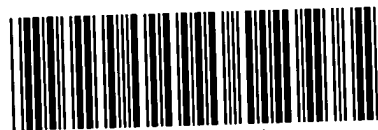


ALD AUTOMOTIVE LIMITED

Registered Number: 987418

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018**

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COMPANIES HOUSE

ALD AUTOMOTIVE LIMITED

DIRECTORS

M W Dawson
T Laver (resigned September 2018)
D A Yates
M Masterson (resigned September 2018)

SECRETARY

A Woodward

AUDITORS

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

BANKERS

Société Générale
41 Tower Hill
London
EC3N 4SG

SOLICITORS

Addleshaw Goddard LLP
Milton Gate
60 Chiswell Street
London
EC1Y 4AG

REGISTERED OFFICE

Oakwood Drive
Emersons Green
Bristol
BS16 7LB

ALD AUTOMOTIVE LIMITED

Directors' Report

The directors present the audited financial statements of ALD Automotive Limited ("the Company") for the year ended 31 December 2018. The Company is a limited liability company domiciled and incorporated in the United Kingdom.

Business review and principal activities

Our principal activity during the year continued to be the arrangement of vehicle financing and provision of fleet management services to external customers, including the sale of used motor vehicles.

In 2018, our fleet increased to 142,737 (2017: 137,983). As at 31 December 2018 the order bank was 6,916 (2017: 3,906).

In December 2018, we completed an asset backed commercial paper securitisation transaction which generated £414m of external funding. This funding replaces the £300m securitisation arrangement in place at the end of 2017, which was terminated in March 2018.

The overall profit for the year after taxation amounted to £46,698k (2017: £40,853k). At the balance sheet date total assets were £1,861,528k (2017: £1,683,751k), net assets being £125,280k (2017: £122,984k).

During the year a dividend of £40,853k (£416,867 per share) was paid (2017: £38,475k in total and £392,602 per share). No dividend has been proposed subsequent to the balance sheet date in relation to the year ended 31 December 2018.

Business environment

The vehicle asset finance market in the UK is mature and, as such, is highly developed, extremely competitive and has experienced much consolidation in recent years.

Within this competitive environment a pre-requisite for profitable growth is a need to differentiate and this is being achieved through:

1. The evolution of innovative e-business solutions and continuing product development to meet increasing customer needs;
2. The delivery of the highest levels of customer care throughout the entire fleet management life-cycle and;
3. The continued development of a multi-channel sales strategy using intermediaries to expand our routes to market.

We anticipate that Brexit may impact trading conditions, however at this stage there is significant uncertainty over the form of Brexit and therefore how the wider economy is likely to be affected.

Going concern

Our principal business activity, together with the factors likely to affect our future development and position, are set out above.

We expect to continue to generate positive cash flows on our own account for the foreseeable future. In addition we benefit from access to funding via the ultimate parent undertaking Société Générale.

ALD AUTOMOTIVE LIMITED

Directors' Report

The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current funding arrangements provided by the ultimate parent undertaking.

Key Performance Indicators

	2018	2017	Definition and analysis
Gross margin (%)	14.8	14.4	Gross margin is the ratio of gross profit to revenue expressed as a percentage.
Return on shareholders' funds (%)	37.3	33.2	Return on shareholders' funds is the ratio of retained profit for the year to total shareholders' funds at the balance sheet date expressed as a percentage.
Fleet size (units)	142,737	137,983	Total fleet size is the total number of vehicles managed and/or funded. Fleet size continued to grow, recording an increase of 3.4% during the year.
Productivity	272.8	282.6	Productivity is the average fleet size divided by the average number of full time equivalent staff employed during the period. The decline is attributable to significant growth in headcount within IT development, which would be expected to improve productivity only in the longer term.
Stock turnover (days)	9.8	11.0	Stock turnover is the annualised ratio of stock to cost of sales expressed as a number of days.

Employees

It is our policy that there should be no unfair discrimination in considering applications for employment including those from disabled persons. Should any employee become disabled, every practical effort is made to provide continued employment.

An Employee Consultation Group provides a forum for employees to express their views to the directors.

Regular meetings are hosted by the Managing Director to update employees on the latest financial results and wider business developments. Financial results are published periodically on the internal intranet which also contains the latest news from Société Générale, ALD Group and the industry.

Policy and practice on payments of creditors

Our policy and practice is to agree terms of payment with suppliers. It is our policy to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract. Trade creditor days for the year ended 31 December 2018 was 7.6 days (2017: 7.9 days), based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing

ALD AUTOMOTIVE LIMITED

Directors' Report

its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors

The directors of the Company in office during the year and to date of approval of these financial statements are as listed on page 1.

Particulars of the directors' emoluments are set out in note 20.

All directors have the benefit of a contract of indemnity. This was in force during the whole of the year.

Auditors

A resolution to reappoint Ernst & Young LLP will be proposed.

On behalf of the Board



M W Dawson
Director

27 June 2019

ALD AUTOMOTIVE LIMITED

Strategic Report

ALD Automotive Limited is a subsidiary of the ALD Automotive Group (headed by ALD S.A.), which is majority owned by Société Générale ("SG"). SG is one of the largest financial services groups in Europe and is the second largest French bank by market value. SG is publicly quoted and shares are traded on the Paris Euronext exchange.

ALD S.A. has been listed on the Paris Euronext exchange since June 2017, when the sole shareholder SG sold 20% of its shares. SG remains the majority shareholder.

We operate within SG's International Banking and Financial Services division (one of the bank's three core divisions), as one of 43 entities within the ALD Automotive Group. The ALD Automotive Group is one of the largest providers in Europe, funding and managing over 1.6 million cars and light commercial vehicles worldwide.

In the UK, we manage a fleet of over 140,000 vehicles. We are the 6th largest vehicle leasing provider in the market, offering a portfolio of vehicle leasing and fleet management services to large corporates, public bodies, SMEs, small and large partnerships, sole traders and private individuals.

We have operated for many years within the consumer credit marketplace. The supervision of consumer credit moved to the Financial Conduct Authority ("FCA") on 1 April 2014. We became formally authorised by the FCA for the purposes of Consumer Credit and Hire business in January 2016.

Accreditations

We have been certified to the Quality Management System standard ISO 9001 since 1993. We are currently certified to the ISO 9001:2015 standard. We have also been certified to the Environmental Management standard ISO 14001 since 2007.

Trade memberships

We are focused on delivering the highest standard of service delivery. We play an active role within and embrace the guidelines and codes of practice adopted by many trade bodies and associations in the sector including the BVRLA and the FLA.

Vision

Our vision is to be the benchmark for quality service delivery in the provision of vehicle leasing, fleet management and mobility solutions in the UK market.

Values

Our core values of commitment, responsibility, team spirit and innovation are central to our vision and are shared by the Société Générale Group. These are the values which employees and business partners embrace, to ensure customers are treated fairly and openly at all times.

Strategy

Our business strategy is based on:

- Sustainable organic growth through a defined multi-channel sales strategy.
- Development of new channels and the promotion of the ALD Automotive brand.
- Investment in IT and online systems to deliver service and efficiency improvements.
- Continuing innovation in product development.
- Ensuring customer service is at the heart of what we do.

Business model

Our business model is based on providing vehicle funding products and services through one of 6 distinct channels:

- Business Services - *large corporate and SME*
- White-label Manufacturing - *partnerships with vehicle manufacturers (SME & consumers)*
- White-label Banking - *partnerships with Lombard and RBS group (large corporate, SME & consumers)*
- Dealer Services - *indirect sales channel (SME & consumers)*
- Broker Division - *indirect sales channel (SME & consumers)*
- Digital - *direct and indirect sales channel including in partnership with NatWest (SME & consumers)*

Our principal funding products are contract hire, contract purchase, finance lease, personal contract hire, hire purchase and credit sale. Management services include general fleet management and outsourcing (purchasing, servicing and repairs, refurbishment, disposal, logistics, etc.) along with specialist services such as in-vehicle telematics, risk management, accident management, and daily and medium term rental.

Product development

Innovation has been a key factor in our growth over the last 10 years and is maintained through continuous product development to meet constantly changing legislative and market needs. Product innovation has focused on delivering cost control, risk management, carbon reduction and operational efficiencies.

