

McLaren Racing Limited

Annual report and financial statements

Registered number 01517478

31 December 2015

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Strategic report

Principal activity

The Company's principal activity 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.

Business review

The directors consider race performance, turnover, cost base, profit and cash flow to be the principal key performance indicators to assess progress towards their strategic goals.

In 2015 we transitioned from a 'customer' contract with Mercedes-Benz, effectively purchasing powertrain technology from a direct competitor on-track, to a fully integrated partnership with Honda. Our strong conviction remains that only through such an integrated partnership can a non-OEM team successfully compete and win a FIA World Championship. The 2015 season was far more challenging than we anticipated and ultimately the team did not achieve a level of performance consistent with its mission. However, we are greatly encouraged by the significant investment by Honda in world class facilities in Sakura, Japan, and the intensive efforts being made by their technical team.

We are delighted to have resigned Jenson Button for the 2016 season and he will continue to partner Fernando Alonso. Stoffel Vandoorne maintained his impressive performances in GP2 winning 7 races in the 2015 season and has subsequently been promoted to be the team's F1 test and reserve driver for 2016. As a result, McLaren's driver line-up is arguably the strongest on the grid.

Financially the team showed a significant improvement on 2014. Assisted by the first full year of our partnership with Honda, turnover rose to £188m (2014 - £174m). This, coupled with no recurrence of the 2014 one-offs (Daimler supply and termination costs, and restructuring costs, totalling £35m) resulted in a pre-tax profit of £5.2m (2014: pre-tax loss of £31m).

Future developments

The Company's objective is to build and strengthen our relationship with Honda and win races in the near future. In order to achieve these aims our focus is to ensure we continue to attract and retain the best drivers, engineers and support staff and provide sufficient funding to the racing programme to build a car that can challenge at the top of the sport.

Risks and uncertainties

The key 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.

Although the Company drives itself to achieve efficiencies in developing and manufacturing cars and components, costs remain a key challenge in today's tough economic conditions.

The start of the 2016 season has been significantly better than 2015 with improvements in both performance and reliability of the powertrain and we remain convinced that our only way to achieve World Championship success is with a 'works team' relationship with a Power Unit manufacturer. McLaren and Honda have worked together sharing the ethics of hard work and commitment to the task with the aim of returning to winning ways.

Looking further ahead the 2017 season will bring substantial changes to the aerodynamic regulations along with a loosening of restrictions on powertrain development. The impact of these changes combined with the fiercely competitive nature of the sport mean that although they inject an element of risk, combined with the strength and depth of our partnership and team they also represent significant opportunity.

Strategic report (continued)

Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements prepared under the previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. The changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102 is detailed in note 24.

On behalf of the Board



J Neale

Director, McLaren Racing Limited

19 October 2016

Registered Office:

McLaren Technology Centre
Chertsey Road
Woking
Surrey
GU21 4YH

Directors' report

The directors present their annual report and the audited financial statements and auditor's report, for the year ended 31 December 2015.

Results

The profit on ordinary activities for the year after taxation amounted to £3,423,701 (2014: loss of £24,690,708).

Future developments and events after the balance sheet date

The future developments of the Company are explained in the Strategic report on pages 3 to 4.

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 13.

Financial risk management objectives and policies

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

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

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

Dividends

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

Directors

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

J Cooper
R Dennis
T Murnane
J Neale
M A Ojeh
D Vitoux – appointed 28/07/15 and resigned 21/08/15

Directors' report (continued)

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

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.

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.

