

McLaren Holdings Limited

Unaudited Financial statements
Registered number 10756310

12 months ended 31 December 2017
and 3 months ended 31 March 2018

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Business review and outlook

Principal Activities

McLaren Holdings Limited (the “Group”) is a global leader in luxury automotive, motorsport and technology. The Group is constituted from three divisions: Automotive, Racing and Applied Technologies.

Founded in 1963, the Racing division has been one of the most successful teams in motorsport history. Since its foundation, the team has won 20 Formula 1 World Championships, the Indy 500 three times as well as the Le Mans 24 Hour race.

McLaren first produced the iconic McLaren F1 road car in 1992 and more recently launched its new series of products in 2011 starting with the McLaren MP4-12C. Today, Automotive has a range of luxury high performance sports cars and supercars across three defined product families: Sports Series, Super Series and Ultimate Series. It has produced further ground-breaking cars such as the McLaren P1™ and the McLaren 675LT. 2017 has been an extraordinary year for Automotive, updating the product range with the launch of a highly acclaimed new Super Series car (the McLaren 720S), a new Sports Series model (the 570S Spider) and a unique Ultimate Series car – the McLaren Senna. All current and future models continue to command premium pricing and a strong order bank.

The Applied Technologies division focuses on the application of McLaren’s technological know-how in a wide variety of fields. Starting from a successful motorsports division which to this day is still the sole supplier of Electronic Control Units to Formula 1, NASCAR, Indycar and Formula E. Applied Technologies has expanded to focus on three further market segments: automotive, public transport and health. Success in these areas has included taking our know-how in high speed data transmission from Formula 1 and applying it to public transport where we have worked with several train operating companies to design, test and introduce new systems that enable reliable high speed WIFI on trains. Applied Technologies is also working with new entrants to the connected and autonomous vehicle sectors.

The formation of the new McLaren Group 2017

2017 was a transition year for the Group. Prior to July, McLaren Automotive was separate from the McLaren Technology Group, the latter containing the Racing and the Applied Technologies divisions but sharing a common shareholding and heritage. On the 20 July 2017, the two entities were brought together under McLaren Holdings Limited, with the shareholders of the two companies taking ownership of McLaren Group Limited (the parent of McLaren Holdings Limited). The reconstruction also allowed Mr Dennis OBE, a long-term shareholder of McLaren, to exit the shareholder group. As the shareholding of both entities was not substantially changed by the transaction, the Group has taken the decision to apply merger accounting in these financial statements.

To finance the transaction, the Group issued a sterling Bond of £370m and a dollar Bond of \$250m traded on the international stock exchange. The proceeds of the Bonds were used to purchase the shares of Mr Dennis (£200m), refinance the debt of the combining entities (£223m), repay shareholder loans (£8m) and settle transaction fees (£38m). This netted £93m in cash to the new Group. The transaction also included further deferred consideration of £75m payable in December 2017 and August 2019.

The Group has also established a new operational and management structure to reflect these changes. The Group is now managed along the three business lines of Automotive, Racing and Applied Technologies and the Group legal structure will be developed through 2018 in order to match this new management structure. Shaikh Mohammed bin Essa Al Khalifa has been appointed as the Executive Chairman for the Group and, alongside Mansour Ojjeh, manages the Group through an Executive Committee. Reporting to this Executive Committee are the divisional CEOs. Mike Flewitt continues as the CEO of McLaren Automotive, with Zak Brown now appointed as the CEO of McLaren Racing. A CEO for McLaren Applied Technologies will be confirmed in the future. Further, a small team of Group Executives also report to the Executive Committee covering Group Operations, Finance, Legal and HR. Jonathan Neale has been announced as the Group Chief Operating Officer and Paul Buddin as the Acting Chief Financial Officer.

Business review and outlook (*continued*)

Group results

Turnover for the Group has fallen marginally from £898.4m in 2016 to £871.3m in 2017. The Group is pleased to report an EBITDA for the year of £65.3m, before exceptional costs. Exceptional costs of £6.3m have been charged when arriving at the profit for the year and relate to the costs of restructuring the Group following the combination of McLaren Automotive Limited and McLaren Technology Group Limited.

Further, the Group has reported a normalised full year EBITDA of £159m. The Group had a number of significant one-offs that impacted its ability to deliver a full year of production and therefore negatively impacted the results. These disruptions are discussed further in the Automotive section of this report. The normalised EBITDA also includes £12.1m of cost synergies that have now been identified and are in the process of being implemented.

For Q1 2018, turnover has almost doubled from £130.1m in Q1 2017 to £241.2m. In addition, the Group has reported an EBITDA of £8.0m compared to an EBITDA loss of £29.4m. The improvement in the Q1 results is driven by the Automotive division which has built on the success of Q4 2017 and continued to build cars at the rate of 20 units per day, which has led to wholesale volumes to more than double quarter-on-quarter.

Automotive

The Group's 2017 results have largely been impacted by the results of the Automotive division, which entered the year with three planned but important one-off disruptions to production. The disruptions were all part of the Track 22 business plan announced at the Geneva Motorshow in March 2016. The first was the implementation of a new Enterprise Resource Planning system, SAP. Production was halted for most of January to allow for the successful implementation of SAP and then output was affected throughout February 2017 as production returned to normal. The other disruptions were the launches of the second generation of the Super Series (McLaren 720S) and the Sports Series Spider (McLaren 570S Spider). The launch of the new Super Series completed the production life-cycle plan of McLaren Automotive but introduced a gap of six months as the old model was phased out and the McLaren 720S launched.