In 2018 we continued to build on the digital platform framework (the basis of NatWest Flex Car Finance and the RBS Colleague Car Scheme both launched in 2017) to develop new products. An example is ALD Select, which is an online car finance scheme marketed to employees of certain large corporate customers.

We were presented with the 'Innovation in Contract Hire and Leasing' award at the Fleet World Honours 2018 for the ALD Mobility Experience, a dynamic and interactive tool designed to enable key decision makers at corporate customers to align their fleet decisions and mobility policy with essential business objectives.

ALD AUTOMOTIVE LIMITED

Strategic Report

IT solutions

Continuing investment in IT and online systems to deliver efficiency improvements and added value service is a cornerstone of our strategy. In 2018 the growing IT Development team was relocated to the new Innovation and Development Centre in Bristol.

Customer service

Embracing the key business principles of the Financial Conduct Authority, we are committed to treating customers fairly and openly at all times and, in line with our vision to be viewed as the benchmark for service delivery in each of our chosen markets, we launched a company-wide Customer Excellence programme in 2015, helping to further embed a customer service culture across the business. The Customer Excellence programme remains in place as a platform to ensure continuous improvement in service quality and achieve excellence for our customers.

Additionally, we have implemented a robust policy to ensure all staff who interact with customers are able to recognise vulnerability as described by the FCA, and have adequate training and support to ensure they are able to meet the needs of this population.

We are a corporate member of the Institute of Customer Service and a number of employees are working toward formal qualifications with this organisation.

Future outlook

With a proven and integrated IT infrastructure and a growing workforce of skilled people, we are extremely well positioned to grow market share through product innovation and high quality customer service.

The customer service teams, which were formerly split between Bristol and Northampton, have now been combined within a single, dedicated Customer Excellence Centre in Bristol. This follows a comprehensive review of how we can continue to deliver an exceptional level of service to all customers.

Over the next three years, we anticipate continued fleet growth in both non-regulated and regulated markets achieved through our white label manufacturing and banking divisions together with new direct and partnership channels provided digitally to consumers and SMEs.

To ensure that we continue to deliver high levels of customer service in a growing market, besides significant investment in IT and continuing product innovation, some further headcount growth is anticipated.

This continued growth, building on extensive additional recruitment throughout 2018, will be as a result of listening to, understanding and meeting the needs of our customers, our shareholders, our employees and our regulators.

Key performance indicators

The key performance indicators are disclosed and explained on page 3 in the Directors' Report.

ALD AUTOMOTIVE LIMITED

Strategic Report

Principal risks and uncertainties

The management of the business and the execution of our strategy are subject to a number of risks. Our financial risk management objectives and policies and the exposure to credit, residual value, liquidity (including interest rate) and operational risk are set out in note 22.

More generally we expect pressure on margins to remain significant with the delivery of efficiency gains from our IT strategy essential to maintain profitability.



M W Dawson
Director

27 June 2019

ALD AUTOMOTIVE LIMITED

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

ALD AUTOMOTIVE LIMITED

Independent Auditor's Report to the Members of ALD Automotive Ltd

Opinion

We have audited the financial statements of ALD Automotive Limited for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be

ALD AUTOMOTIVE LIMITED

Independent Auditor's Report to the Members of ALD Automotive Ltd

materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Directors' Report or the Strategic Report.

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

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

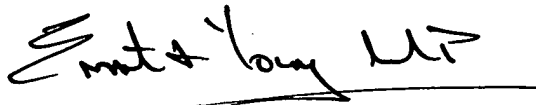
ALD AUTOMOTIVE LIMITED

Independent Auditor's Report to the Members of ALD Automotive Ltd

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive style and is underlined.

Richard Page (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Bristol
27 June 2019

ALD AUTOMOTIVE LIMITED

Statement of Comprehensive Income for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Continuing operations			
Interest revenue - effective interest method	2	78,843	60,976
Other revenue	2	735,724	706,746
Cost of sales		(692,260)	(655,332)
Net impairment losses on lease receivables		<u>(1,882)</u>	<u>(1,830)</u>
GROSS PROFIT		<u>120,425</u>	<u>110,560</u>
Administrative expenses		<u>(43,277)</u>	<u>(38,280)</u>
OPERATING PROFIT	3	77,148	72,280
Finance income	5(a)	3,885	15,727
Finance costs	5(b)	<u>(23,410)</u>	<u>(37,135)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		57,623	50,872
Taxation	6	<u>(10,925)</u>	<u>(10,019)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>46,698</u>	<u>40,853</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>46,698</u>	<u>40,853</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT		<u>46,698</u>	<u>40,853</u>

The notes on pages 17 to 46 are an integral part of these financial statements.

ALD AUTOMOTIVE LIMITED

Statement of Financial Position as at 31 December 2018

	Notes	2018 £'000	2017 £'000
NON-CURRENT ASSETS			
Intangible assets	7(a)	8,548	5,905
Property, plant and equipment	7(b)	1,406,604	1,302,684
Trade and other receivables	8	238,778	182,900
Deferred tax asset	6(c)	5,501	2,800
Derivative assets	13	383	145
		<u>1,659,814</u>	<u>1,494,434</u>
CURRENT ASSETS			
Inventory	9	18,716	19,875
Trade and other receivables	8	181,091	169,048
Cash and cash equivalents		1,907	394
		<u>201,714</u>	<u>189,317</u>
TOTAL ASSETS		<u>1,861,528</u>	<u>1,683,751</u>
NON-CURRENT LIABILITIES			
Long term borrowings	11	1,115,598	827,189
Long term provisions	12	2,912	2,507
Derivative liabilities	13	662	145
		<u>1,119,172</u>	<u>829,841</u>
CURRENT LIABILITIES			
Short term borrowings	10	478,124	605,969
Income tax liabilities	10	6,065	6,376
Trade and other payables	10	16,610	20,940
Short term provisions	12	422	665
Accruals and deferred income	10	115,855	96,976
		<u>617,076</u>	<u>730,926</u>
TOTAL LIABILITIES		<u>1,736,248</u>	<u>1,560,767</u>
CAPITAL AND RESERVES			
Called up share capital	15	-	-
Capital contribution reserve		2,254	2,254
Retained earnings		123,026	120,730
TOTAL EQUITY		<u>125,280</u>	<u>122,984</u>
TOTAL EQUITY AND LIABILITIES		<u>1,861,528</u>	<u>1,683,751</u>

Registered number 987418. The notes on pages 17 to 46 are an integral part of these financial statements.


M W Dawson
Director
27 June 2019

ALD AUTOMOTIVE LIMITED**Statement of Changes in Equity for the year ended 31 December 2018**

	Share Capital £'000	Retained Earnings £'000	Capital Contribution £'000	Total £'000
Balance as of 31 December 2016	-	118,352	-	118,352
Dividend paid	-	(38,475)	-	(38,475)
Capital contribution from parent	-	-	2,254	2,254
Profit for the year and total comprehensive income	-	40,853	-	40,853
Balance as of 31 December 2017	-	120,730	2,254	122,984
IFRS 9 initial application (see note 23)	-	(3,549)	-	(3,549)
Balance as of 1 January 2018	-	117,181	2,254	119,435
Dividend paid	-	(40,853)	-	(40,853)
Profit for the year and total comprehensive income	-	46,698	-	46,698
Balance as of 31 December 2018	-	123,026	2,254	125,280

