 are an integral part of these financial statements.

The financial statements of McLaren Racing Limited on pages 21 to 48 were authorised for issue by the Board of Directors on 28.07.2021and signed on its behalf by:

Zak Brown
Director

Registered number 01517478

Statement of changes in equity
for the year ended 31 December 2020

	Called up share capital £000	Shares to be issued £000	Revaluation reserve £000	Accumulated losses £000	Total equity £000
At 1 January 2019	50	-	52,804	(62,765)	(9,911)
Loss for the financial year	-	-	-	(71,443)	(71,443)
Other comprehensive income	-	-	2,011	-	2,011
Total comprehensive income / (expense) for the year	-	-	2,011	(71,443)	(69,432)
Transfer	-	-	(10,596)	10,596	-
At 31 December 2019	50	-	44,219	(123,612)	(79,343)
At 1 January 2020	**50**	**-**	**44,219**	**(123,612)**	**(79,343)**
Profit for the financial year	-	-	-	85,838	85,838
Other comprehensive income	-	-	4,769	-	4,769
Total comprehensive income for the year	-	-	4,769	85,838	90,607
Transfer	-	-	(30,693)	30,693	-
Proceeds from issue of loan notes and warrants (see note 21)	-	30,000	-	-	30,000
At 31 December 2020	**50**	**30,000**	**18,295**	**(7,081)**	**41,264**

The transfer of reserves of £30,693K (2019: £10,596K) is in respect of the revaluation movement on the sale of heritage cars.

Statement of cash flows
for the year ended 31 December 2020

	2020 £000	2019 £000
OPERATING ACTIVITIES		
Profit / (loss) for the financial year	85,838	(71,443)
Adjustments for:		
Dividends received	-	(321)
Tax on profit / (loss)	11,021	(13,491)
Net interest expense	5,562	8,283
Operating profit	**102,421**	**(76,972)**
Depreciation and amortisation charges	8,239	7,564
Non cash profit on sale of heritage cars	(163,637)	-
R&D expenditure credits	(1,359)	(2,154)
(Increase) / decrease in inventories	(330)	9,254
Decrease / (increase) in debtors	2,278	(1,695)
Increase in creditors	1,271	15,966
Heritage asset additions	(233)	(300)
Increase in provisions	1,617	-
(Profit) / Loss on disposal of fixed assets	(12)	39
Realised net foreign exchange gain	992	290
Unrealised net foreign exchange gain	16	-
Taxation paid / (received)	(4,584)	2,729
	(53,321)	(45,279)
INVESTING ACTIVITIES		
Purchase of tangible assets	(8,584)	(3,995)
Proceeds from disposal of tangible assets	12	31
Cash acquired on transfer of net assets of subsidiaries	-	159
	(8,572)	(3,805)
FINANCING ACTIVITIES		
Repayments of obligations under finance lease	(459)	(565)
Cash borrowed during the year	52,693	48,672
Cash repaid during the year	(35,000)	-
Proceeds from issue of loan notes and warrants	100,000	-
	117,234	48,107
Increase/(decrease) in cash and cash equivalents	55,341	(977)
Cash and cash equivalents, beginning of period	691	1,676
Effect of foreign exchange rate changes	(16)	(8)
Cash and cash equivalents, end of period	56,016	691

The notes on pages 25 to 48 form an integral part of these consolidated financial statements.

Notes to the financial statements

1. General Information

McLaren Racing Limited (the "Company") is a private limited company incorporated in the United Kingdom and registered in England. The address of the registered office is given on page 8. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 3 to 8.

The Company is limited by shares.

2. Statement of compliance

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

3. Summary of significant accounting policies

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

a. Basis of Preparation

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

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

b. Going concern

The Company's activities, together with the factors likely to affect its future development and position are set out in the Strategic report on pages 3 to 8.

