Pirelli Motorsport Services Limited
Annual Report and Financial Statements

31 December 2018

Registered in England No. 07415654

CONTENTS

CORPORATE INFORMATION

Directors

D A Sandivasci
G Andrews
M Isola

Secretary

C S Sagoo

Independent Auditors

PricewaterhouseCoopers LLP
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DE74 2UZ

Registered office

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STRATEGIC REPORT
for the year ended 31 December 2018

The directors submit their Strategic Report for the year ended 31 December 2018. The future developments of the company are discussed in the Directors' Report.

Review of the Business

The company's principal activity is the provision of tyres and tyre related motorsport services at Formula 1, Formula 2 and Formula 3 racing events under a service agreement with its parent company Pirelli Tyre SpA. It operates from its base in premises at Didcot in Oxfordshire.

The company had another very successful racing season during 2018 continuing the success of the business. Pirelli is the sole tyre supplier for all three championships and works closely with the race teams, supplying not only tyres but also engineering services, fitting services and technical assistance at races. Increasingly, the company provides technical expertise to a number of motorsport championships including the Blancpain Series in Europe, APAC and the GT4 championships in Europe, ADAC GT and Formula 4 in Germany, and BOSS GP. The company also worked closely with Pirelli Tyre SpA to assist in developing Formula 1 tyres to enable it to satisfy its three year agreement with the FIA, world motorsport's governing body. The current three year agreement ends at the end of 2019 and the company has renewed the contract for the four years to the end of 2023.

Concerning Brexit, a number of risks and uncertainties may impact the business impacting economic prospects. These include the possibility of the implementation of tariffs and other barriers to trade between the UK and EU at short notice, with disruption to trade if the UK's border infrastructure is unable to cope smoothly with the new requirements. Whilst the UK recognises EU product standards the EU may not reciprocate giving the possibility of UK goods requiring recertification for sale in the EU.

The directors are satisfied with the development and performance of the company during the year and with the position of the company at the end of the year. Fixed assets have decreased to £1,082,000 at year end (2017: £1,120,000) and shareholder's funds has increased to £4,393,000 from £3,728,000 at the end of 2017 and the directors are confident that the performance of the company will continue in a positive direction during 2019.

STRATEGIC REPORT (continued)
for the year ended 31 December 2018

Key Performance Indicators

The key financial performance indicators during the year were as follows:

	2018	*2017*	*Change*
	£m	*£m*	*%*
Turnover	29.9	29.9	0.0
Operating profit	0.9	0.9	0.0
Profit before taxation	0.8	0.8	0.0
Profit for the financial year	0.7	0.7	0.0
Total shareholder's funds	4.4	3.7	18.9
	%	*%*	
Current assets as % of current liabilities ('quick ratio')	180.4	142.7	
Return on capital employed (operating profit as a percentage of closing net assets)	19.9	23.1	
			Change
	No	*No.*	*%*
Average number of employees	42	44	4.5

Principal Risks and Uncertainties

The company has minimal direct exposure to business risks due to the nature of its service agreement with Pirelli Tyre SpA. The principal risk faced by the business is the possible non-renewal of Pirelli Tyre SpA's contract with the FIA and this may result in the non-renewal of the company's service agreement with Pirelli Tyre SpA. The current contract between Pirelli Tyre SpA and the FIA has been renewed until the end of the Formula 1 2023 season and the contract to supply Formula 2 and Formula 3 will also be renewed until the end of the 2023 season.

Financial Risks and Risk Management

The company has minimal exposure to financial risks. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance cost. Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the company's finance department.

Cash flow risk
In order to ensure stability of cash flows, it is the company's policy to operate with all financial receivables and payables being repayable within one year at variable interest rates. At the end of the current year and previous year, all financial receivables and payables were repayable within one year at variable interest rates.

STRATEGIC REPORT (continued)
for the year ended 31 December 2018

Financial Risks and Risk Management (continued)

Price risk
The company has no exposure to equity securities price risk as it holds no listed or equity investments.

Foreign currency risk
The company undertakes spot and forward foreign currency deals to cover foreign currency risks arising from any foreign currency transactions or operations.

Liquidity risk
The company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

By Order of the Board

C S Sagoo

Secretary

26 April 2019

DIRECTORS' REPORT
for the year ended 31 December 2018

The directors submit their audited Annual Report and the Financial Statements for the year ended 31 December 2018.

Directors

The directors of the company at the date of this report are shown on page 1. No directors resigned or were appointed during the year or subsequent to the year end up to the date of this report.

There are no directors' interests requiring disclosure under the Companies Act 2006.

Dividends

No dividends were proposed, declared or paid in the year (2017: nil).

Future Developments

The directors aim to maintain the management policies which have resulted in the company's performance for the year ended 31 December 2018 and expect the existing level of activity to be maintained for the foreseeable future although they are also actively seeking additional business opportunities within the motorsport services field.

Research and Development

The company does not itself carry out research and development. However it does, as part of its service agreement with Pirelli Tyre SpA, assist in gathering tyre, vehicle performance and track data to enable the Pirelli group to support its position as a major supplier of competition race tyres.

Financial Instruments and Risk Management

The company's exposure to financial risk management is outlined in the Strategic Report on page 3.