ALD AUTOMOTIVE LIMITED

Statement of Cash Flows for the year ended 31 December 2018

	2018 £'000	2017 £'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	57,623	50,872
Adjustments for:		
- Depreciation	272,488	265,645
- Amortisation	2,182	240
- Finance costs	22,748	33,173
- Finance income	(2,724)	(14,166)
- Derivatives	279	2,402
- Gain on disposal of property, plant and equipment	(24,572)	(14,274)
- Movement in provisions	162	(1,213)
Changes in operating assets and liabilities:		
- Increase in receivables and prepayments	(71,930)	(46,372)
- Movement in inventory	(1,521)	4,660
- Increase in payables and accruals	16,120	14,160
Other	25	10
	<u>270,880</u>	<u>295,137</u>
Interest received	2,415	13,612
Income tax paid	(13,196)	(12,718)
NET CASH FROM OPERATING ACTIVITIES	<u>260,099</u>	<u>296,031</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	337,219	308,776
Purchase of property, plant and equipment	(686,375)	(668,716)
Purchase of intangible assets	(4,825)	(5,434)
NET CASH FROM INVESTING ACTIVITIES	<u>(353,981)</u>	<u>(365,374)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	2,119,318	568,939
Repayment of borrowings	(1,954,879)	(396,200)
Capital contribution	-	2,254
Interest paid	(24,317)	(33,303)
Dividend paid	(40,853)	(38,475)
NET CASH FROM FINANCING ACTIVITIES	<u>99,269</u>	<u>103,215</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,387	33,872
Cash and cash equivalents at the beginning of the year	(6,600)	(40,472)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>(1,213)</u>	<u>(6,600)</u>

Net cash and cash equivalents at the end of the year comprises cash and cash equivalents as per the statement of financial position offset by the closing overdraft balance as per note 10.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

1. ACCOUNTING POLICIES

Fundamental accounting concept

The financial statements have been prepared on the going concern basis because, whilst the Company has net current liabilities, group undertakings have agreed not to demand payment of intercompany balances should that result in the Company being unable to meet its liabilities to third parties as they fall due.

Presentation currency is sterling (GBP). Amounts disclosed are rounded to the nearest £1,000.

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Measurement bases applied are fair value for interest rate swaps and historical cost otherwise.

The Company is exempt by virtue of IAS 27 'Consolidated and Separate Financial Statements' from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and it can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Income earned from operating lease services rendered to customers is recognised in the statement of comprehensive income on a straight line basis over the lease term in accordance with IAS 17 'Leases'.

Sales proceeds from the disposal of formerly leased vehicles are recognised in the period in which the sale occurs, as this is when the legal ownership of the vehicle is transferred and the performance obligation is satisfied in accordance with IFRS 15 'Revenue from Contracts with Customers'. The book value of the vehicle is released from stock to cost of sales as per IAS 2 'Inventories'.

Interest receivable on credit sale agreements, finance lease agreements and contract purchase agreements is recognised in the statement of comprehensive income over the estimated life of each contract using the effective interest rate method.

In order to recognise revenue in line with the completion of performance obligations as required by IFRS 15, the Company recognises the income associated with the maintenance element of lease contracts so as to be consistent with the expected timing of maintenance expenditure.

Other income includes amounts arising at the end of vehicle contracts, such as appraisal or early termination charges. These are recognised on contract termination in line with IFRS 15, as this is when the Company will be exposed to the residual value losses that the end of contract charges are designed to offset.

Fair value gains and losses on assets and liabilities at fair value through profit or loss are calculated as the difference between the current valuation of the asset or liability at the reporting date and the original cost. Unrealised gains and losses are recognised in the statement of comprehensive income in the period in which they arise, within finance income or finance costs respectively.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets comprise software developed in-house which meets the capitalisation criteria set out in IAS 38 'Intangible Assets'. The cost of each product is based on the relevant time costs of IT developers, both employees of the Company and external contractors.

Software development costs are held on the balance sheet as work in progress (WIP) until commercial launch. Products are then amortised on a straight line basis over their estimated useful lives, none of which are in excess of 5 years, and assessed for any indication of impairment on an annual basis in accordance with IAS 36 'Impairment of Assets'.

Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation and/or accumulated impairment losses, if any. Items are depreciated on a straight line basis at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its estimated useful life, as follows:

Leasehold property	-	Over length of lease
Plant & equipment	-	Over 5 to 10 years
Computer equipment	-	Over 3 to 5 years
Computer software	-	Over 3 to 5 years
Motor vehicles	-	Over the life of the individual hire contract

Residual values of motor vehicles are reviewed and adjusted, if appropriate, bi-annually.

Accounting for leases

Where assets are provided by the Company under lease purchase or lease rental agreements that transfer substantially all the risks and rewards incidental to ownership, the assets are treated as if they had been sold outright and the corresponding asset to the Company is included as a lease debtor. Receipts from lease debtors are treated as consisting of capital and interest elements and the interest is credited to the profit and loss account using the implicit interest rate method. This is in accordance with the treatment for finance leases prescribed by IAS 17 'Leases'. All other assets provided by the Company under lease agreements are treated as operating leases ("contract hire").

Leasing and hire purchase commitments

Assets held under hire purchase contracts or finance leases are capitalised on the balance sheet. The capital elements of future obligations under the hire purchase contracts and finance leases are included as lease liabilities on the balance sheet.

The interest element of the rental obligation is calculated to represent a constant proportion of the balance of capital repayments outstanding and is charged to cost of sales in the profit and loss account for the period of the finance lease or hire purchase contract.

All other leases are accounted for as operating leases and costs are charged to the profit and loss account on a straight-line basis over the life of the lease.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

Securitisation

In December 2018, the Company completed an asset backed commercial paper securitisation transaction. The Company transferred a portfolio of lease receivables with a carrying amount of £600m to a bankruptcy remote special purpose vehicle, Red & Black Auto Lease UK 1 PLC ("the SPV"). Secured on this portfolio, the SPV issued £414m senior Class A Notes to an external investor and £186m junior Class B Notes to the Company. The SPV is responsible for making interest and principal payments to the Class A Noteholder.

There is a revolving period of 1 year during which terminated contracts in the portfolio will be replaced by additional contracts sold in. Following this period the Class A Notes will be redeemed in line with the amortisation profile of the underlying portfolio.

The Company continues to service the portfolio, including the collection management process. The Company will repurchase vehicles at a guaranteed price at contract end, so retains the residual value risk. In the event of realised credit losses on the portfolio resulting in incomplete redemption of the Notes, the Company as the Class B Noteholder would bear the shortfall.

It is therefore considered that ALD retains substantially all the risks and rewards of ownership of the portfolio, so the lease receivables do not qualify for de-recognition. The Company continues to recognise the transferred lease receivables in their entirety and recognises a financial liability for the consideration received, which is deemed to be the £414m external funding raised from the securitisation transaction.

The Class B Notes are not recognised on the Company balance sheet. This treatment is applied to avoid a duplication of assets on the balance sheet backed by the same cash flows, because the Class B Notes are funded by the lease receivables portfolio which is not de-recognised.

The following table shows the value of the assets transferred to support the Class A Notes, together with the associated liability:

	2018 £'000
Carrying amount of transferred assets	414,000
Carrying amount of associated liabilities	409,818
Net position	<u>4,182</u>

The associated liability represents the deemed intercompany payable in respect of the lease portfolio that does not qualify for de-recognition, net of a subordinated loan of £2,484k provided to the SPV and deferred transaction costs. The fair value of the above assets and liabilities is not considered to be materially different to the carrying amount at year end.

Inventory

Upon termination of a lease or rental agreement, the relevant assets are reclassified to inventory at their carrying amount. Inventory is stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents are net of outstanding bank overdrafts.

Financial assets and liabilities

Financial assets of the Company include cash, trade and other receivables, amounts receivable on finance lease agreements, deposits with related parties and derivative assets. Financial liabilities comprise borrowings, trade and other payables and derivative liabilities.

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all of the risks and rewards of ownership. Financial liabilities are de-recognised only when the obligation in the contract is discharged, cancelled or expires.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are held at amortised cost.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included.

Borrowings are recognised initially at fair value, being the issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income through finance costs over the loan term using the effective interest rate applicable to the instrument.

Derivative assets and liabilities comprise interest rate swaps related to the securitisation transaction. Hedge accounting is not applied in these financial statements so the interest rate swaps are held at fair value through profit or loss.

Note that the measurement categories of financial assets and liabilities have not changed on adoption of IFRS 9.

Derivative financial instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swaps at the statement of financial position date. The fair value is calculated by the bank counterparty for each swap on a monthly basis.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

Impairment

Financial assets

Impairment of financial assets is provided for in accordance with IFRS 9 'Financial Instruments' which was adopted as at 1 January 2018. The new requirements of IFRS 9 have not been adopted retrospectively and are therefore not reflected in the disclosures for the 2017 comparative period. The IAS 39 accounting policies for the comparative year are disclosed in the 2017 financial statements.