The Group is pleased to have completed the ramp-up of volume in the Automotive division following the planned SAP implementation and major new product launches. This ramp-up was completed in Q4 2017; the capacity demonstrated in Q4 will allow the Group to exceed 4,300 units in 2018. The total volumes delivered for 2017 were 3,340 (2016: 3,286). Around two-thirds of sales are attributed to the Sports Series family, the vast majority of which are new buyers to the brand, with the rest coming from the Super Series. The Sports Series family accounted for 2,119 deliveries, up from 2,031 in 2016. Following the unveiling of the 720S in March, Super Series sales continued to perform strongly with 1,221 cars sold - nearly the same as 2016's figure despite only six months of delivery.

The ramp-up of volume has been achieved later than planned and therefore has left limited opportunity to catch back volumes that were lost earlier in the year and therefore the results are below our own expectations. These factors have had a substantial one-off impact on Group revenues, profits and EBITDA in 2017 but has set the Automotive division up for significant growth in 2018.

The production rates demonstrated in Q4 2017 have continued into 2018. Production rates in Q1 2018 have continued at a rate of 20 units per day and have totalled 1,258 compared to just 523 in Q1 2018. McLaren Automotive also announced in May 2018 that it had built its 15,000th car since the launch of the McLaren MP4-12 in 2011.

Business review and outlook (continued)

Automotive (continued)

Wholesales continue to be strong. As production volume has increased, deliveries are up in most global markets. For example, wholesales are up 8% in North America which represents 37% of the global sales for McLaren. Only China remains an area where 2017 wholesales have fallen significantly over 2016 (down 36%). Early in 2017 an exemption for small volume manufacturers like McLaren was removed at short notice meaning that further testing was required in order to import the McLaren 720S and McLaren 570S Spider into China. This delayed the sales of these products so China volumes in 2017 only reflect sales of the McLaren 570S Coupe and GT variants. Looking forward, McLaren is now able to import its full range of cars into China and deliveries started in March 2018. As a result, wholesales in China for Q1 2018 are already 69% higher than Q1 2017.

Further, wholesales in Q1 2018 are 125% higher than Q1 2017 as production rates have increased and demand remains strong. Adding to this success, in April 2018 McLaren passed a further milestone by delivering its 5,000th car in North America since the launch of the McLaren MP4-12C in 2011. Total wholesales in Q1 2018 are 1,064 compared to just 473 in Q1 2017.

Wholesale volumes by region are:

Region	2017	2016	Q1 2018	Q1 2017
Europe	1,115	1,094	390	173
North America	1,234	1,139	401	189
Asia Pacific	538	550	168	63
China	147	228	27	16
RoW	306	275	78	32
Global	3,340	3,286	1,064	473

In line with the Track 22 business plan, Automotive continued to launch new products into the market. At the Geneva Motorshow in March 2017, Automotive revealed details of the second generation of its Super Series – the McLaren 720S. This was the first time that the division had replaced a vehicle in one of its series. Further, at the Goodwood Festival of Speed in July 2017, Automotive announced a third variant of the Sports Series – the McLaren 570S Spider. The Spider follows in the tradition of previous Spider variants as a no-compromise convertible sports car. Both cars received five-star reviews from the automotive and luxury press and continue to command strong order books and rave reviews from customers.

Finally, at the McLaren Automotive Winter Ball in December 2017, the company revealed the McLaren Senna for the first time. Baring the name of the legendary McLaren Formula 1 driver, Ayrton Senna, the car is an uncompromised track focused vehicle but one that can be legally driven on the public roads. Only 500 examples of this car will be made available and it was fully sold out when launched. This order book takes production to its conclusion in late 2019.

Following up on the McLaren Senna, at the 2018 Geneva Motor Show, Automotive revealed a track only version of the McLaren Senna – the McLaren Senna GTR. Again, the 75 units available were sold out within days of its announcement but this vehicle will not be delivered until 2019.

The order book continues to be strong. The order book totalled 1,910 units at 31 March 2018 and takes Super Series order cover into Q4 2018 and Sports Series cover into Q3 2018. The Group will continue to capitalise on this demand in 2018 now that the production capacity has been achieved and stabilised. This, along with the first delivery of the McLaren Senna in the second half of 2018, will contribute to significant growth in revenue and EBITDA from the Automotive division and further demonstrates that Automotive is on plan to deliver the targets set out in Track22.

Business review and outlook (*continued*)

McLaren Racing

In Formula 1 racing, the 2017 World Championship season proved significantly more challenging than in 2016 with McLaren finishing the season ninth in the Formula 1 Constructors' Championship (2016: Sixth). On 14 September 2017, McLaren and Honda announced that it was in the best interests of both companies to pursue their racing ambitions separately. McLaren announced on the same day that it had signed a three-year power unit supply contract with Renault Sport Racing SAS. Renault Sport Racing has been hugely successful in modern Formula 1 having produced the power units for the World Championship winning team in six of the last 12 seasons. The Group is confident that the performance of the McLaren chassis partnered with the race-winning Renault engine will see a significant improvement in on track performance. Although the 2018 season has only just started, the team has already exceeded its points total from 2017 in the first four races and is confident that this improved performance will continue for the rest of the season. This will, in turn, drive improved sponsorship performance.

In respect of sponsorship during 2017 the Group has announced the continuation of, or new, sponsorship with Kimoa, SAP, Stratasys, Kenwood, Hilton, Logitech, Akebono, Eden Games, Sparco, Technogym and ISS. Further to this, ahead of the new 2018 season, the Group also announced partnerships with Petrobras, Dell and Airgain and in May 2018 added to this with FxPro, Sparco (a renewal) and HTC Vive. Racing are also continuing discussions with a number of partners in respect of future sponsorship.

For the 2017 season, Stoffel Vandoorne was promoted to partner Fernando Alonso. Stoffel continues to develop extremely impressively into a hugely competitive Formula 1 driver competing credibly alongside his vastly more experienced teammate and we are delighted that this driving partnership has been maintained for the 2018 season.