Disclosure of information to auditors

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

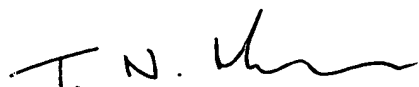
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's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

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

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 financial statements on pages 10 to 34 were approved by the Board of Directors on 19 October and signed on its behalf by: 2016



T Murnane
Secretary, McLaren Racing Limited

19 October 2016

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

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102), 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of McLaren Racing Limited

Report on the financial statements

Our opinion

In our opinion, McLaren Racing Limited's financial statements (the "financial statements"):

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

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2015;
- the profit and loss account and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

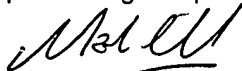
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



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

19 October 2016

Profit and loss account

for the year ended 31 December 2015

	Note	2015 £000	2014 £000
Turnover		188,197	173,891
Cost of Sales		<u>(138,116)</u>	<u>(143,711)</u>
Gross profit		50,081	30,180
Administrative expenses		(51,461)	(66,210)
Other operating income		<u>6,292</u>	<u>5,268</u>
Operating profit/(loss)	5	4,912	(30,762)
Interest receivable and similar income	7	301	182
Interest payable and similar charges	7	<u>-</u>	<u>(442)</u>
Profit/(loss) on ordinary activities before taxation		5,213	(31,022)
Tax on profit/(loss) on ordinary activities	8	<u>(1,789)</u>	<u>6,331</u>
Profit/(loss) for the financial year		<u>3,424</u>	<u>(24,691)</u>

Statement of comprehensive income

for the year ended 31 December 2015

	2015 £000	2014 £000
Profit/(loss) for the financial year	3,424	(24,691)
Other comprehensive income:		
Deferred tax movement on revaluation reserve	<u>1,426</u>	<u>-</u>
Total comprehensive income/(expense) for the year	<u>4,850</u>	<u>(24,691)</u>

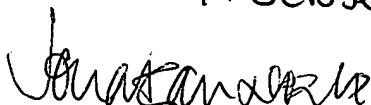
Balance sheet

as at 31 December 2015

	Note	2015 £000	2014 £000 Restated*
Fixed assets			
Tangible assets	9	15,290	15,364
Heritage assets	10	76,700	76,600
Investments	11	1	1
		<u>91,991</u>	<u>91,965</u>
Current assets			
Inventories	12	20,887	28,480
Debtors	13	31,350	45,611
Cash at bank and in hand		68	459
		<u>52,305</u>	<u>74,550</u>
Creditors: Amounts falling due within one year	14	<u>(50,450)</u>	<u>(77,504)</u>
Net current assets/(liabilities)		<u>1,855</u>	<u>(2,954)</u>
Total assets less current liabilities		<u>93,846</u>	<u>89,011</u>
Creditors: Amounts falling due after more than one year	15	<u>(520)</u>	<u>-</u>
Provisions for liabilities	17	<u>(3,896)</u>	<u>(4,431)</u>
Net assets		<u>89,430</u>	<u>84,580</u>
Capital and reserves			
Called-up share capital	19	50	50
Revaluation reserve	19	57,427	56,126
Retained earnings	19	31,953	28,404
Total Equity		<u>89,430</u>	<u>84,580</u>

*Certain amounts shown here do not correspond to the 2014 financial statements, prior to FRS 102 transition, and reflect restatements made, refer to Note 24 and 25.

The financial statements of McLaren Racing Limited were authorised for issue by the board of directors on 19 October 2016 and signed on its behalf by:



J Neale
Director

Statement of changes in equity
for the year ended 31 December 2015

	Called-up Share Capital	Revaluation reserve	Retained earnings	Total equity
	£000	£000	£000	£000
Balance at 31 December 2013	50	70,158	53,239	123,447
Changes on transition to FRS 102 (see note 24)	-	(14,032)	(144)	(14,176)
Balance at 1 January 2014	50	56,126	53,095	109,271
Loss for the financial year	-	-	(24,691)	(24,691)
Balance at 31 December 2014	50	56,126	28,404	84,580
Profit for the financial year	-	-	3,424	3,424
Other comprehensive income	-	1,426	-	1,426
Total comprehensive income	-	1,426	3,424	4,850
Transfer	-	(125)	125	-
At 31 December 2015	50	57,427	31,953	89,430

Notes to the financial statements

1. General Information

McLaren Racing Limited is a private limited company incorporated in the United Kingdom. The address of the registered office is given on page 6. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 3 to 4.