Following the investments made into the business in December 2020 as described within the Strategic report the Directors have assessed the updated Business plan and future cash flows and are assured of the ongoing funding of the Company and have therefore prepared the financial statements on a going concern basis. The Company's Directors therefore are confident that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

c. Consolidated financial statements

The Company is exempt by virtue of sections 402 and 405 of the Companies Act 2006 from the requirement to prepare consolidated financial statements on the basis that the subsidiaries are not material either individually or collectively for the purpose of giving a true and fair view of the financial position and performance as a group.

Notes to the financial statements *(continued)*

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

d. Foreign currency

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

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

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

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

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

e. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the Company and value added taxes.

Revenue represents sponsorship fees, other motor racing revenue receivables and sales by the Company to external customers, excluding value added tax. Sponsorship income is deferred and recognised over the period in which the Company performs its obligations under the sponsorship contract. Income from the sale of goods including income associated with heritage cars is recognised when the risks and rewards of the goods have passed to the customer. Other motor racing revenue is recognised when the Company has performed its obligations in order to earn the revenue.

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

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

Interest income is recognised using the effective interest method.

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

A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs is recognised in income in the period in which it becomes receivable. Under the COVID-19 Job Retention Scheme (CJRS), HMRC will reimburse up to 80% of the wages of employees who have been furloughed but

Notes to the financial statements *(continued)*

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

f. Other Income (continued)

who are being kept on the payroll. The scheme is designed to compensate for staff costs, so amounts received are recognised in the statement of comprehensive income over the same period as the costs to which they relate.

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

(ii) R&D Tax credits

McLaren Racing Limited is 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 Company accounts for such allowances as tax credits and recognised in profit and loss as other operating income.

g. Long-term contracts

Long-term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover, less foreseeable losses and payments on account not matched with turnover. Contract work in progress is recorded as turnover on the following bases:

(i) On contracts which provide for delivery of own manufactured units or components, turnover is recorded when deliveries are made to customers.

(ii) In respect of initial research and development contracts, turnover is determined by reference to the value of work carried out to date. No profit is recognised until the contract has advanced to a stage where the total profit can be assessed with reasonable certainty. Provision is made for the full amount of foreseeable losses on contracts.

h. Research and development

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

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

Research and development tax credit is treated as grant income per section 24 of FRS 102 and recognised as other income in the Profit and loss account.

Any withheld portion to be treated as Deferred tax asset and to be offset against future taxable profit.

i. Employee benefits

(i) *Defined contribution pension plans*

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

Notes to the financial statements *(continued)*

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

i. Employee benefits (continued)

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

(iv) *Termination benefits*

The Company 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 benefit is measured at the best estimate of the expenditure that would be required to settle the obligation at the reporting date.

j. Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

Notes to the financial statements *(continued)*

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

k. Tangible assets

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

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets at the following rates:

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

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

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

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

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

l. Heritage assets

McLaren Racing Limited has a collection of heritage vehicles, made up of 80 racing cars, 7 historic vehicles and 11 spare F1 racing car monocoques. Under previous UK GAAP the Company had a policy of revaluing Heritage assets every 5 years. On transition to FRS 102 the Company elected to follow the cost model and use the previous revaluation at 31 December 2013 as the deemed cost for the assets. Heritage assets are stated at cost less accumulated depreciation. Cost includes any costs that are directly attributable to bringing the asset to its working condition for its intended use.

The vehicles are maintained by the business on a regular basis with maintenance costs being charged to the profit and loss account when incurred. The Directors do not consider the value of the car to decrease and therefore adopting the depreciation and impairment policy of 0% on cost.