The driver line-up, the new Renault engine and the team's new 2018 Chassis are already beginning to deliver. Six races have so far been completed in 2018 and the team lie fifth in the Formula 1 World Constructors' Championship with 40 points, only 6 points behind fourth. 40 points is already more than the 30 scored in all of 2017 and the team look forward to moving up the grid as the continuing pipeline of future improvements to the are delivered through the 2018 season.

Over the past 50 years, as a result of our racing programme, the Group has established a large collection of heritage race cars and other vehicles which chronicle our racing history and have been used to serve as promotional vehicles for the brand within the McLaren Technology Centre ("MTC") and also at museums, dealerships and heritage track days around the world. Each year, three vehicles are typically added to this collection which are the cars that have run in that season's Formula 1 World Championship. As at 31 December 2017 the collection numbered some 180 vehicles which were held at a deemed cost of £75.2m, of which £19m were held in inventory.

Managing such a large collection takes significant resource and during 2017 Executive management of the Group made the decision to establish a programme to sell a specific and limited number of these cars to specialist collectors from around the world. Deposits have been received for the cars identified for sale and, whilst a small number were delivered in 2017, the majority will be prepared and delivered over 2018 and 2019.

Business review and outlook (*continued*)

Applied Technologies

McLaren Applied Technologies' planned growth in 2017 continued, with turnover from this division improving by 20% year on year. In particular, a new partnership with Deloitte was signed to develop products that solve complex industry challenges and improve clients' business performance. Applied Technologies also continued to win new contracts such as the competitive tender from the FIA, motorsport's governing body, to become the exclusive supplier of batteries to the Formula E series. The batteries will allow cars to compete a full race distance without requiring a change of car, as was previously the case with the rival's system. This will not only help to significantly improve the show for fans but provide a perfect demonstration of McLaren's technical capabilities in this area on a growing global motorsport platform. Further, in Q1 2018, Applied Technologies has also started a project to install intelligent seat sensors on Virgin trains which is one of a number of programmes that mean their order cover for 2018 is at 80%.

New equity issued

On 14 May 2018 McLaren Group Limited (the parent company of McLaren Holdings Limited) announced that it had agreed to issue 888,135 new ordinary shares in return for cash of £203.8m representing a 10% share of the Group. The capital injection will be made over the coming year, with the first tranche of £100.0m already received. The new capital is being purchased by Nidala (BVI) Limited, a company controlled by Michael Latifi. Michael Latifi, a Canadian businessman, has been an admirer of the McLaren brand and its businesses for some time.

As a result, McLaren Holdings Limited will issue new shares to McLaren Group Limited for £203.8m as the proceeds are received by McLaren Group Limited. The new capital, which is part of the Group's simplification over the last 12 months, will significantly strengthen the Group's balance sheet and underpins its ambitious growth plans laid out in its five-year business plan.

Key performance indicators

The directors consider turnover, sales and production volumes, position in the FIA Formula 1 World Championship, earnings before interest and tax, profit before tax, cash flow and performance against engineering programme milestones to be the principal Key Performance Indicators (KPIs). These are used to assess progress towards achieving the Group's strategies over the medium term and performance against these measures is reviewed regularly.

Principal risks and uncertainties

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

Further, the Group is exposed to the performance of Formula 1 as a global sports entertainment business and on-track performance. On-track performance impacts income from prize money, the renewal and acquisition of sponsorship.

As with any company active on a global stage, foreign exchange volatility presents a risk. Currency exposure will remain high as 61 per cent of worldwide sales revenues are denominated in non-Sterling currencies. McLaren Group operates in an international environment with revenues denominated primarily in US dollars, Japanese Yen, Chinese Yuan and Euros. Purchases are transacted primarily in Sterling and Euros. The principal risks, however, are exposure to the US Dollar and Euro. The McLaren Group operates under a treasury policy and accordingly has a hedging portfolio in place to cover a proportion of these cash flows.

Interest exposure is governed by the rate at which long-term loans are agreed and the rate contracted with high-yield bond holders and the banking group supporting the revolving credit facility. The interest rate on the revolving credit facility is linked to LIBOR whereas the rate contracted with the high-yield bond holders is fixed.

Recent developments and factors affecting comparability – FY 2017

Income statement

Revenue

Revenue was £871.3m for the year ended 31 December 2017, a decrease of £27.1m or 3.0% on the year ended 31 December 2016.

Automotive saw a 7% decrease in revenues following a shift in sales mix from Super Series to Sports Series vehicle sales. In the first half of 2017 revenues were negatively impacted by having only the Sports Series models (the McLaren 570S, 570GT and 540C) available to customers for the first five months; deliveries of the new Super Series model (McLaren 720S) only started in June 2017. Automotive sales volumes increased by 2%, despite a planned reduction in production to complete the implementation of the business-wide SAP system in January 2017.

Offsetting this decrease in Automotive revenues year on year were Racing and Applied Technologies.

McLaren Racing reported positive variances in revenue overall. Formula 1 prize money was higher in 2017 compared to 2016, reflecting the improved ranking in the Constructors Championship from 9th in 2015 to sixth in 2016 (as Formula 1 prize money is paid retrospectively). In addition, the business recognised the sale of a number of heritage cars. These sales offset the impact of decreased sponsorship income during the year as a result of some key sponsorship contracts failing to renew for 2017 due to on-track performance.

Applied Technologies saw a 21% increase in revenues as the division continued to grow through the addition of new contracts, for example, with Formula E.

Gross profit

Gross profit was £203.5m for the year ended 31 December 2017, a decrease of £93.3m on the prior year. Gross profit as a percentage of revenue decreased from 33.0% in 2016 to 23.4% in 2017.