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. Details of transition to FRS 102 are disclosed in note 24.

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 4.

McLaren Racing Limited is expected to continue to generate positive cash flows on its own account for the foreseeable future. The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The directors have made enquiries of the directors of the Company's parent and following these enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of McLaren Technology Group Limited to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position of the enquiries made of the directors of McLaren Technology Group Limited, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

c. Exemptions for qualifying entities under FRS 102

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

The Company has taken advantage of the following exemptions:

- (i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, McLaren Technology Group Limited, includes the Company's cash flows in its own consolidated financial statements;
- (ii) from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.36 to 12.29, as the information is provided in the consolidated financial statements disclosure.
- (iii) from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7

d. Consolidated financial statements

The Company is a wholly owned subsidiary of McLaren Technology Group Limited. It is included in the consolidated financial statements of McLaren Technology Group Limited which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

e. Foreign currency

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

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

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

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

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

Notes to the financial statements *(continued)*

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

f. Revenue recognition

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

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

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

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

Interest income is recognised using the effective interest method.

g. Long-term contracts

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

h. Employee benefits

(i) Defined contribution pension plans

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

(ii) Short term benefits

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

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

h. Employee benefits (continued)

(iii) Annual bonus plan

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

i. Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax 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 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

j. 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 over the estimated useful lives of the assets at the following rates:

Leasehold premises and improvements	- written off over the life of the lease
Plant, machinery, tools and equipment	- 20% of reducing balance
Motor vehicles	- 25% of reducing balance
Fixtures, fittings and office equipment	- 20% of reducing balance

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.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

j. Tangible assets (continued)

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.

k. Heritage assets

McLaren Racing Limited has a collection of heritage vehicles, made up of 147 racing cars, 6 F1 road cars, 4 historic vehicles and 20 spare F1 racing car monocoques. These assets are held on the balance sheet at cost. Under previous UK GAAP the Company had a policy of revaluing Heritage assets every 5 years. On transition to FRS 102 the Company has elected to follow the cost model and to 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 cars are deemed to have indeterminate lives and the directors do not therefore consider it appropriate to charge depreciation.

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.

l. Leased assets

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

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

(i) Finance leased assets

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

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

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

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

l. Leased assets (continued)

(ii) Operating leased assets

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

m. 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 or loss.

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

n. Investments

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

o. 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.

p. Cash and cash equivalents

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

Bank overdrafts are shown within borrowing in current liabilities.

Notes to the financial statements *(continued)*

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

q. Provisions and contingencies

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

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

r. 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 or loss.

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

(ii) Financial liabilities

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

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

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.

Notes to the financial statements *(continued)*

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

r. Financial instruments (continued)

(ii) Financial liabilities (continued)

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

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

(iii) Offsetting

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

s. 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.

t. 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.

The directors have considered the areas of judgement and estimation and believe the only area of significance in preparing the Company's accounts is the valuation of Heritage assets, details of which can be found in note 3k.

Notes to the financial statements (continued)

5. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting)	2015 £000	2014 £000
Depreciation	3,307	3,186
Operating lease rentals	7,200	6,540
Auditor's remuneration – audit of these financial statements	25	25
(Profit)/Loss on disposal of fixed assets	(304)	(75)

6. Employees and directors

Employees

	2015 £000	2014 £000
Employee costs during the period:		
Wages and salaries	40,387	39,653
Social security costs	4,860	4,851
Other pension costs	1,533	1,498
	<u>46,780</u>	<u>46,002</u>

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

	2015 Number	2014 Number
Production	315	312
Design & Engineering	257	249
Administration	96	99
	<u>668</u>	<u>660</u>

Directors

The directors' emoluments were as follows:

	2015 £000	2014 £000
Aggregate emoluments	874	1,049
Pension contributions	82	60
	<u>956</u>	<u>1,109</u>

	2015 Number	2014 Number
Number of directors who are members of a defined contribution pension scheme	<u>2</u>	<u>2</u>

Notes to the financial statements (continued)

6. Employees and directors (continued)

	2015 £000	2014 £000
The amounts set out above include remuneration in respect of the highest paid director as follows:		
Emoluments	595	659
Pension	40	40
	<u>635</u>	<u>699</u>

R Dennis and T Murnane were also directors of other group companies and their remuneration for services to the group have been borne by the holding company. The share of the total emoluments of these directors allocated in respect of services to this company is £630,992 (2014: £1,851,704).