The Company has elected to take the IFRS 9 simplified approach to providing for lease receivables, and therefore measures the loss allowance at an amount equal to lifetime expected credit losses. This applies to both finance and operating lease receivables.

Lifetime expected credit losses are assessed on a contract level and are calculated as the product of the probability of default, exposure at default, and percentage loss given default for each contract. Default for retail customers is defined as three rental payments in arrears or the credit control team considering that a significant credit impairment has taken place based on available evidence such as credit score, payment behaviour or solvency information. Default for corporate customers is defined as the credit control team considering that a significant credit impairment has taken place. The 90-day rebuttable presumption is therefore used for retail customers but not corporate customers due to the complexity of the repayment behaviour of the latter.

The lease contract portfolio is segmented according to customer type, product type, remaining term and months in arrears, with probability of default (over an assumed 48 month lifetime) and exposure at default calculated separately for each identified segment. Loss given default is estimated based on historical performance at a less granular level of segmentation.

Management consider empiric data, including loss emergence curves and trends in default rates, along with awareness of emerging risks, to decide whether post model adjustment overlays should be applied on top of historical performance to determine the credit risk provision in accordance with forward-looking information.

Management have considered the interaction of various macroeconomic variables with the performance of the Company's receivables portfolio. The variables considered were inflation, unemployment, base rate and gross domestic product. As no clear causal relationships have been identified, no forward looking macroeconomic overlay has been applied to the provision for the year ended 31 December 2018. However it is management intention to perform more complex statistical analysis going forward to better understand these relationships.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, where applicable. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

Provisions for liabilities and charges

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 reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless the likelihood of possible obligations arising is remote.

Taxes

Tax on the profit or loss for the year is recognised in the statement of comprehensive income and comprises both current and deferred tax.

Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, together with adjustments to estimates made in prior years.

Deferred tax

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, a right to pay less or a right to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pensions

The Company operates a defined contribution pension scheme. Contributions are charged in the statement of comprehensive income as they become payable in accordance with the rules of the scheme.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Impairment of assets

Lease receivables

The expected credit loss provision is calculated in accordance with IFRS 9 'Financial Instruments' as outlined above.

Operating leases

The Company reviews its operating lease vehicle assets to assess for impairment on an annual basis. As part of the assessment as to whether there is any indication that assets may be impaired, an analysis is performed to assess whether the carrying value of the operating lease assets exceeds the recoverable amount, being the higher of the fair value less costs to sell and the value in use. The value in use is determined at the present value of the future cash flows expected to be derived from the asset.

Consumer Credit Act provision

The Consumer Credit Act provision is based on our current best estimate of the liability from calculated interest repayments together with related costs for the customers affected by breach of the relevant regulations. The provision is calculated using extracts from the Fleetware operating system.

Residual value

The residual value of a vehicle is its value at the end of the lease as estimated by the Company at the inception of the lease. This is used to set depreciation and net book value for the vehicle. The residual value may differ from the actual market value of the vehicle at the end of the contract.

Residual values are reviewed on a bi-annual basis through comparison to independent market value data and with reference to prevailing economic conditions. This review compares the original residual values to the revised residual values expected at contract termination. The results of this exercise will be used to assess the level of exposure and potential impairment of operating lease assets required. Adjustments are accounted for at portfolio level in order to match the expected market value at contract ending and mitigate any market risk.

In order to limit impairment based on residual values, a quarterly pricing review is performed to ensure that assumptions used in pricing for new contracts reflect expected future market conditions, thus ensuring residual values are predicted with a reasonable degree of accuracy and on a consistent basis going forward.

Segmental reporting

The directors of the Company consider that the entity has one geographical and one business segment and therefore is not required to produce additional segmental disclosure.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

2. REVENUE

Revenue, which is stated net of Value Added Tax, represents amounts invoiced to third parties. Revenue arises wholly in the United Kingdom, and is attributable to the Company's continuing principal activity of the provision of fleet management services, including the arrangement of vehicle financing, and the proceeds on the sale of used motor vehicles.

	2018 £'000	2017 £'000
Analysis of revenue:		
Vehicle management services		
Operating lease agreements' rentals	388,967	388,804
Operating lease agreements' disposal proceeds	337,219	308,536
Finance lease agreements' rentals	82,281	64,023
Other	6,100	6,359
	<u>814,567</u>	<u>767,722</u>

3. OPERATING PROFIT

This is stated after charging / (crediting):

	2018 £'000	2017 £'000
Depreciation of property, plant and equipment	272,488	265,645
Amortisation of intangible assets	2,182	240
Operating lease rentals – land and buildings	1,263	1,018
Profit on disposal of property, plant and equipment	(24,572)	(14,274)
Auditors' remuneration – audit services	270	228
	<u>270</u>	<u>228</u>

4. STAFF COSTS

	2018 £'000	2017 £'000
Wages and salaries	19,309	17,472
Social security costs	1,899	1,774
Pension costs	1,401	1,312
Other	752	1,121
	<u>23,361</u>	<u>21,679</u>

Social security and other pension costs include Class 1A NI and pension admin costs respectively.

The average monthly number of employees during the year was as follows:

	2018	2017
Operations	87	81
Sales and marketing	212	218
Finance, IT and administration	215	180
	<u>514</u>	<u>479</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

5 FINANCE INCOME AND COSTS

(a) Finance Income

	2018 £'000	2017 £'000
Interest receivable from ALD Funding Limited	1,731	10,754
Interest receivable from Red & Black Auto Lease 1 PLC	153	-
Interest receivable from group undertakings	831	3,412
Fair value gain on financial instruments at fair value through profit or loss	1,163	1,560
Other	7	1
	<u>3,885</u>	<u>15,727</u>

(b) Finance Costs

	2018 £'000	2017 £'000
Interest payable to ALD Funding Limited	2,615	14,473
Interest payable to Red & Black Auto Lease 1 PLC	394	-
Interest payable to group undertakings	17,724	15,230
Interest payable to external funders	1,998	3,459
Fair value loss on financial instruments at fair value through profit or loss	662	3,962
Other	17	11
	<u>23,410</u>	<u>37,135</u>

6 INCOME TAXES

(a) Analysis of the tax charge in the period

	2018 £'000	2017 £'000
UK corporation tax:		
Current tax	13,191	12,439
Adjustments in respect of prior periods	(306)	-
	<u>12,885</u>	<u>12,439</u>
Origination and reversal of temporary differences:		
Current year deferred tax movement at 19% (2017: 19.25%)	(2,319)	(2,629)
Adjustments in respect of prior periods	113	(85)
Effect of change in tax rate	246	294
Total deferred tax	<u>(1,960)</u>	<u>(2,420)</u>
Tax on profit on ordinary activities	<u>10,925</u>	<u>10,019</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

6 INCOME TAXES (continued)**(b) Factors affecting the tax charge for the period**

The tax assessed for the year differs to the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below.

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	<u>57,623</u>	<u>50,872</u>
Profit on ordinary activities multiplied by standard rate UK corporation tax of 19% (2017: 19.25%)	10,948	9,791
Expenses not deductible for tax purposes	79	45
Non-taxable credits	-	(25)
Transfer pricing	(1)	(1)
R&D expenditure credits	(162)	-
Effect of change in tax rate	246	294
Adjustments in respect of prior periods	(185)	(85)
Total tax	<u>10,925</u>	<u>10,019</u>

Legislation was introduced in the Finance Act 2016 to reduce the main rate of corporation tax to 17% from 1 April 2020. This tax rate reduction was taken into account in calculating the deferred tax asset disclosed in the accounts.