Automotive saw a lower gross profit in absolute and percentage terms resulting from a less favourable model mix in Automotive sales. In year ended 31 December 2016, Automotive sold a mix of Sports, Super and Ultimate Series vehicles compared to only selling Sports Series models for the first five months of 2017, with deliveries of Super Series vehicles starting in June 2017 and no Ultimate Series vehicles being sold during the period.

McLaren Racing gross profit was relatively flat year-on-year, with positive revenue variances offset by increased cost of car development driven by regulation changes for 2017.

Administrative expenses

Administrative expenses were £163.2m for the year ended 31 December 2017, an increase of £5.9m or 3.6% on the year ended 31 December 2016.

Automotive reported an increase in administrative expenses following increased investment in planned operational upscaling to match a production rate of 20 units per day. In addition, there has been growth in the IT cost base following the implementation of the business-wide SAP system which went live in the first quarter of 2017.

Recent developments and factors affecting comparability – FY 2017 (*continued*)

Income statement (*continued*)

Other operating income

Other operating income was £27.2m for the year ended 31 December 2017, an increase of £15.2m on the prior year. This increase includes grant income recognised in Automotive of £6.6m in 2017 (including the McLaren Composites Technology Centre (MCTC) programme among others) and £4.5m of income in Racing on the transfer of a transmission dyno from Honda as part of the settlement agreement on termination of the contract. In respect of the dyno, a matching asset has been recognised within Plant & Machinery on the balance sheet. Most of the remaining balance in Other operating income relates to R&D expenditure tax credits.

Exceptional Restructuring Costs

Exceptional costs were £6.3m for the year ended 31 December 2017 compared to £Nil in the prior year. This includes the write off of historic revolving credit facility arrangement fees on facilities that existed prior to the new financing being implemented in July 2017. It also includes reorganisation costs as the Group has been rationalised.

Depreciation

Depreciation was £16.6m for the year ended 31 December 2017, which was flat compared to the prior year.

Amortisation

Amortisation was £71.8m for the year ended 31 December 2017, an increase of £2.8m or 4% on the prior year. This marginal increase was as a result of the increased sales volumes in Automotive.

Finance costs

Finance costs were £17.0m for the year ended 31 December 2017, a decrease of £46.3m or 73.1% on the prior year. The decrease is largely due to gains and losses on derivative financial instruments (hedging contracts). In 2016, a loss was recognised on contracts placed before sterling weakened against world currencies. In 2017, a gain has been recognised as sterling has recovered some of the ground lost in 2016.

Income tax

The income tax charge was £5.4m for the year ended 31 December 2017. This was £4.2m or 78% higher than the corresponding period in 2016. The tax charge is higher than the respective UK corporation tax rates for 2016 and 2016 of 19% and 20% due to the impact of non-deductible expenses for tax purposes, higher overseas tax rates and the recognition of losses at the UK tax rate reflecting the period in which they are expected to be utilised.

Cash flow statement

The twelve months to 31 December 2017 saw a net cash inflow (excluding the impact of foreign exchange changes on cash) of £71.9m, compared to £6.7m in the twelve months to 31 December 2016. The cash balance at 31 December 2017 was £99.3m, compared to £28.5m as at 31 December 2016.

Cash flow from operating activities

Cash generated from operating activities was £143.8m in the twelve months to 31 December 2017 compared to £101.0m in the equivalent twelve-month period to 31 December 2016. The year-on-year increase is primarily attributed to advanced deposits on car sales.

Recent developments and factors affecting comparability – FY 2017 (*continued*)

Cash flow statement (*continued*)

Cash flow from investing activities

Net cash used in investing activities increased to £197.8m for the year ended 31 December 2017 compared to £102.1m in the same period for 2016, an increase of £95.7m. Excluding the one-off receipt of £30.6m in 2016 from the disposal of investments, this increase is £65.1m. This is primarily due to an increase in expenditure in 2017 on intangible assets as a result of continued growth in new product development in the Automotive business.

Cash flow from financing activities

Net cash inflow from financing activities was £125.8m for the year ended 31 December 2017, compared with £7.8m in 2016, an increase of £118.0m. This reflects the refinancing transaction on 20 July 2017, through issuance of a 5-year high yield bond worth circa £560m, with the funds used to buy out one of the shareholders, pay down existing bank loan facilities and leave a cash surplus.

Recent developments and factors affecting comparability – Q1 2018

Income statement

Revenue

Revenue was £241.2 for the 3 months ended 31 March 2018, an increase of £111.1m or 85.4% on the 3 months ended 31 March 2017.

Automotive saw a 189% increase in revenue driven primarily by an increase in vehicle sales. Wholesale volumes were 1,064 units for the 3 months ended 31 March 2018, an increase of 591 units or 125% on the 3 months ended 31 March 2017. One of the key disrupters to the Q1 2017 result was the implementation of SAP – something that has not impacted the Q1 2018 result. Automotive revenues were also positively impacted by a favourable shift in sales mix from Sports Series to Super Series.

Offsetting this increase were decreases in Racing and a slight reduction in Applied Technologies due to the timing on project delivery.

McLaren Racing saw reduced revenues predominantly due to the end of the partnership with Honda. Formula 1 prize money was also lower in the first quarter of 2018 compared to 2017, reflecting the ranking in Constructor's championship position of 9th in 2017, compared to 6th in 2016 (as Formula 1 prize money is paid retrospectively).

Gross profit

Gross profit was £41.6m for the 3 months ended 31 March 2018, an increase of £32.4m on the 3 months ended 31 March 2017. Gross profit as a percentage of revenue improved from 7.1% in 2017 to 17.2% in 2018.