7. Net interest expense

	2015 £000	2014 £000
(a) Interest receivable and similar income		
On group loans	39	182
Net exchange gain	262	-
	<u>301</u>	<u>182</u>
	2015 £000	2014 £000
(b) Interest payable and similar charges		
Net exchange losses	-	442
	<u>-</u>	<u>442</u>

8. Income tax

	2015 £000	2014 £000
(a) Tax expense/(income) included in profit or loss		
Current tax:		
- UK corporation tax on profits for the year at 20.25% (2014: 21.5%)	55	(813)
- Foreign corporation tax on profits for the year	30	-
- Adjustment in respect of prior years	813	-
Total current tax	<u>898</u>	<u>(813)</u>
Deferred tax:		
- Origination and reversal of timing differences	1,122	(5,321)
- Adjustment in respect of prior years	(584)	(197)
- Impact of change in tax rate	353	-
Total deferred tax (see note 18)	<u>891</u>	<u>(5,518)</u>
Tax on profit/(loss) on ordinary activities	<u>1,789</u>	<u>(6,331)</u>

Notes to the financial statements *(continued)*

8. Income tax *(continued)*

(b) Tax income included in other comprehensive income	2015 £000	2014 £000
Deferred tax:		
- Origination and reversal of timing differences	(25)	-
- Impact of change in tax rate	(1,401)	-
Tax income included in other comprehensive income	(1,426)	-

(c) Reconciliation of tax charge:

The current tax charge for the year is higher (2014: credit was lower) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

	2015 £000	2014 £000
Profit/(loss) on ordinary activities before tax	<u>5,213</u>	<u>(31,022)</u>
Profit/(loss) multiplied by the standard rate of tax in the UK of 20.25% (2014: 21.5%)	1,055	(6,670)
Effects of:		
- Income not subject to tax	(12)	(75)
- Expenses not deductible for tax purposes	151	222
- Adjustments to tax charge in respect of prior years	228	(197)
- Re-measurement of deferred tax – change in UK tax rate	367	389
Tax charge/(credit) for year	<u>1,789</u>	<u>(6,331)</u>

(d) Tax rate changes

In March 2015, the UK corporation tax rate was reduced from 20% to 19%, effective for the three years from 1 April 2017 to 31 March 2020, and then to 18% from 1 April 2020 onwards. Deferred tax balances at 31 December 2014 are measured at 20%, and deferred tax balances at 31 December 2015 are measured at the rate at which they are expected to reverse.

Notes to the financial statements (continued)

9. Tangible assets

	Leasehold Premises and Improve- ments	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 2015	224	33,706	6,876	19,761	434	61,001
Additions	-	307	12	2,573	349	3,241
Transfers	-	34	-	400	(434)	-
Disposals	-	(26)	-	(2)	-	(28)
At 31 December 2015	<u>224</u>	<u>34,021</u>	<u>6,888</u>	<u>22,732</u>	<u>349</u>	<u>64,214</u>
Accumulated depreciation:						
At 1 January 2015	224	25,757	6,263	13,393	-	45,637
Charge for the year	-	1,612	154	1,541	-	3,307
Disposals	-	(18)	-	(2)	-	(20)
At 31 December 2015	<u>224</u>	<u>27,351</u>	<u>6,417</u>	<u>14,932</u>	<u>-</u>	<u>48,924</u>
Net book value:						
At 31 December 2015	<u>-</u>	<u>6,670</u>	<u>471</u>	<u>7,800</u>	<u>349</u>	<u>15,290</u>
At 31 December 2014	<u>-</u>	<u>7,949</u>	<u>613</u>	<u>6,368</u>	<u>434</u>	<u>15,364</u>

The net carrying amount of assets held under finance leases included in plant, machinery, tools and equipment is £610,000 (2014: £nil).