(c) Deferred taxation

The deferred tax asset can be analysed as follows:

	2018 £'000	2017 £'000
Balance brought forward	2,800	380
IFRS 9 initial application (see note 23)	741	-
Adjusted balance brought forward	<u>3,541</u>	<u>380</u>
Deferred tax credit to profit and loss account	1,960	2,420
Balance carried forward	<u>5,501</u>	<u>2,800</u>
Accelerated capital allowances	4,734	1,909
Temporary differences	1,445	891
Intangible assets	(678)	-
Deferred tax asset	<u>5,501</u>	<u>2,800</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

7 INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS**(a) INTANGIBLE ASSETS**

2018	Work in Progress £'000	Internally Developed Software £'000	Total £'000
Cost:			
At 1 January 2018	1,703	4,442	6,145
Additions	4,825	-	4,825
Project completion	(3,491)	3,491	-
At 31 December 2018	<u>3,037</u>	<u>7,933</u>	<u>10,970</u>
Amortisation:			
At 1 January 2018	-	240	240
Charge for the year	-	2,182	2,182
At 31 December 2018	<u>-</u>	<u>2,422</u>	<u>2,422</u>
Net book values:			
At 31 December 2018	<u>3,037</u>	<u>5,511</u>	<u>8,548</u>
2017	Work in Progress £'000	Internally Developed Software £'000	Total £'000
Cost:			
At 1 January 2017	711	-	711
Additions	5,434	-	5,434
Project completion	(4,442)	4,442	-
At 31 December 2017	<u>1,703</u>	<u>4,442</u>	<u>6,145</u>
Amortisation:			
At 1 January 2017	-	-	-
Charge for the year	-	240	240
At 31 December 2017	<u>-</u>	<u>240</u>	<u>240</u>
Net book values:			
At 31 December 2017	<u>1,703</u>	<u>4,202</u>	<u>5,905</u>

Note that work in progress is internally developed software not yet available for use.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

(b) PROPERTY, PLANT AND EQUIPMENT

2018	Freehold Property £'000	Short Leasehold Property £'000	Plant and computer equipment £'000	Motor Vehicles £'000	Total £'000
Cost:					
At 1 January 2018	-	2,834	4,608	1,745,894	1,753,336
Additions	-	2,365	1,050	682,960	686,375
Disposals	-	(168)	(624)	(548,152)	(548,944)
At 31 December 2018	<u>-</u>	<u>5,031</u>	<u>5,034</u>	<u>1,880,702</u>	<u>1,890,767</u>
Depreciation:					
At 1 January 2018	-	888	2,408	447,356	450,652
Charge for the year	-	350	806	271,332	272,488
Disposals	-	(168)	(624)	(238,185)	(238,977)
At 31 December 2018	<u>-</u>	<u>1,070</u>	<u>2,590</u>	<u>480,503</u>	<u>484,163</u>
Net book values:					
At 31 December 2018	<u>-</u>	<u>3,961</u>	<u>2,444</u>	<u>1,400,199</u>	<u>1,406,604</u>

2017	Freehold Property £'000	Short Leasehold Property £'000	Plant and computer equipment £'000	Motor Vehicles £'000	Total £'000
Cost:					
At 1 January 2017	546	1,857	3,838	1,626,665	1,632,906
Additions	-	977	770	666,971	668,718
Disposals	(546)	-	-	(547,742)	(548,288)
At 31 December 2017	<u>-</u>	<u>2,834</u>	<u>4,608</u>	<u>1,745,894</u>	<u>1,753,336</u>
Depreciation:					
At 1 January 2017	-	698	1,679	432,055	434,432
Charge for the year	-	190	729	264,726	265,645
Disposals	-	-	-	(249,425)	(249,425)
At 31 December 2017	<u>-</u>	<u>888</u>	<u>2,408</u>	<u>447,356</u>	<u>450,652</u>
Net book values:					
At 31 December 2017	<u>-</u>	<u>1,946</u>	<u>2,200</u>	<u>1,298,538</u>	<u>1,302,684</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

(b) PROPERTY, PLANT AND EQUIPMENT (continued)

Vehicles rented to customers with a net book value of £1,398,145k at 31 December 2018 are included in the above (2017: £1,296,230k). Included within the above net book value of motor vehicles is £1,203k of accelerated depreciation due to revised estimates of residual values (2017: £7,294k).

The disposals balance includes vehicles that have been returned from customers at the end of contracts and have been either transferred to stock or sold as a used vehicle.

An approximation of the future minimum lease payments receivable under non-cancellable operating leases in aggregate and for each of the following years can be summarised as follows:

	2018 £'000	2017 £'000
- not longer than 1 year	298,316	290,977
- longer than a year, less than 5 years	270,662	266,544
- longer than 5 years	-	-
	<u>568,978</u>	<u>557,521</u>

8. RECEIVABLES

	2018 £'000	2017 £'000
<u>Amounts falling due within one year:</u>		
Trade receivables	34,203	30,926
Finance lease receivables	116,549	98,480
Amounts due from group undertakings	5,245	3,600
Amounts due from ALD Funding Limited	-	12,967
Prepayments and accrued income	25,094	23,075
	<u>181,091</u>	<u>169,048</u>
<u>Amounts falling due after more than one year:</u>		
Finance lease receivables	211,530	154,248
Prepayments and accrued income	12,848	10,652
Amounts due from group undertakings	14,400	18,000
	<u>238,778</u>	<u>182,900</u>
	<u>419,869</u>	<u>351,948</u>

The cost of vehicles acquired for the purpose of leasing under finance lease agreements for the year ended 31 December 2018 was £264,840k (2017: £189,904k).

Trade receivables are non-interest bearing and are predominately on 30 day terms.

For the maturity analysis of trade receivables refer to note 22.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

8. RECEIVABLES (continued)

Movements on provisions for impairment of trade receivables are:

	2018 £'000	2017 £'000
At 1 January (adjusted for IFRS 9 application at 1 January 2018)	13,119	6,979
Charge for year	1,627	1,870
Utilised in the year	(3,773)	(21)
	<u>10,973</u>	<u>8,828</u>

Finance lease contracts:

The amounts receivable from customers include finance lease receivables, which may be analysed as follows:

	2018 £'000	2017 £'000
Gross investment in finance leases, with remaining maturities		
- not longer than 1 year	125,729	105,784
- longer than a year, less than 5 years	226,480	165,123
- longer than 5 years	11	-
	<u>352,220</u>	<u>270,907</u>
Unearned finance income on finance leases	24,141	18,178
Net investment in finance leases	<u>328,079</u>	<u>252,729</u>
Net investment in finance leases, with remaining maturities		
- not longer than 1 year	116,549	98,480
- longer than a year, less than 5 years	211,518	154,249
- longer than 5 years	11	-

9. INVENTORY

	2018 £'000	2017 £'000
Vehicles	<u>18,716</u>	<u>19,875</u>

Inventory is stated net of a £243k provision (2017: £841k) representing the difference between net book value and estimated net realisable value for vehicle models expected to sell at a loss.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

10. PAYABLES: amounts falling due within one year

	2018	2017
	£'000	£'000
<u>Short term borrowings:</u>		
Bank overdraft	3,120	6,994
Amount due to ALD Funding Limited	-	145,414
Amount due to group undertakings	446,969	425,451
Current instalments due on loans	28,035	28,110
	<u>478,124</u>	<u>605,969</u>
<u>Trade and other payables:</u>		
Trade payables	14,504	14,280
Other taxes and social security	2,106	6,660
	<u>16,610</u>	<u>20,940</u>
Income tax liabilities	6,065	6,376
Accruals and deferred income	115,855	96,976
	<u>616,654</u>	<u>730,261</u>

Bank overdraft represents amounts owed to the UK Branch of the Company's ultimate parent undertaking.