Automotive saw a higher gross profit in absolute and percentage terms resulting from the higher sales volume and a more favourable model mix in Automotive sales. In the three months ended 31 March 2018, Automotive sold a mix of Sports and Super Series vehicles compared to only selling Sports Series models for the three months ended 31 March 2017, with deliveries of Super Series vehicles starting in June 2017 and no Ultimate Series vehicles being sold during the period.

Offsetting this were decreases in Racing and Applied Technologies margins for the same reasons as the fall in revenue; the direct costs of building the Formula 1 car have remained broadly consistent between Q1 2017 and Q1 2018.

Administrative expenses

Administrative expenses were £43.5m for the 3 months ended 31 March 2018, an increase of £2.4m or 5.9% on the 3 months ended 31 March 2017.

Automotive reported an increase in administrative expenses following increased investment in planned operational upscaling to match a production rate of 20 units per day. In addition, there has been growth in the IT cost base following the implementation of the business-wide SAP system which went live in the first quarter of 2017.

Other operating income

Other operating income was £6.0m for the 3 months ended 31 March 2018, an increase of £3.9m on the prior year. The increase is primarily attributed to increased Automotive grant income recognised in the three months ended 31 March 2018.

Recent developments and factors affecting comparability – Q1 2018(continued)

Income statement (continued)

Depreciation

Depreciation was £4.7m for the 3 months ended 31 March 2018, an increase of £0.9m on the same period in 2017.

Amortisation

Amortisation was £26.1m for the 3 months ended 31 March 2018, an increase of £16.5m compared to the 3 months ended 31 March 2017. This increase is driven by the improved wholesale volumes and a shift in mix from Sports to Super series vehicles.

Finance costs

Finance costs were £1.9m for the 3 months ended 31 March 2018, compared to £1.0m in the comparable period in the prior year. For Q1 2018, the interest charges for the high yield bond are included here but have been largely offset by a foreign exchange gain on the \$250m high yield bond on translation to sterling at the end of March 2018.

Income tax

The income tax credit was £3.5m for the 3 months ended 31 March 2018. This was £3.2m or 47% lower than the corresponding period in 2017. The tax credit for the interim periods is based upon an estimate of the full year effective tax rate and is lower than the applicable UK statutory tax rates for those years as a result of the full credit not being taken for trading losses, the utilisation of which is not certain.

Cash flow statement

The three months to 31 March 2018 saw a net cash outflow of £(58.7m), compared to a net cash outflow of £(16.1m) in the three months to 31 March 2017. The cash balance at 31 March 2018 was £40.1m, compared to £12.3m as at 31 March 2017.

Cash flow from operating activities

Cash used in operating activities was £(2.8m) in the three months to 31 March 2018 compared to £(20.1m) in the equivalent three month period to 31 March 2017. The year-on-year improvement is primarily attributed to the decrease in operating loss for the period.

Cash flow from investing activities

Net cash used in investing activities increased to £(50.3m) for the period ended 31 March 2018 compared to £(45.8m) in the same period for 2017, an increase of £(4.5m). This is primarily due to an increase in expenditure in 2018 on intangible assets as a result of continued growth in new product development in the Automotive business.

Cash flow from financing activities

Net cash outflow from financing activities was £(5.6m) for the three months ended 31 March 2018, compared with an inflow of £50.4m in 2017, a decrease of £(56.0m). This is primarily due to reduced borrowings on the revolving credit facility (£10m in 2018 compared with £52m in 2017), offset by an increase in interest paid, £(15.2m) of this being the first interest payment on the 5-year high yield bond.

McLaren Holdings Limited
Unaudited Financial statements
31 December 2017 and 31 March 2018

Consolidated profit and loss account

	Note	Year ended 31 December		3 months ended 31 March	
		2017 £000	2016 £000	2018 £000	2017 £000
Turnover	4	871,270	898,381	241,177	130,118
Cost of Sales		(667,760)	(601,576)	(199,575)	(120,943)
Gross profit		203,510	296,805	41,602	9,175
Administrative expenses		(163,242)	(157,322)	(43,473)	(41,047)
Other operating income		27,248	12,053	6,009	2,134
Operating profit/(loss) before depreciation and amortisation		67,516	151,536	4,138	(29,738)
Exceptional restructuring costs		(6,301)	-	-	-
Depreciation		(16,585)	(16,615)	(4,744)	(3,843)
Amortisation		(71,806)	(69,026)	(26,059)	(9,585)
Operating (loss)/profit		(27,176)	65,895	(26,665)	(43,166)
Finance costs (net)		(17,047)	(63,308)	1,884	999
(Loss)/profit before taxation		(44,223)	2,587	(24,781)	(42,167)
Tax on (loss)/profit	5	(5,404)	(1,247)	3,506	6,748
(Loss)/profit for the financial period		(49,627)	1,340	(21,275)	(35,419)
(Loss)/profit attributable to:					
- owners of the parent		(49,627)	1,401	(21,275)	(35,419)
- Non-controlling interest		-	(61)	-	-
		(49,627)	1,340	(21,275)	(35,419)

Consolidated statement of comprehensive income

	Year ended 31 December		3 months ended 31 March	
	2017 £000	2016 £000	2018 £000	2017 £000
(Loss)/profit for the financial period	(49,627)	1,340	(21,275)	(35,419)
Other comprehensive income/(expense):				
Deferred tax movement on revaluation reserve	26	700	-	-
Gain/(loss) on cash flow hedges arising during the period	22,811	(18,466)	(3,211)	-
Gain/(loss) on foreign currency translation reserve	(737)	1,495	5,017	2,681
Non-controlling interest elimination on sale of subsidiary	-	484	-	-
Total comprehensive expense for the period	(27,527)	(14,447)	(19,469)	(32,737)
Total comprehensive expense attributable to:				
- owners of the parent	(27,527)	(14,870)	(19,469)	(32,737)
- Non-controlling interest	-	423	-	-
	(27,527)	(14,447)	(19,469)	(32,737)