10. Heritage assets

	Historic Cars £000
Cost and Net book value:	
At 1 January 2015	76,600
Additions	225
Disposals	(125)
At 31 December 2015	<u>76,700</u>

Notes to the financial statements (continued)

10. Heritage Assets (continued)

Five year financial summary of heritage asset transactions:

	2015	2014	2013	2012	2011
	£000	£000	£000	£000	£000
Additions	225	300	300	300	300
Disposals:					
Carrying value	125	-	-	-	-
Sales proceeds	600	-	-	-	-

Additional refurbishment costs of £194,000 were incurred pre sale.

McLaren Racing Limited has a collection of heritage vehicles, made up of 147 racing cars, 6 F1 road cars, 4 historic vehicles and 20 spare F1 racing car monocoques. The collection is held in several locations; at the McLaren Technology Centre, most of which is on display to visitors and employees; on display at Donington Park Race Circuit; at McLaren Automotive Dealerships; and the remainder is held in secure storage. These assets are held on the balance sheet at cost.

Under previous UK GAAP the Company had a policy of revaluing Heritage assets every 5 years. On transition to FRS 102 the Company has elected to follow the cost model and to 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 cars are deemed to have indeterminate lives and the directors do not therefore consider it appropriate to charge depreciation.

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.

11. Investments

	Shares in group companies £000
Cost:	
At 1 January 2015	1
At 31 December 2015	1
Net book value:	
At 31 December 2015	1
At 31 December 2014	1

Notes to the financial statements *(continued)*

11. Investments *(continued)*

The subsidiaries are:

Name	Principal activity	% Holding Ordinary share capital	Nominal value
Absolute Taste Limited	Catering services	55%	£550
Absolute Taste SA	Catering services	55%	CHF 55,000
McLaren Electronic Systems Limited	Dormant	100%	£1
McLaren Grand Prix Limited	Dormant	100%	£1
McLaren GT Limited	Distributor of McLaren GT cars	100%	£1
McLaren International Limited	Dormant	100%	£1
Trysome Limited	Dormant	100%	£2

With the exception of Absolute Taste SA, all companies are incorporated in the United Kingdom and the registered office is: McLaren Technology Centre, Chertsey Road, Woking, Surrey, GU21 4YH.

Absolute Taste SA is incorporated in Switzerland and the registered office is: Rue de Veyrot 39, 1217 Meyrin, Geneva.

Shares in Group undertakings

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

Notes to the financial statements *(continued)*

12. Inventories

	2015 £000	2014 £000
Racing car development costs	19,117	25,679
Raw materials and consumables	1,716	1,424
Work in progress	54	929
Finished goods and goods for resale	-	448
	<u>20,887</u>	<u>28,480</u>

13. Debtors

	2015 £000	2014 £000
Trade debtors	870	1,722
Amounts owed by group undertakings	12,184	25,250
Amounts owed by related parties (note 22)	366	517
Other debtors	15,533	14,440
Prepayments and accrued income	2,397	3,682
	<u>31,350</u>	<u>45,611</u>

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

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

Notes to the financial statements (continued)

14. Creditors – amounts falling due within one year

	2015 £000	2014 £000
Obligations under finance leases (see note 16)	134	-
Trade creditors	4,744	11,182
Amounts owed to group undertakings (see note 16)	10,892	17,046
Amounts owed to related parties (see note 22)	14	281
Taxation and social security	1,452	2,145
Other creditors	65	121
Accruals and deferred income	33,149	46,729
	50,450	77,504