11. PAYABLES: amounts falling due after one year

	2018	2017
	£'000	£'000
<u>Long term borrowings payable:</u>		
in 1 to 2 years	910,198	669,483
in 2 to 5 years	205,400	157,706
	<u>1,115,598</u>	<u>827,189</u>

Of the loans analysed above, £666,302k (2017: £622,760k) are from Société Générale, the ultimate parent company. These loans are not secured and interest rates are fixed at the point of inception.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

12. PROVISIONS FOR LIABILITIES

	Provision for onerous lease	Provision for property dilapidations	Provision for Consumer Credit Act	Provision for re- structuring	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2017	814	1,655	1,916	-	4,385
Provided in the year	-	74	-	415	489
Utilisation in the year	(814)	(900)	-	-	(1,714)
Movement due to passage of time and change in the discount rate	-	12	-	-	12
At 31 December 2017	-	841	1,916	415	3,172
Short term provisions	-	250	-	415	665
Long term provisions	-	591	1,916	-	2,507
	-	841	1,916	415	3,172
Provided in the year	106	461	-	990	1,557
Utilisation in the year	(57)	(98)	(70)	(1,283)	(1,508)
Movement due to passage of time and change in the discount rate	-	113	-	-	113
At 31 December 2018	49	1,317	1,846	122	3,334
Short term provisions	49	251	-	122	422
Long term provisions	-	1,066	1,846	-	2,912
	49	1,317	1,846	122	3,334

Provision for onerous lease

In the year, the IT Development team was relocated to the new Innovation and Development Centre. An onerous lease provision has been recognised in respect of the former Development Centre, which was vacant at year end with a 3 month lease commitment remaining.

Provision for property dilapidations

A provision is in place for dilapidation of premises in Bristol, Northampton and Milton Keynes. The provision for each property is recognised at lease inception at the present value of the expected dilapidation charge at lease end. This amount is released straight line to profit or loss over the lease term. An interest charge to unwind the discounting is charged to profit or loss each period.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

12. PROVISIONS FOR LIABILITIES (continued)

Provision for Consumer Credit Act

The Company has undertaken a review of compliance with the fixed-sum unsecured credit agreement requirements of the UK Consumer Credit Act ('CCA'). The provision was recognised for possible repayment to customers where potential non-compliance with CCA was identified.

Provision for restructuring

The Bristol and Northampton customer service teams were combined within a single, dedicated Customer Excellence Centre in Bristol in 2018. The provision for restructuring in place at year end relates to an element of dual running which continued until March 2019.

13. DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount £'000	Fair Value Assets £'000	Fair Value Liabilities £'000
Interest rate swaps	414,000	383	662
Total derivatives as at 31 December 2018	<u>414,000</u>	<u>383</u>	<u>662</u>
Total derivatives as at 31 December 2017	<u>300,000</u>	<u>145</u>	<u>145</u>

The Company uses interest rate swaps to manage some of its interest rate exposure. These interest rate swaps are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with interest rate exposures, generally for 60 months.

14. RESIDUAL VALUE EXPOSURE

Year in which residual value will be recovered:

	Residual Value – Operating Leases £'000	Residual Value – Finance Leases £'000	Total £'000
Within one year	311,251	54,733	365,984
In one to two years	310,935	36,680	347,615
In two to five years	334,301	81,644	415,945
Total Exposure	<u>956,487</u>	<u>173,057</u>	<u>1,129,544</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

15. SHARE CAPITAL

	2018	2017
	£	£
Authorised:		
£1 ordinary shares	<u>100</u>	<u>100</u>
Allotted, called up and fully paid:		
£1 ordinary shares	<u>98</u>	<u>98</u>

16. FINANCIAL ASSETS AND LIABILITIES

	2018	2017
	£'000	£'000
Trade and other receivables	381,926	318,222
Derivative assets	383	145
Cash and cash equivalents	1,907	394
Total financial assets	<u>384,216</u>	<u>318,761</u>
Intangible assets	8,548	5,905
Property, plant and equipment	1,406,604	1,302,684
Deferred tax assets	5,501	2,800
Other assets	56,659	53,601
Total non-financial assets	<u>1,477,312</u>	<u>1,364,990</u>
TOTAL ASSETS	<u>1,861,528</u>	<u>1,683,751</u>
Borrowings	1,593,722	1,433,158
Trade payables	14,504	14,280
Derivative liabilities	662	145
Total financial liabilities	<u>1,608,888</u>	<u>1,447,583</u>
Other liabilities	<u>127,360</u>	<u>113,184</u>
Total non-financial liabilities	<u>127,360</u>	<u>113,184</u>
TOTAL LIABILITIES	<u>1,736,248</u>	<u>1,560,767</u>

The fact that operating leases do not qualify as financial assets under IFRS contributes to the difference between financial assets and financial liabilities.

Fair values of financial assets and financial liabilities

Fair values of finance lease agreements are estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar assets prevailing at the balance sheet date. The fair value of finance lease agreements is £290,012k (2017: £253,642k). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

16. FINANCIAL ASSETS AND LIABILITIES (Continued)

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted prices) in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

At 31 December, the Company held the following financial instruments carried at fair value on the statement of financial position:

	2018	Level 1	Level 2
	£'000	£'000	£'000
Financial assets at fair value through profit or loss:			
Derivative assets	383	-	383
	2018	Level 1	Level 2
	£'000	£'000	£'000
Financial liabilities at fair value through profit or loss:			
Derivative liabilities	662	-	662
	2017	Level 1	Level 2
	£'000	£'000	£'000
Financial assets at fair value through profit or loss:			
Derivative assets	145	-	145
	2017	Level 1	Level 2
	£'000	£'000	£'000
Financial liabilities at fair value through profit or loss:			
Derivative liabilities	145	-	145

17. CAPITAL COMMITMENTS

At the balance sheet date the Company had placed orders for motor vehicles to the value of £37.7m (2017: £34.1m) in respect of new lease rental agreements commencing in 2019. At 31 December 2018, other capital commitments amounted to £nil (2017: £nil).

18. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme, the ALD Pension Scheme, for its directors and employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge for the year to 31 December 2018 totalled £1,401k (2017: £1,312k) representing contributions due to the scheme in the period. There were no unpaid contributions outstanding at the end of the year (2017: £nil).

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

19. OTHER FINANCIAL COMMITMENTS

At 31 December 2018 the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2018 £'000	2017 £'000
Operating leases which expire:		
Less than 1 year	233	148
From 1 to 5 years	568	330
Over 5 years	871	638
	<u>1,672</u>	<u>1,116</u>

An approximation of the future minimum lease payments payable under non-cancellable operational leases in aggregate and for each of the following years can be summarised as follows:

	2018 £'000	2017 £'000
- not longer than 1 year	1,457	1,022
- longer than a year, less than 5 years	4,855	3,556
- longer than 5 years	5,573	5,779
	<u>11,885</u>	<u>10,357</u>

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Transactions between the Company and other companies in the Société Générale Group

The Company has entered into the following transactions with related parties during the year and holds the following balances with related parties as at 31 December:

	Transactions in the year (£'000)		Outstanding balance (£'000)	
	2018	2017	2018	2017
Ultimate parent undertaking				
Loans owed to Société Générale			(1,113,271)	(1,048,211)
Loans due from Société Générale			19,645	21,600
Bank overdraft			(3,120)	(6,994)
Capital repayments	1,644,440	393,165		
Loan drawdowns	(1,709,500)	(560,300)		
Interest payable	(17,724)	(15,230)	(3,715)	(3,361)
Interest receivable	831	3,411	242	292
Bank charges	(193)	(154)		

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

	Transactions in the year (£'000)		Outstanding balance (£'000)	
	2018	2017	2018	2017
ALD S.A.				
Amount payable – central rebill	(5,535)	(5,289)	-	-
Amount receivable – central rebate	867	461	-	-
Amount receivable – IT recharge	2,962	2,539	614	2,539
Expense recharges	125	83	167	227
Securitisation special purpose entities				
Loans repayable			(414,000)	(299,800)
Amounts due			2,484	12,967
Loan repayments	171,291	11,812		
Loan drawdowns	(420,684)	(19,612)		
Interest receivable	1,884	10,754	-	-
Interest payable	(3,009)	(14,473)	-	-

Transactions between the Company and key management personnel

Remuneration of the Company directors was as follows:

	2018 £'000	2017 £'000
Aggregate emoluments	691	746
Company contributions to defined contribution schemes	27	34
	<u>718</u>	<u>780</u>

The emoluments, excluding pension contributions, of the highest paid director were £359,188 (2017: £382,448), in addition, pension contributions of £nil were paid (2017: £nil). Retirement benefits are not accruing for any directors under a defined contribution scheme (2017: 1 director). As stated in note 18, the Company operates a defined contribution scheme only.