Consolidated balance sheet

	Note	As at 31 December		As at 31 March
		2017 £000	2016 £000	2018 £000
Fixed assets				
Intangible assets	6	574,555	467,312	595,976
Tangible assets	7	273,381	271,985	272,182
Heritage assets	8	56,551	76,925	56,551
		904,487	816,222	924,709
Current assets				
Inventories	9	124,003	68,081	153,855
Debtors	10	212,383	182,065	212,246
Cash at bank and in hand		99,316	28,477	40,091
		435,702	278,623	406,192
Creditors: Amounts falling due within one year	11	(474,412)	(363,073)	(500,170)
Net current liabilities		(38,710)	(84,450)	(93,978)
Total assets less current liabilities		865,777	731,772	830,731
Creditors: Amounts falling due after more than one year	12	(587,290)	(153,478)	(570,935)
Provisions for liabilities		(9,815)	(8,576)	(11,508)
Deferred capital funding	13	(103,807)	(107,464)	(102,892)
Net assets		164,865	462,254	145,396
Capital and reserves				
Called-up share capital		80	57	80
Share premium account		-	490,451	-
Revaluation reserve		56,109	58,127	56,046
Capital redemption reserve		-	20	-
Capital contribution reserve		2,039	-	2,039
Merger reserve		218,547	-	218,547
Foreign currency translation reserve		4,753	(17,321)	6,559
Accumulated losses		(116,663)	(69,080)	(137,875)
Total Equity		164,865	462,254	145,396

Consolidated statement of changes in equity
for the year ended 31 December 2017

	Called up share capital	Share premium account	Merger reserve	Capital redemption reserve	Capital contribution reserve	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Equity attributable to owners of the parent	Non-controlling interest	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2016	56	469,061	-	20	-	(350)	57,427	(70,481)	455,733	(423)	455,310
Profit / (loss) for the financial year	-	-	-	-	-	-	-	1,401	1,401	(61)	1,340
Other comprehensive (expense) / income for the year	-	-	-	-	-	(16,971)	700	-	(16,271)	484	(15,787)
Total comprehensive income / (expense)	-	-	-	-	-	(16,971)	700	1,401	(14,870)	423	(14,447)
Issue of share capital	1	21,390	-	-	-	-	-	-	21,391	-	21,391
At 31 December 2016	57	490,451	-	20	-	(17,321)	58,127	(69,080)	462,254	-	462,254
At 1 January 2017	57	490,451	-	20	-	(17,321)	58,127	(69,080)	462,254	-	462,254
Loss for the financial year	-	-	-	-	-	-	-	(49,627)	(49,627)	-	(49,627)
Other comprehensive income for the year	-	-	-	-	-	22,074	(2,018)	2,044	22,100	-	22,100
Total comprehensive expense	-	-	-	-	-	22,074	(2,018)	(47,583)	(27,527)	-	(27,527)
Adjustments on Group reconstruction	23	(490,451)	218,547	(20)	2,039	-	-	-	(269,862)	-	(269,862)
At 31 December 2017	80	-	218,547	-	2,039	4,753	56,109	(116,663)	164,865	-	164,865

On 2 May 2016 McLaren Automotive Limited issued 73,764 ordinary 1p shares for a consideration of £290 per share.

The foreign currency translation reserve represents a combination of the movement on the effective portion of cash flow hedges and revaluation of foreign subsidiaries.

Consolidated statement of changes in equity
for the three months ended 31 March 2018

	Called up share capital	Share premium account	Merger reserve	Capital redemption reserve	Capital contribution reserve	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2018	80	-	218,547	-	2,039	4,753	56,109	(116,663)	164,865
Loss for the financial period	-	-	-	-	-	-	-	(21,275)	(21,275)
Other comprehensive income for the period	-	-	-	-	-	1,806	(63)	63	1,806
Total comprehensive expense	-	-	-	-	-	1,806	(63)	(21,212)	(19,469)
At 31 March 2018	80	-	218,547	-	2,039	6,559	56,046	(137,875)	145,396

The foreign currency translation reserve represents a combination of the movement on the effective portion of cash flow hedges and revaluation of foreign subsidiaries.

Consolidated statement of cash flows

	Note	Year ended 31 December		3 months ended 31 March	
		2017 £000	2016 £000	2018 £000	2017 £000
Net cash flows from operating activities	14	146,614	103,642	(2,807)	(20,653)
Taxation paid		(2,778)	(2,635)	-	(13)
Net cash inflow from operating activities		143,836	101,007	(2,807)	(20,666)
Cash flow from investing activities					
Addition of intangible assets		(179,285)	(126,752)	(48,394)	(44,940)
Addition of tangible assets		(17,527)	(6,719)	(2,074)	(1,216)
Addition of heritage assets		(1,649)	(225)	-	-
Proceeds from disposal of tangible assets		342	212	55	122
Interest received		349	811	106	224
Proceeds from disposal of investment and subsidiary		-	30,607	-	-
Net cash outflow from investing activities		(197,770)	(102,066)	(50,307)	(45,810)
Cash flow from financing activities					
Repayments of obligations under finance lease		(823)	(496)	(157)	(125)
(Repayments of)/Receipts from revolver loan facility		(165,250)	(5,750)	10,000	51,950
Interest paid		(2,309)	(7,349)	(15,410)	(1,400)
Proceeds from issue of ordinary share capital		-	21,391	-	-
Proceeds from bond issuance		562,976	-	-	-
Transaction fees on bond		(21,744)	-	-	-
Buyout of shareholder		(247,003)	-	-	-
Net cash inflow from financing activities		125,847	7,796	(5,567)	50,425
Net increase/(decrease) in cash and cash equivalents		71,913	6,737	(58,681)	(16,051)
Cash and cash equivalents at beginning of period		28,477	19,115	99,316	28,477
Effect of foreign exchange rate changes		(1,074)	2,625	(544)	(108)
Cash and cash equivalents at end of period		99,316	28,477	40,091	12,318

Notes to the financial statements

1. General Information

McLaren Holdings Limited (“the Company”) and its subsidiaries (together “the Group”) is privately owned and incorporated in the United Kingdom. The address of the registered office is McLaren Technology Centre, Chertsey Road, Woking, Surrey, GU21 4YH.