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

	2015 £000	2014 £000
Obligations under finance leases (see note 16)	520	-
	520	-

16. Loans and other borrowings

	2015 £000	2014 £000
Obligations under finance leases	654	-
Amounts owed to group undertakings	10,892	17,046
Amounts owed to related parties (see note 22)	14	281
	11,560	17,327

Finance leases

The future minimum finance lease payments are as follows:

	2015 £000	2014 £000
Not later than one year	164	-
Later than one year and not later than five years	533	-
Total gross payments	697	-
Less finance charges	(43)	-
Carrying amount of liability	654	-

Notes to the financial statements (continued)

16. Loans and other borrowings (continued)

Finance leases (continued)

The finance leases relate to high performance and precision cutting tools. When the cutting tools lease terminates in 2020 the title of goods will pass following final payment under the contract and settlement of a nominal option to purchase fee.

Amounts owed to group undertakings

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

Amounts owed to related parties

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

17. Provisions for other liabilities

	2015 £000	2014 £000
Deferred tax liability	3,896	4,431
At 1 January	4,431	9,949
Credited during the year	(535)	(5,518)
At 31 December	3,896	4,431

18. Deferred tax

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

	2015 £000	2014 £000
Depreciation in excess of capital allowances	1,125	1,262
Revaluation of tangible assets	12,606	14,032
Other timing differences	(203)	(243)
Trading losses carried forward	(9,632)	(10,620)
	3,896	4,431

The deferred tax liability expected to reverse in 2016 totals £290,000. This primarily relates to the revaluation of tangible assets.

Notes to the financial statements (continued)

19. Called up share capital and other reserves

	2015 £000	2014 £000
Authorised, called up and fully paid		
50,150 ordinary shares of £1 each	<u>50</u>	<u>50</u>

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

	Revaluation reserve £000	Profit and loss account £000
At 1 January 2015	56,126	28,404
Charged to profit and loss account	1,426	3,424
Reclass on disposal of heritage asset	<u>(125)</u>	<u>125</u>
At 31 December 2015	<u>57,427</u>	<u>31,953</u>

20. Financial commitments

At 31 December 2015, the Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2015 £000	2014 £000
Payments due:		
Not later than one year	6,435	6,460
Later than one year and not later than five years	-	-
Later than five years	-	-
	<u>6,435</u>	<u>6,460</u>

21. Contingent liability

McLaren Racing Limited is party to an unlimited cross company guarantee securing all monies due, or to become due, in respect of the overdraft and loan facility provided to McLaren Technology Group Limited by its bankers. As at 31 December 2015 the balances guaranteed were £86,000,000 (2014: £71,700,000).

McLaren Racing Limited has given guarantees in favour of third parties. As at 31 December 2014, the balances guaranteed were CHF 100,000 (2014: CHF 100,000) in favour of Tribunal De Premiere Instance; £110,000 (2014: £110,000) in favour of HM Revenue and Customs; and EUR 16,873 (2014: 16,873) in favour of Dresdner Bank AG.

Notes to the financial statements (continued)

22. Related party transactions

Transactions with related companies during the year were as follows:

	Year ended 31 December	Balance outstanding at 31 December	Year ended 31 December	Balance outstanding at 31 December
	2015 £000	2015 £000	2014 £000	2014 £000
Sales to related parties				
Absolute Taste Limited	44	324	28	455
Logically Applied Solutions Limited	-	5	9,000	-
McLaren Automotive Limited	56	23	157	62
M Ojeh	-	14	-	-
Amounts owed by related parties at 31 December		366		517

	Year ended 31 December	Balance outstanding at 31 December	Year ended 31 December	Balance outstanding at 31 December
	2015 £000	2015 £000	2014 £000	2014 £000
Purchases from related parties				
Absolute Taste Limited	2,188	14	2,036	234
McLaren Automotive Limited	-	-	1,607	47
Amounts owed to related parties at 31 December		14		281

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.

23. Ultimate parent company

In the opinion of the directors, the Company's controlling entity is McLaren Technology Group Limited, a company registered in England and Wales. This is also the parent undertaking of the largest and only group which includes the Company and for which group financial statements are prepared.