During the year the Company entered into transactions, at normal market prices, with key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The members of the Operating Board (comprising at year end the two registered executive directors and in addition the directors of Sales, Finance, Customer Service, IT, Legal and HR) are considered to be key management personnel. Transactions entered into, including the settlement of outstanding vehicle finance and the balance outstanding at the balance sheet date, are set out below:

	2018 £'000	2017 £'000
Transaction value	489	432
Balance outstanding	-	-

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

Interest in unconsolidated structured entities

The Company has an interest in Red & Black Auto Lease 1 PLC ("the SPV"), the special purpose vehicle set up to facilitate the securitisation transaction. The equity shares of the SPV are held by Intertrust Corporate Services Limited as trustees. The directors nevertheless consider the SPV to be a subsidiary of the Company, because the financial and operating policies of the SPV were largely determined to obtain external funding on behalf of the Company.

The maximum exposure to loss from the SPV at 31 December 2018 is £188,484k which comprises the balance of the Class B Notes together with the subordinated loan.

The Company is exempt by virtue of IAS 27 'Consolidated and Separate Financial Statements' from the requirement to prepare group financial statements. These financial statements therefore do not consolidate the results of the SPV.

ALD Funding Limited, the special purpose vehicle relating to the previous securitisation terminated in March 2018, was liquidated in the year.

21. ULTIMATE PARENT UNDERTAKING AND RELATED PARTIES

The Company's immediate parent undertaking is ALD Automotive Group Limited, a company registered in the UK which does not prepare group financial statements. The immediate parent of ALD Automotive Group Limited is ALD International SAS & Co. KG, a company registered in Germany. Copies of the ALD International group financial statements can be obtained from Nedderfeld 95, 22529 Hamburg, Germany.

The ultimate parent undertaking and controlling entity is the Société Générale Group, a company registered in France. Copies of the Société Générale Group financial statements can be obtained from 29 Boulevard Haussmann, 75009 Paris or online at <https://www.societegenerale.com>.

22. RISK MANAGEMENT

The Company's operations expose it to credit risk, residual value risk, liquidity risk, interest rate risk and operational risk. Responsibility for the control of overall risk within the Company lies with the Board of Directors, operating within a managerial framework established by the ultimate parent Société Générale.

22(a) Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company is primarily exposed to credit risk on lease receivables, arising from finance and operating leases in both the corporate and retail markets.

The table below shows the level of exposure categorised by contractual lease expiry date.

	2018 £'000	2017 £'000
Within one year	408,860	394,794
In one to three years	1,032,242	947,795
Greater than three years	275,928	218,505
	<u>1,717,030</u>	<u>1,561,094</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

22. RISK MANAGEMENT (continued)

Credit risk is managed in accordance with the guidelines, principles and authorisation levels set out by the Company's ultimate parent undertaking Société Générale. Regular credit assessments are performed on all corporate and personal customers. This assessment uses group approved rating tools to score customers and assess the probability of default. Outside of limits delegated by the ultimate parent undertaking and for customers that are common to the Société Générale group, the Company prepares detailed credit analysis files and obtains approval from specialist credit departments within the Société Générale group.

Credit risk may be amplified by concentration risk, which arises from a large exposure to one or a few counterparties. Concentration is monitored monthly by the Credit Risk Committee.

Impairment of financial assets

Lease receivables are subject to the expected credit loss model as outlined in note 1. The Company applies the IFRS 9 simplified approach to measuring expected credit losses. On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows:

	31 December 2018 £'000	1 January 2018 £'000
Expected loss rate	2.8%	4.2%
Gross carrying amount – lease receivables	362,282	283,655
Loss allowance	10,032	11,949

The gross carrying amount of lease receivables has increased significantly due to high growth in finance lease receivables during the year, which have a greater balance sheet impact at inception than operating lease receivables. Conversely the loss allowance has decreased mainly as a result of receivables being written off by the credit control team during the year.

The closing loss allowances for lease receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	2018 £'000
Opening loss allowance calculated under IAS 39	7,658
Amounts restated through opening retained earnings	4,290
Opening loss allowance calculated under IFRS 9	11,948
Charge recognised in profit or loss in year	1,854
Receivables written off in year	(3,772)
Loss allowance at 31 December	10,030

Lease receivables are written off when it is management belief that there is no reasonable expectation of recovery.

Impairment losses on lease receivables are presented as net impairment losses in the statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited against the same line item.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

22. RISK MANAGEMENT (continued)

In 2017 the impairment of lease receivables was calculated under IAS 39. The opening loss allowance for 2018 calculated in accordance with IFRS 9 is higher than the closing loss allowance for 2017 mainly because the former recognises an allowance in respect of lease receivables categorised as sound. Use of the IFRS 9 simplified approach results in a more prudent loss allowance due to the application of lifetime expected credit losses across the receivables portfolio.

Trade receivables	Total £'000	Neither past due nor impaired £'000	Past due but not impaired				
			<30 days £'000	30-60 days £'000	61-90 days £'000	91-120 days £'000	>120 days £'000
2018	34,203	12,124	11,140	1,834	762	504	7,839
2017	30,926	10,354	9,638	3,253	945	458	6,278
						2018	2017
						£'000	£'000
Receivables from customers individually impaired						5,629	7,658

22(b) Residual Value Risk

The residual value, defined as the value of the vehicle at the end of the lease as estimated by the Company at inception of the lease, may differ from the future market value of the vehicle at the end of the contract. This difference is part of the risk on used car sales and is managed by the Company through robust internal procedures applied in order to set, control and re-evaluate the residual values on the running fleet. The residual value setting procedure defines the processes involved in the definition of residual values that will be used in the quotation of future contracts. Calculation is based on market segmentation and on statistical models using used car sales track records, as well as Trade Guides.

In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', residual value is treated as an accounting estimate and, as such, expected losses are spread between the date of the latest valuation and the end of the contract. The table in note 14 shows the residual value exposure, classified by the year of expiry, faced by the Company.

22(c) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its financial commitments as they fall due, or can secure them only at an excessive cost. Vehicle finance provided to customers is on a fixed term, fixed interest basis. The Company hedges exposure to interest rate movements by obtaining and matching fixed term, fixed interest finance from its ultimate parent undertaking or from its external funding partners. A quarterly assessment is performed to ensure that funding is matched in both amount and maturity date.

The maturity of the asset-backed securitisation programme is as follows:

	2018 £'000	2017 £'000
Less than 1 year	-	145,614
Within 2 to 5 years	414,000	154,386
Over 5 years	-	-
	<u>414,000</u>	<u>300,000</u>

In addition to the Company's own internal policies and controls, liquidity risk is also supervised by and reported to the Risk Committee on a quarterly basis.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

22. RISK MANAGEMENT (continued)

The comparison of the Company's financial assets and financial liabilities maturity is shown below. The fact that operating leases do not qualify as financial assets under IFRS contributes to the difference between financial assets and financial liabilities.

As at 31 December 2018:

	0-3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Non- interest bearing £'000	Total £'000
Financial assets						
Trade receivables	-	-	-	-	34,203	34,203
Finance lease receivables	41,295	75,253	211,519	11	-	328,078
Amounts due from group undertakings	1,645	3,600	14,400	-	-	19,645
Derivative assets	-	-	383	-	-	383
Cash and cash equivalents	1,907	-	-	-	-	1,907
	<u>44,847</u>	<u>78,853</u>	<u>226,302</u>	<u>11</u>	<u>34,203</u>	<u>384,216</u>
Financial liabilities						
Trade payables	-	-	-	-	14,504	14,504
Amounts due to group undertakings	111,975	322,782	666,302	-	12,212	1,113,271
Securitisation	-	-	409,818	-	-	409,818
External funding	6,616	21,420	39,477	-	-	67,513
Bank overdraft	3,120	-	-	-	-	3,120
Derivative liabilities	-	-	662	-	-	662
	<u>121,711</u>	<u>344,202</u>	<u>1,116,259</u>	<u>-</u>	<u>26,716</u>	<u>1,608,888</u>
Net financial assets/ (liabilities)	<u>(76,864)</u>	<u>(265,349)</u>	<u>(889,957)</u>	<u>11</u>	<u>7,487</u>	<u>(1,224,672)</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