2. Basis of preparation

The condensed consolidated financial information for the twelve months ended 31 December 2017 and the three months ended 31 March 2018 has been prepared with reference to FRS 104, ‘Interim financial reporting’, and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This condensed consolidated financial information has not been audited or reviewed.

The results of the Group have been consolidated into the results of the ultimate parent, McLaren Group Limited. Consolidated audited financial statements are available separately for McLaren Group Limited.

On 20 July 2017, the shareholders of both McLaren Technology Group and McLaren Automotive Limited combined both groups under a newly formed company, McLaren Holdings Limited, which is owned 100% by the newly formed ultimate parent company McLaren Group Limited. A new financing arrangement was put in place at a holding company level through issuance of a 5 year high yield bond worth circa £560m, with the funds used to buy out one of the shareholders, pay down existing bank loan facilities and leave a cash surplus of circa £93m. A new revolving credit facility for £90m was also put in place.

The introduction of a new holding company constitutes a Group reconstruction and has been accounted for using merger accounting principles. Therefore, although the Group reconstruction did not become effective until 20 July 2017, the consolidated financial statements of McLaren Holdings Limited for the year ended 31 December 2017 are presented as if McLaren Technology Group and McLaren Automotive Limited had always been part of the same Group. As such, the results and cash flows of the combining entities have been brought into these consolidated financial statements from the beginning of the financial period. In addition, the comparative information includes the results for both the combining entities for the previous reporting period and their balance sheet for the previous reporting date as if the entities had been combined throughout the prior period.

3. Accounting policies

The accounting policies applied are consistent with those of the annual financial statements of McLaren Group Limited for the year ended 31 December 2017.

Notes to the financial statements (continued)

4. Turnover by class of business

	Year ended 31 December		3 months ended 31 March	
	2017 £000	2016 £000	2018 £000	2017 £000
Turnover				
Automotive	604,701	649,787	199,128	68,906
Racing	209,129	191,090	27,711	44,386
Applied Technologies	58,573	48,382	15,557	16,852
Other	-	12,953	-	-
	872,403	902,212	242,396	130,144
Less: Inter-segmental turnover	(1,133)	(3,831)	(1,219)	(26)
	871,270	898,381	241,177	130,118

5. Tax on (loss)/profit

	Year ended 31 December		3 months ended 31 March	
	2017 £000	2016 £000	2018 £000	2017 £000
Tax (expense)/income included in profit or loss				
Current tax	(8,803)	(3,513)	(1,432)	(706)
Deferred tax	3,399	2,266	4,938	7,454
Total tax	(5,404)	(1,247)	3,506	6,748

Notes to the financial statements (continued)

6. Intangible assets

At 31 December 2017

	New production development costs £000	IT systems development costs £000	Internally developed software £000	Other development costs £000	Total £000
Cost:					
At 1 January 2017	676,310	54,522	6,504	2,162	739,498
Additions	168,249	5,303	2,141	3,592	179,285
Reclassification	2,592	150	-	-	2,742
At 31 December 2017	847,151	59,975	8,645	5,754	921,525
Accumulated amortisation:					
At 1 January 2017	267,278	3,731	-	1,177	272,186
Charge for the year	68,410	6,811	-	242	75,463
Reclassification	(679)	-	-	-	(679)
At 31 December 2017	335,009	10,542	-	1,419	346,970
Net book value:					
At 31 December 2017	512,142	49,433	8,645	4,335	574,555
At 31 December 2016	409,032	50,791	6,504	985	467,312

At 31 March 2018

	New production development costs £000	IT systems development costs £000	Internally developed software £000	Other development costs £000	Total £000
Cost:					
At 1 January 2018	847,151	59,975	8,645	5,754	921,525
Additions	47,202	-	346	846	48,394
At 31 March 2018	894,353	59,975	8,991	6,600	969,919
Accumulated amortisation:					
At 1 January 2018	335,009	10,542	-	1,419	346,970
Charge for the period	25,162	1,721	-	90	26,973
At 31 March 2018	360,171	12,263	-	1,509	373,943
Net book value:					
At 31 March 2018	534,182	47,712	8,991	5,091	595,976

Notes to the financial statements (continued)

7. Tangible assets

At 31 December 2017

	Freehold land and buildings	Leasehold Premises and Improve- ments	Plant, machinery, tools and equipment	Motor vehicles	Fixtures, Fittings and office equipment	Assets in the course of construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost:							
At 1 January 2017	279,135	8,775	86,571	8,638	72,874	3,384	459,377
Additions	-	1,287	10,095	32	5,603	4,791	21,808
Disposals	-	-	(579)	(88)	(319)	(28)	(1,014)
Transfers	(15)	196	(3,582)	10	775	(787)	(3,403)
Exchange adjustment	(1)	(2)	-	-	(19)	1	(21)
At 31 December 2017	279,119	10,256	92,505	8,592	78,914	7,361	476,747
Accumulated depreciation:							
At 1 January 2017	59,343	4,241	61,680	7,950	54,178	-	187,392
Charge for the year	5,990	440	5,020	181	4,954	-	16,585
Disposals	-	-	(422)	(52)	(139)	-	(613)
Reclassifications	(22)	57	(312)	3	292	-	18
Exchange adjustment	-	(2)	-	-	(14)	-	(16)
At 31 December 2017	65,311	4,736	65,966	8,082	59,271	-	203,366
Net book value:							
At 31 December 2017	213,808	5,520	26,539	510	19,643	7,361	273,381
At 31 December 2016	219,792	4,534	24,891	688	18,696	3,384	271,985