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

Notes to the financial statements *(continued)*

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

m. Leased assets

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

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

(i) Finance leased assets

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

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

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

(ii) Operating leased assets

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

(iii) Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of minimum lease payments.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

n. Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

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

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

Notes to the financial statements *(continued)*

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

o. Investments

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

p. Inventories

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

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

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

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

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

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

q. Cash and cash equivalents

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

Bank overdrafts are shown within borrowing in current liabilities.

r. Provisions and contingencies

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

Notes to the financial statements _(continued)_

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

r. Provisions and contingencies (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

s. Financial instruments

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

(i) Financial assets

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

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

(i) Financial liabilities

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

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

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

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

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

Notes to the financial statements *(continued)*

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

s. *Financial instruments (continued)*

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

(ii) Warrants and loan notes

The loan notes are redeemable at the option of the company or mandatorily convertible on occurrence of certain events, into variable number of company's equity instruments. These are therefore classified as non-basic financial instruments and held at fair value with the gains or losses as a result of change in fair value being recognised in the profit and loss account.
The warrants contain an obligation for the company to issue a fixed number of equity instruments for a fixed amount of exercise price. These are therefore, recognized as equity at the premium received and not subsequently revalued. The premium received is recognised in a reserve called 'shares to be issued'.

On initial accounting, the total consideration received is allocated between the loan notes and warrants on a fair value basis.

(iii) Offsetting

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

t. *Share Capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

u. *Related party transactions*

The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

Notes to the financial statements *(continued)*

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

Accounting for loan notes and warrants

The allocation of total proceeds between loan notes and warrants requires fair valuation and involves the following key judgements and estimates:

- Determining the most appropriate basis for allocation of proceeds; and
- Determining the most appropriate methodology and market multiples to ascertain the equity value of McLaren Racing Limited.

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. The recoverability of tax losses is determined based on Group wide business plans.

5. Turnover

	2020 £000	2019 £000
Analysis of turnover by category		
Sales of goods	**208,884**	21,198
Rendering of services	**124,038**	164,542
	332,922	185,740

6. Operating profit / (loss)

Operating profit / (loss) is stated after charging / (crediting):	**2020 £000**	2019 £000
Depreciation	**8,239**	7,564
Operating lease rentals	**5,687**	6,877
Auditors' remuneration – audit of these financial statements	**100**	69
Impairment of Fixed assets	**129**	-
Loss on disposal of fixed assets	**-**	39
R&D Tax Credits	**(9,192)**	(9,417)
Profit on sale of heritage assets	**(172,166)**	(19,154)
Coronavirus job retention scheme grant	**(4,228)**	-

7. Income from interests in associated undertakings

	2020 £000	2019 £000
Dividend Received from McLaren Marketing Limited	-	7,800
Write-off of Investment in McLaren Marketing Limited	-	(7,479)
	-	321

Notes to the financial statements *(continued)*

8. Employees and directors

Employees

	2020 £000	2019 £000
Employee costs during the year:		
Wages and salaries	**66,334**	69,087
Social security costs	**7,938**	8,287
Other pension costs	**2,381**	2,411
	76,653	79,785

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

	2020 Number	2019 Number
Production	**361**	368
Design & Engineering	**285**	266
Administration	**195**	192
	841	826

Directors

The Directors' emoluments were as follows:	2020 £000	2019 £000
Aggregate emoluments excluding pensions and highest paid director	**2,127**	2,112
Pension contributions excluding the highest paid director	-	-
Highest paid director's emoluments	**9,319**	8,347
Highest paid director's pension contributions	-	-
	11,446	10,459

	2020 Number	2019 Number
Number of directors who are members of a defined contribution pension scheme	-	-

Jonathan Neale, Paul Buddin and Tim Murnane are also directors of other companies within the McLaren Group, and their remuneration for services to the Group have been borne by another company. The share of the total emoluments of these directors allocated in respect of services to this company is £351K (2019: £835K).

Notes to the financial statements *(continued)*

8. Employees and directors (continued)

Key Management compensation

Key management includes the directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2020 £000	2019 £000
Salaries and short-term benefits	**13,841**	14,696
Pensions	**15**	36
	13,856	14,732

9. Interest payable and similar expenses

	2020 £000	2019 £000
On group loans	**(5,854)**	(8,594)
Other Interest receivable	**55**	30
Other Interest Payable	**(755)**	-
Net exchange gain	**992**	281
	(5,562)	(8,283)