22. RISK MANAGEMENT (continued)

As at 31 December 2017:

	0-3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Non- interest bearing £'000	Total £'000
Financial assets						
Trade receivables	-	-	-	-	30,926	30,926
Finance lease receivables	31,477	67,003	154,249	-	-	252,729
Amounts due from group undertakings	-	3,600	14,400	3,600	-	21,600
Amount due from ALD Funding Limited	-	-	-	-	12,967	12,967
Derivative assets	-	-	145	-	-	145
Cash and cash equivalents	394	-	-	-	-	394
	31,871	70,603	168,794	3,600	43,893	318,761
Financial liabilities						
Trade payables	-	-	-	-	14,280	14,280
Amounts due to group undertakings	125,049	288,190	622,761	-	12,211	1,048,211
Amounts due to ALD Funding Limited	46,747	98,667	154,386	-	-	299,800
External funding	6,900	21,210	50,043	-	-	78,153
Bank overdraft	6,994	-	-	-	-	6,994
Derivative liabilities	-	-	145	-	-	145
	185,690	408,067	827,335	-	26,491	1,447,583
Net financial assets/ (liabilities)	(153,819)	(337,464)	(658,541)	3,600	17,402	(1,128,822)

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

22. RISK MANAGEMENT (continued)

The following tables indicate the timing of the contractual cash flows arising from the Company's financial liabilities, as required by IFRS 7 'Financial Instruments: Disclosures'. All contractual cash payments are expected to be settled within 5 years.

As at 31 December 2018

	Carrying amount £'000	No stated maturity £'000	Less than 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000
Trade payables	14,504	-	10,791	1,979	1,734	-
Due to group undertakings:						
- Capital	1,113,271	12,212	22,679	89,297	322,782	666,301
- Interest	-	-	756	2,737	11,032	14,316
Due to Red & Black Auto Lease 1 PLC:						
- Capital	411,516	-	-	-	-	411,516
- Interest	-	-	607	1,214	5,465	5,256
Instalments due on loans:						
- Capital	67,514	-	2,270	4,345	21,420	39,479
- Interest	-	-	139	263	941	1,089
Bank overdraft	3,120	3,120	-	-	-	-
Derivative liabilities	662	-	-	-	-	662

As at 31 December 2017

	Carrying amount £'000	No stated maturity £'000	Less than 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000
Trade payables	14,280	-	11,869	1,259	1,152	-
Due to group undertakings:						
- Capital	1,048,211	12,212	24,782	100,267	288,191	622,759
- Interest	-	-	867	2,824	8,818	10,446
Due to ALD Funding Limited:						
- Capital	299,800	-	18,814	27,933	98,667	154,386
- Interest	-	-	474	929	2,990	2,538
Instalments due on loans:						
- Capital	78,152	-	2,340	4,560	21,210	50,042
- Interest	-	-	160	303	1,114	1,377
Bank overdraft	6,994	6,994	-	-	-	-
Derivative liabilities	145	-	-	-	-	145

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

22. RISK MANAGEMENT (continued)

Capital Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, which includes borrowings disclosed in notes 10 and 11, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, capital contribution reserve and retained earnings as disclosed in the statement of changes in equity.

The Board of Directors reviews the capital structure on a semi-annual basis. As a part of this review the Board considers the cost of capital and risks associated with each class of capital. The Company will balance its overall capital structure through the payment of dividends to or through capital injection from its parent company.

22(d) Interest Rate Risk

Interest rate risk is the risk that profitability of the Company is affected by movements in interest rates. There is a risk that interest margins on existing contracts could decrease due to movements on interest rates. Exposure to interest rate risk is a key feature of the Company's products - each lease contains, sometimes exclusively, a financing dimension and interest rates are set individually at the inception of each funded lease.

The matching of maturities, amounts and re-pricing dates of interest bearing assets and liabilities for interest rate purposes is fundamental to the management of the Company. This is an important factor in the predictability of interest margins as a major income stream and in assessing the Company's exposure to changes in interest rates.

It is Company policy to, as far as possible, match the interest rate risk profile of the contract portfolio of leases held by the Company with a corresponding profile in the funding to minimise the interest rate risks. This matching principle is monitored through the Risk & Transfer Report, which is reported on a monthly basis to the Risk Committee. The Company has interest bearing assets (mainly lease contracts) which are funded through interest bearing liabilities (loans) and non-interest bearing funding (net working capital and equity). In connection with the securitisation transaction, derivative financial instruments have been used as an important and effective instrument in managing and controlling interest rate risk exposure.

Interest Rate Swap Contracts

Under interest rate swap contracts, the Company agrees to pay or receive the difference between variable and fixed interest rates calculated on an agreed notional principal amount. Such contracts allow the Company to mitigate the risk of changing interest rates on the cash flows of issued variable debt held. The fair value of interest rate swaps at the end of the year has been determined based on external valuations.

At year end the swaps held related to the securitisation transaction implemented through Red & Black Auto Lease 1 PLC. The notional amount of the swaps was £414m which is the face value of the externally issued loan notes. Interest rate swaps settle on a monthly basis and are indexed on LIBOR.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

22. RISK MANAGEMENT (continued)

22(e) Operational Risk

Operational risk is the risk of a loss occurring from a breakdown in internal controls, operations or procedures. An Operational Risk Committee has been established and meets quarterly. The Committee reviews operational loss incident reports assessing whether root causes have been identified and confirming that measures to prevent re-occurrence have been established. In addition the Committee is responsible for the assessment of operational risk on proposed new products and services.

23. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of newly effective accounting standards on these financial statements.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers', which is effective for annual periods beginning on 1 January 2018, replaces all existing revenue requirements and related interpretations.

The adoption of IFRS 15 had no material impact. The Company's main source of revenue is leasing income which is outside the scope of IFRS 15. The amount and timing of recognition of the Company's other income, including proceeds on sale of used vehicles, maintenance revenue and end of contract fees, is not materially affected by the introduction of IFRS 15.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments', which is effective for annual periods beginning on 1 January 2018, replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, including the impairment of financial assets.

IFRS 9 has been adopted without restating comparative information. The adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet at 1 January 2018.

The opening adjustment to the statement of financial position is summarised below.

	31 December 2017	IFRS 9 opening	1 January 2018
	Original	adjustment	Restated
	£'000	£'000	£'000
Trade and other receivables	351,948	(4,290)	347,658
Deferred tax asset	2,800	741	3,541
Retained earnings	120,730	(3,549)	117,181

Note that the measurement categories of financial assets and liabilities have not changed on adoption of IFRS 9. The opening adjustment relates solely to the change in the credit loss provision for lease receivables.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

23. CHANGES IN ACCOUNTING POLICIES (continued)

On the date of initial application, 1 January 2018, the financial instruments of the Company were as follows:

	Measurement category		Transition carrying amount	
	Per IAS 39	Per IFRS 9	Per IAS 39 £'000	Per IFRS 9 £'000
Financial assets:				
Trade and other receivables	Amortised cost	Amortised cost	318,222	313,931
Derivative assets	FVTPL	FVTPL	145	145
Cash and equivalents	Amortised cost	Amortised cost	394	394
Financial liabilities:				
Borrowings	Amortised cost	Amortised cost	1,433,158	1,433,158
Trade payables	Amortised cost	Amortised cost	14,280	14,280
Derivative liabilities	FVTPL	FVTPL	145	145

24. FUTURE ACCOUNTING DEVELOPMENTS

The following pronouncements will be relevant to the Company but were not effective at 31 December 2018 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	IASB effective date
IFRS 16 'Leases'	<p>Requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 'Leases'. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (the lease liability) and an asset representing the right to use the underlying asset during the lease term (the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset through the statement of comprehensive income.</p> <p>Lessor accounting is substantially unchanged from IAS 17. The Company as a lessor will continue to distinguish between operating and finance leases in respect of leased vehicles.</p> <p>The Company currently rents a number of offices as a lessee. The leases are operating leases so the required accounting treatment will change on application of IFRS 16. The Company expects to recognise lease liabilities of £10m on initial application, in respect of three property leases with more than 12 months lease term remaining.</p>	Annual periods beginning on or after 1 January 2019

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.