Notes to the financial statements *(continued)*

7. Tangible assets *(continued)*

At 31 March 2018

	Freehold land and buildings	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	£000
Cost:							
At 1 January 2018	279,119	10,256	92,505	8,592	78,914	7,361	476,747
Additions	-	38	1,883	-	821	859	3,601
Disposals	-	-	(307)	(12)	-	-	(319)
Transfers	-	2	1,107	-	234	(1,343)	-
Exchange adjustment	(1)	(1)	-	-	(11)	-	(13)
At 31 March 2018	279,118	10,295	95,188	8,580	79,958	6,877	480,016
Accumulated depreciation:							
At 1 January 2018	65,311	4,736	65,966	8,082	59,271	-	203,366
Charge for the period	1,496	134	1,725	38	1,351	-	4,744
Disposals	-	-	(258)	(12)	-	-	(270)
Exchange adjustment	(1)	(1)	1	(1)	(4)	-	(6)
At 31 March 2018	66,806	4,869	67,434	8,107	60,618	-	207,834
Net book value:							
At 31 March 2018	212,312	5,426	27,754	473	19,340	6,877	272,182

8. Heritage assets

	Historic Cars £000
Cost and Net book value:	
At 1 January 2017	76,925
Additions	1,649
Transfer to inventory	(22,023)
At 31 December 2017	56,551
At 31 March 2018	56,551

Notes to the financial statements (continued)

9. Inventories

	As at 31 December		As at 31 March
	2017 £000	2016 £000	2018 £000
Raw materials and consumables	42,974	21,844	40,723
Work in progress	44,793	31,305	67,587
Finished goods and goods for resale	36,236	14,932	45,545
	124,003	68,081	153,855

10. Debtors

	As at 31 December		As at 31 March
	2017 £000	2016 £000	2018 £000
Trade debtors	80,766	69,684	54,300
Amounts owed by related parties	174	1,382	79
Taxation	15,707	26,245	21,957
Other debtors	17,220	10,408	23,942
Deferred tax asset	57,592	52,404	63,087
Derivative financial assets	12,294	8,155	14,980
Prepayments and accrued income	28,630	13,787	33,901
	212,383	182,065	212,246

11. Creditors – amounts falling due within one year

	As at 31 December		As at 31 March
	2017 £000	2016 £000	2018 £000
Bank loans and overdrafts	10,019	64,750	20,000
Obligations under finance leases	576	401	581
Trade creditors	76,639	58,211	77,116
Amounts owed to related parties	18,557	-	16,672
Taxation and social security	10,741	6,680	10,924
Other creditors	20,581	30,422	22,863
Derivative financial liabilities	5,009	42,700	5,443
Accruals and deferred income	332,290	159,909	346,571
	474,412	363,073	500,170

Notes to the financial statements (continued)

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

	As at 31 December		As at 31 March
	2017 £000	2016 £000	2018 £000
Bank loans	-	110,500	-
Senior secured notes	548,144	-	534,060
Obligations under finance leases	1,028	369	873
Amounts owed to related parties	-	41,713	-
Other creditors	36,267	-	35,998
Derivative financial liabilities	1,851	896	4
	587,290	153,478	570,935

13. Deferred capital funding

	£000
Cost:	
At 1 January 2017	107,464
Amortisation credit for the period	(3,657)
At 31 December 2017	103,807
Amortisation credit for the period	(915)
At 31 March 2018	102,892

Funding received to build the McLaren Technology Centre is treated as deferred income and is credited to the profit and loss account in annual instalments over the estimated useful lives of the fixed assets concerned.

Notes to the financial statements (continued)

14. Statement of cash flows

Reconciliation of profit to net cash flow from operating activities

	Year ended 31 December		3 months ended 31 March	
	2017 £000	2016 £000	2018 £000	2017 £000
Loss for the financial period	(49,627)	1,340	(21,275)	(35,419)
Adjustments for:				
Tax on loss	5,404	1,247	(3,506)	(6,748)
Net interest expense	17,047	63,308	(1,884)	(999)
Operating (loss)/profit	(27,176)	65,895	(26,665)	(43,166)
Depreciation and amortisation charges	88,391	85,641	30,803	13,428
R&D expenditure credits	(8,842)	(9,876)	(2,118)	(2,134)
Foreign exchange (loss)/gain	(19,028)	(34,826)	(3,991)	5,807
Increase in stocks and work in progress	(33,899)	(4,186)	(29,852)	(21,693)
(Increase)/decrease in debtors	(27,775)	(1,428)	16,941	(5,897)
Increase in creditors	187,250	10,631	12,406	34,836
Increase/(decrease) in amounts due to related parties	(13,255)	64	(2,019)	-
Increase/(decrease) in provisions	1,239	(6,145)	1,693	(1,739)
Impairment (reversal)/losses	(350)	23	-	-
Loss/(profit) on disposal of fixed assets	59	26	(5)	(95)
Profit on disposal of subsidiary	-	(2,177)	-	-
Cash generated by operations	146,614	103,642	(2,807)	(20,653)