10. Tax on profit / (loss)

(a) Tax charge / (credit) included in profit or loss	2020 £000	2019 £000
Current tax:		
- UK corporation tax on losses for the year	**527**	(11,312)
- Foreign corporation tax on profits for the year	**49**	4
- Adjustments in respect of prior years	**(4,216)**	4,520
Total current tax	**(3,640)**	(6,788)
Deferred tax:		
- Origination and reversal of timing differences	**(12,870)**	(3,242)
- Derecognise Deferred Tax Assets	**25,401**	-
- Adjustments in respect of prior years	**4,563**	(3,816)
- Impact of change in tax rate	**(2,433)**	355
Total deferred tax (see note 19)	**14,661**	(6,703)
Tax on profit / (loss)	**11,021**	(13,491)

Notes to the financial statements *(continued)*

10. Tax on profit / (loss) *(continued)*

(b) Tax income included in other comprehensive income	**2020** **£000**	2019 £000
Deferred tax:		
- Origination and reversal of timing differences	**(4,769)**	(2,011)
Tax income included in other comprehensive income	**(4,769)**	(2,011)

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

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

	2020 **£000**	2019 £000
Profit / (loss) before taxation	**96,859**	(84,934)

Profit / (loss) before taxation multiplied by the standard rate of tax in the UK of 19% *(2019: 19%)*	**18,403**	(16,137)
Effects of:		
- Income not subject to tax	**(30,934)**	(1,482)
- Withholding Tax suffered	**49**	4
- Derecognise Deferred Tax Assets (see note 19)	**25,401**	-
- Impairment of investment	**-**	1,421
- Expenses not deductible for tax purposes	**188**	1,644
- Adjustments in respect of prior years	**347**	704
- Re-measurement of deferred tax – change in UK tax rate	**(2,433)**	355
Tax charge / (credit) for year	**11,021**	(13,491)

(d) Tax rate changes

The current UK corporation tax rate is 19%.

Deferred tax balances are measured at the rate at which they are expected to reverse.

The Finance Act 2016 included provisions for a reduction in the UK Corporation Tax rate to 17% with effect from 1st April 2020. This was the rate used in the provision of deferred tax at 31st December 2019. On 17th March 2020 the UK Government substantively enacted a law that provided for the corporation tax to remain at 19% and this has been reflected in the 2020 financial statements.

Notes to the financial statements *(continued)*

11. Tangible assets

	Leasehold premises and improvements	Plant, machinery, tools and equipment	Motor vehicles	Fixtures, fittings and office equipment	Assets in the course of construction	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation:						
At 1 January 2020	612	50,820	6,899	30,805	901	90,037
Additions	90	2,637	-	8,569	3,920	15,216
Transfers	-	226	-	83	(309)	-
Transfer to Inventory for sale	-	-	-	-	(100)	(100)
Disposals	-	(2,294)	-	(1,017)	-	(3,311)
At 31 December 2020	**702**	**51,389**	**6,899**	**38,440**	**4,412**	**101,842**
Accumulated depreciation:						
At 1 January 2020	376	37,062	6,803	22,205	-	66,446
Charge for the year	82	5,169	95	2,764	129	8,239
Disposals	-	(2,294)	-	(1,017)	-	(3,311)
At 31 December 2020	**458**	**39,937**	**6,898**	**23,952**	**129**	**71,374**
Net book value:						
At 31 December 2020	**244**	**11,452**	**1**	**14,488**	**4,283**	**30,468**
At 31 December 2019	236	13,758	96	8,600	901	23,591

The net carrying amount of assets held under finance leases included in plant, machinery, tools and equipment is £5,508K *(2019: £832K)*.

Notes to the financial statements *(continued)*

12. Heritage assets

	Historic Cars £000
Cost and Net book value:	
At 1 January 2019	**57,760**
Additions	300
Transfer from inventory	(3,165)
At 31 December 2019	**54,895**
At 1 January 2020	**54,895**
Additions	233
Transfer from inventory	(31,957)
At 31 December 2020	**23,171**

Two year financial summary of heritage asset transactions:

	2020	2019
	£000	£000
Additions	**233**	300
Transfer to inventory	**(31,957)**	(3,165)

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

In December 2020 McLaren Racing Limited arranged the sale of a portfolio of its heritage cars to McLaren Services Limited which enabled the majority of the outstanding intercompany loan to be cleared.