Copies of the group financial statements of McLaren Technology Group Limited are available from Companies House, Crown Way, Cardiff CF14 3UZ.

Ownership of McLaren Technology Group Limited at 31 December 2015 was as follows: 50% Bahrain Mumtalakat Holding Company (incorporated in Bahrain), 25% Mr R Dennis and 25% TAG Group Limited (incorporated in Jersey).

Notes to the financial statements (continued)

24. Explanation of transition to FRS 102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

	2014 £000
Loss for the financial year under previous UK GAAP	(24,193)
- Holiday pay accrual	27
- Foreign exchange	(520)
Total adjustment to profit before tax for the financial year	(493)
Deferred tax impact of adjustments	
- Holiday pay accrual	(5)
Total adjustment to profit for the financial year	(498)
Loss for the financial year under FRS 102	(24,691)

	At 1 January 2014 £000	At 31 December 2014 £000
Equity reported under previous UK GAAP	123,447	99,254
Adjustments to equity on transition to FRS 102		
- Holiday pay accrual	(179)	(152)
- Foreign exchange	-	(520)
Deferred tax impact of adjustments		
- Holiday pay accrual	35	30
- Revaluation of tangible assets	(14,032)	(14,032)
Equity reported under FRS 102	109,271	84,580

Notes to the financial statements (continued)

24. Explanation of transition to FRS 102 (continued)

Holiday pay accrual

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. Previously holiday pay accruals were not recognised and were charged to the profit and loss account as they were paid.

This has resulted in the Company recognising a liability for holiday pay of £179,000 on transition to FRS 102. In the year to 31 December 2014 a credit of £27,000 was recognised in the profit and loss account and the liability at 31 December 2014 was £152,000.

Foreign exchange

Under previous UK GAAP, contracted rates may be used to translate currency balances where a monetary item is to be settled at that rate. This is not allowed under FRS 102 and therefore foreign currency transactions have been translated using the monthly average rate and monetary balances have been translated using the monthly closing rate.

Heritage assets

Under previous UK GAAP the Company had a policy of revaluing Heritage assets under Director's assessment every five years. On transition to FRS 102 the Company has elected to use the previous revaluation at 31 December 2013 as the deemed cost for the assets. There is no effect on the balance sheet on transition.

Deferred Taxation

The Company has accounted for deferred taxation on transition as follows:

Holiday pay accrual – Deferred tax of £35,000 has been recognised at 20% on the liability recognised on transition at 1 January 2014. In the year ended 31 December 2014 the Company has recognised a charge of £5,000 in the profit and loss account in respect of the decrease in the holiday pay accrual.

Heritage asset revaluation reserve – Under previous UK GAAP the Company was not required to provide taxation on revaluations, unless the Company had entered into a binding sale agreement and recognised the gain or loss expected to arise. Under FRS 102 deferred taxation is provided on the temporary difference arising from revaluation. A deferred tax charge of £14,032,000 arose on transition to FRS 102. There was no movement in the charge in the year ending 31 December 2014.

25. Restatement

In previous years the Company recognised deferred income liabilities at the point of invoice with a corresponding increase in trade debtors. The Company has decided that it is more appropriate to recognise deferred income on receipt of cash and as a consequence, trade debtors and deferred income have been restated as at 31 December 2014. In addition, in previous years the Company recognised prepayments at the point of invoice with a corresponding increase in trade creditors. The Company has decided it is more appropriate to recognise prepayments on payment of cash and as a consequence, prepayments and trade creditors have been restated as at 31 December 2014.

The corresponding financial statement line items for prior periods have been restated as follows:

Notes to the financial statements (continued)

25. Restatement (continued)

Impact on equity – increase/(decrease)

	£000
Trade debtors	(27,544)
Prepayments and accrued income	1,339
Trade creditors	573
Accruals and deferred income	25,632
Net impact on equity	-