McLaren Racing Limited has a collection of heritage vehicles, made up of 80 racing cars, 7 historic vehicles and 11 spare F1 racing car monocoques

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

Notes to the financial statements _(continued)_

12. Heritage assets _(continued)_

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

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

13. Investments

The subsidiaries are:

Name	Principal activity	% Holding Ordinary share capital	Nominal value
McLaren Electronic Systems Limited	Dissolved on 25th June 2019	100%	-
McLaren Marketing Limited	Dormant	100%	-
Team McLaren Limited	Dormant	100%	-

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

Two UK subsidiaries in the Group have elected to make use of the audit exemption, for dormant companies under section 480 of the UK Companies Act. The companies which have made use of the audit exemption are Team McLaren Limited (Company number 00772700, registered office: McLaren Technology Centre, Chertsey Road, Woking, Surrey, GU21 4YH) and McLaren Marketing Limited (Company number 01967716, registered office: McLaren Technology Centre, Chertsey Road, Woking, Surrey, GU21 4YH)

Shares in Group undertakings

On the 1st January 2019, the Trade and Assets of McLaren Marketing Limited and Team McLaren Limited were transferred to McLaren Racing Limited as part of an on-going process around corporate simplification. A dividend of £7.8m was then paid by McLaren Marketing Limited to McLaren Racing Limited to realise the entity's reserves in the parent company following which the investment value in McLaren Marketing Limited was written off.

Notes to the financial statements *(continued)*

14. Inventories

	2020 £000	2019 £000
Racing car development costs	**29,866**	28,174
Raw materials and consumables	**2,297**	2,778
Finished goods and goods for resale	**4,063**	6,271
	36,226	37,223

15. Debtors

	2020 £000	2019 £000
Trade debtors	**9,755**	1,906
Amounts owed by group undertakings	**-**	298
Amounts owed by related parties (note 25)	**3,321**	9
Other debtors	**9,657**	21,053
Deferred tax asset (note 19)	**16,644**	26,535
Prepayments and accrued income	**3,892**	7,526
	43,269	57,327

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

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

16. Creditors: amounts falling due within one year

	2020 £000	2019 £000
Obligations under finance leases (note 18)	**751**	459
Trade creditors	**5,954**	11,091
Amounts owed to group undertakings (note 18)	**-**	184,216
Amounts owed to related parties (note 25)	**492**	18
Taxation and social security	**5,117**	8,342
Other creditors	**173**	215
Accruals and deferred income	**61,190**	48,729
	73,677	253,070

Notes to the financial statements *(continued)*

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

	2020 **£000**	2019 £000
Obligations under finance leases (note 18)	**3,783**	-
Optionally convertible loan notes	**70,426**	-
	74,209	-

18. Loans and other borrowings

	2020 **£000**	2019 £000
Obligations under finance leases	**4,534**	459
Optionally convertible loan notes	**70,426**	-
Amounts owed to group undertakings	**-**	184,216
Amounts owed to related parties	**492**	-
	75,452	184,675

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

Finance leases

The future minimum finance lease payments are as follows:

	2020 **£000**	2019 £000
Not later than one year	**1,171**	466
Later than one year and not later than five years	**4,524**	-
Total gross payments	**5,695**	466
Less finance charges	**(1,161)**	(7)
Carrying amount of liability	**4,534**	459

The new finance lease in 2020 relates to the acquisition of aerodynamic modelling computer equipment. When the leases terms end the title of goods will pass following final payment under the contract and where necessary settlement of a nominal option to purchase fee.

Notes to the financial statements *(continued)*

19. Deferred tax

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

	2020	2019
	£000	£000
Depreciation in excess of capital allowances	**(3,988)**	(2,142)
Revaluation of tangible assets	**4,291**	9,062
Other timing differences	**(675)**	(1,045)
Tax R&D incentives	**(12,002)**	(10,353)
Trading losses carried forward	**(4,270)**	(22,057)
	(16,644)	(26,535)

At the balance sheet date, the Company has UK tax losses of £156m (2019: £100m) which have an indefinite life. In light of the changes to the financing of McLaren Racing the directors have reviewed the group forecast plans and the extent to which profits can reasonably be identified to offset these losses. As a result of this review losses with a deferred taxed value of £25.4m were derecognised through the 2020 Income Statement Tax Charge (note 10). The Company has £25m (2019: £275,000) of unrecognized deferred taxes at the year end.

The UK tax incentives do not expire and are fully provided.

The deferred tax liability expected to reverse in 2020 totals £Nil (2019: £800k).

20. Called up share capital

	2020	**2019**
	£000	**£000**
Authorised, called up and fully paid		
50,150 *(2019: 50,150)* ordinary shares of £1 each	**50**	50

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

Notes to the financial statements _(continued)_

21. Warrants

In December 2020, McLaren announced a deal to attract significant new long-term investment into McLaren Racing Limited led by MSP Sports Capital, the US-based sports investment group, to help drive its plan to return to the top in Formula 1 and continue its growth as a global sports franchise. MSP is co-investing with its strategic partners UBS O'Connor, LLC. and The Najafi Companies, whilst an additional tranche of funding is provided by UBS O'Connor LLC & the investment group Caspian.

Through this transaction, the Company secured a total investment of £185m, receivable in a further four tranches by December 2022, in the form of convertible loan notes and warrants. These warrants are convertible at any time at the option of the warrant holders, for £0.01, into equity shares of the Company. The warrants have given the investors voting and dividend rights on an 'as-converted' basis. As at 31 December 2020, the investors cumulatively held 21.05% in the Company on a diluted basis.
The warrants were initially recognized at the premium received, determined through allocation of initial proceeds of £100m between the loan notes and warrants on a fair value basis. Consequently, an amount of £30m was allocated to warrants and recognized within equity as "shares to be issued".

22. Financial commitments

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

	2020	2019
	£000	£000
Payments due:		
Not later than one year	**4,642**	6,093
Later than one year and not later than five years	**13,927**	-

Notes to the financial statements *(continued)*

23. Financial Instruments

The Company has the following financial instruments:	Company 2020 £000	Company 2019 £000
Financial assets that are debt instruments measured at amortised cost		
- Trade debtors (note 15)	**9,755**	1,906
- Amounts owed by group undertakings (note 15)	**-**	298
- Amounts owed by related parties (note 25)	**3,321**	9
- Other debtors (note 15)	**9,657**	21,053
	22,733	**23,266**
Financial liabilities measured at fair value through profit or loss		
- Optionally convertible loan notes (notes 17 & 18)	**70,426**	**-**
Financial liabilities measured at amortised cost		
- Warrants (note 21)	**30,000**	-
- Finance leases (note 18)	**4,534**	459
- Trade creditors (note 16)	**5,954**	11,091
- Amounts owed to group undertakings (note 18)	**-**	184,216
- Amounts owed to related parties (note 25)	**492**	18
- Other creditors (note 16)	**173**	215
- Accruals (note 16)	**36,435**	48,729
	77,588	**244,728**

Notes to the financial statements *(continued)*

24. Contingent liability

Prior to the 15th December 2020 McLaren Racing Limited was party to an unlimited cross company guarantee securing all monies due, or to become due, in respect of the overdraft and £110m loan facility provided to McLaren Holdings Limited by its bankers. As at 31 December 2019 the balance guaranteed was £nil. In addition, McLaren Racing Limited was party to a guarantee securing all monies due, or to become due, in respect of £370,000K of sterling-denominated Senior Secured Notes and $350,000K of dollar-denominated Senior Secured Notes issued by the Group. Following the investment into the Company in December 2020 as described in the Strategic report on page 3 the cross company guarantees were discharged on the 15th December 2020 with McLaren Racing Limited no longer a guarantor of the overdraft and £110m loan facility or the Senior Secured Notes issued by the Group.

McLaren Racing Limited has given guarantees in favour of third parties. As at 31 December 2020, the balances guaranteed were CHF 100,000 (2019: CHF 100,000) in favour of Tribunal De Premiere Instance; and EUR 16,873 (2019: 16,873) in favour of Dresdner Bank AG.

25. Related party transactions

Transactions with related companies during the year were as follows:

	Year ended 31 December 2020 £000	Balance outstanding at 31 December 2020 £000	Year ended 31 December 2019 £000	Balance outstanding at 31 December 2019 £000
Sales to related parties				
Zak Brown	-	-	-	4
United Autosport Limited	**1,882**	-	5	5
United Marketing Limited	-	-	708	-
McLaren Services Limited	**197,329**	**1,658**	179	179
McLaren Applied Limited	**208**	**17**	580	42
McLaren Applied PTE Limited	-	-	256	2
McLaren Marketing Limited	-	**34**	-	-
McLaren Holdings Limited	-	**1,154**	-	-
McLaren Automotive Ltd	**55**	**458**	-	75
McLaren Automotive Events Limited	**24**	-	-	-
McLaren Automotive Asia PTE Limited	**13**	-	-	-
Amounts owed by related parties at 31 December		**3,321**		307

Notes to the financial statements *(continued)*

25. Related party transactions *(continued)*

	Year ended 31 December 2020 £000	Balance outstanding at 31 December 2020 £000	Year ended 31 December 2019 £000	Balance outstanding at 31 December 2019 £000
Purchases from related parties				
Cosworth Limited	**-**	-	1	-
Cosworth Electronics LLC	**-**	-	158	-
United Marketing	**1,458**	-	-	-
Tag Aviation	**14**	-	15	-
Entertainment Travel	**273**	-	359	18
McLaren Applied Limited	**296**	**133**	528	39
McLaren Applied Inc	**333**	**17**	186	22
McLaren Applied PTE Limited	**-**	-	224	-
McLaren Automotive Limited	**288**	**273**	624	887
McLaren Services Limited	**21,530**	-	25,496	2,438
McLaren Marketing Limited	**-**	**69**	-	34
McLaren Holdings Limited	**5,853**	-	-	1,467
McLaren Holdings Limited – Loan settled	**232,022**	-	-	-
McLaren Holdings Limited – Loan borrowed	**(52,693)**	-	(39,155)	179,329
McLaren Automotive Inc	**632**	-	-	-
Bahrain International Circuit	**89**	-	107	-
Amounts owed to related parties at 31 December		**492**		184,234

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

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

26. Ultimate parent Company and controlling party

McLaren Holdings Limited holds 100% of issued equity however the warrants issued as part of the investment in December 2020 are convertible at any time at the option of the warrant holders, for £0.01, into equity shares of the Company. The warrants give the investors voting and dividend rights on an 'as-converted' basis.

Ownership of McLaren Racing Limited at 31 December 2020 based on beneficial ownership on an as-converted basis was as follows: 78.95% McLaren Holdings Ltd and 21.05% (MSP Sports Capital, Caspian and UBS).

Notes to the financial statements *(continued)*

27. Post Balance Sheet subsequent events

On the 22nd January 2021 McLaren Triple Crown Limited was incorporated at Companies House as a subsidiary of McLaren Racing Limited. This entity will be used to hold, manage and preserve the pre-2020 heritage car collection of McLaren Racing Limited.

On the 29th April 2021 the loan notes associated with the third-party investment which took place in December 2020 as described on page 5 were listed on The International Stock Exchange. The debt is not freely transferable and is subject to the restrictions in the underlying loan note instruments and the Framework Governance Agreement between the parties.

On the 30th June 2021 the company received £25m as the second tranche of investment from MSP Sports Capital and its partners in line with the deal announced in December 2020.