Going Concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion the Directors' have considered:

- The importance of the company to the group's current activities and future plans and the strong position of the Pirelli group
- The active involvement from the parent companies
- The budgets and forecasts prepared by the company for 2019.
- The contract with the parent company (Pirelli Tyre S.p.A.) which reflects the contract Pirelli Tyre S.p.A. has with the FIA, and constitutes the company's business. The current contract has been renewed until the end of the F1 season 2023 and therefore more than 12 months after the signing of the financial statements.
- The continuing success of the renewed involvement in F1 / F2 / F3 for both the company and the Pirelli & C. Group under the agreement.
- The risks and opportunities in the circumstances the company operates and the cost base.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Post Balance Sheet Events

An interim dividend of £4,300,000 (£4,300,000 per share) was proposed on 26 April 2019. This dividend is not included as a liability in these financial statements.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2018

Employee Involvement

The Pirelli group recognises the crucial importance of human resources in the belief that the key to success in any business is the professional input of the people that work for it in a climate of fairness and mutual trust. The Pirelli group safeguards health, safety and industrial hygiene in the workplace, both through management systems that are continually improving and developing and by promoting an approach to health and safety based on prevention and the effective handling of occupational risk.

The Pirelli group considers respect for workers' rights as fundamental to the business. The company is committed to ensuring that it complies with its legal obligations pursuant to Human Rights legislation. More information can be found in the Company's modern slavery statement which is available on its website. Working relationships are managed by placing particular emphasis on equal opportunity, on furthering each person's career development, and on promoting diversity as adding value by creating a multi-cultural working environment.

The above mentioned principles are reiterated in the Pirelli group policies "Social Responsibility Policy for Occupational Health, Safety and Rights and Environment", "Human Rights Policy" and "Equal Opportunities Statement".

It is the company's policy to keep employees informed of matters which are of interest or concern to them as employees through the established practice of regular, direct communication between management and employees and their representatives. Due consideration is given to their interests when taking management decisions.

The Board thanks all employees for their continued support and dedication throughout the year.

Disabled Employees

The company provides equal employment opportunities for disabled persons, where their skills and aptitudes can be used, and provides disabled employees with the same opportunities for continued employment, promotion, career development and training as other employees.

By Order of the Board

C S Sagoo

Secretary

26 April 2019

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Directors' confirmations

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

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

By Order of the Board

G Andrews

Finance Director

26 April 2019

[redacted]

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PIRELLI MOTORSPORT SERVICES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Pirelli Motorsport Services Limited's financial statements:

- give a true and fair view of the state 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2018; the Profit and Loss Account, the Statement of Changes in Equity for the year then ended; the Significant Accounting Policies; and the notes to the financial statements.

Basis for opinion

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

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

[redacted]

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PIRELLI MOTORSPORT SERVICES LIMITED (continued)

Reporting on other information (continued)

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

[redacted]

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PIRELLI MOTORSPORT SERVICES LIMITED (continued)

Responsibilities for the financial statements and the audit (continued)

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

David Teager (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
26 April 2019

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Turnover	1	**29,873**	**29,862**
Cost of sales		(14,928)	(14,085)
Gross profit		**14,945**	**15,777**
Distribution and selling costs		(13,953)	(14,745)
Administrative expenses		(116)	(171)
Operating profit	2	**876**	**861**
Interest payable and similar expenses	5	(40)	(35)
Profit before taxation		**836**	**826**
Tax on profit	6	(171)	(167)
Profit for the financial year		**665**	**659**

All items dealt with in the above profit and loss account relate to continuing operations. There were no acquisitions in either year.

There are no amounts of other comprehensive income, therefore no separate statement of other comprehensive income has been presented.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Called up share capital (note 13)	*Profit & loss account*	*Total*
	£000	*£000*	*£000*
At 1 January 2017	-	**3,069**	**3,069**
Profit for the financial year	-	659	659
Total comprehensive income for the financial year	-	659	659
At 31 December 2017	-	**3,728**	**3,728**
Profit for the financial year	-	665	665
Total comprehensive income for the financial year	-	665	665
At 31 December 2018	-	**4,393**	**4,393**

BALANCE SHEET
as at 31 December 2018

	Note	*2018* *£000*	*2017* *£000*
Fixed assets			
Intangible assets	7	15	36
Tangible assets	8	1,067	1,084
		1,082	1,120
Current assets			
Stocks	9	828	975
Debtors:			
amounts falling due within one year	10	6,283	8,188
amounts falling due after more than one year	10	281	215
		6,564	8,403
Cash at bank and in hand		522	271
		7,914	9,649
Creditors: amounts falling due within one year	11	**(4,387)**	**(6,764)**
Net current assets		**3,527**	**2,885**
Total assets less current liabilities		**4,609**	**4,005**
Creditors: amounts falling due after more than one year	11	**-**	**(65)**
Provisions for liabilities	12	(216)	(212)
Net assets		**4,393**	**3,728**
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account		4,393	3,728
Total equity		**4,393**	**3,728**

The significant accounting policies and notes on pages 14 to 36 are an integral part of these financial statements.

The financial statements on pages 11 to 36 were approved by the Board of Directors on 26 April 2019 and signed on its behalf by:

G Andrews
Director
26 April 2019

SIGNIFICANT ACCOUNTING POLICIES
for the year ended 31 December 2018

1. Authorisation of financial statements and statement of compliance with FRS 101

Pirelli Motorsport Services Limited (the 'company') is a private company limited by shares, domiciled and incorporated in the United Kingdom. The registered office of the company is given on page 1. The nature of the company's operations and its principal activities are set out in the review of the business section of the Strategic Report.

The company's registered number is 07415654.

The financial statements of Pirelli Motorsport Services Limited for the year ended 31 December 2018 were authorised for issue by the board of directors on 26 April 2019 and the balance sheet was signed on the board's behalf by G Andrews.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

These financial statements present the company as an individual entity. The results of the company are included in the consolidated financial statements of its intermediate parent company Pirelli & C. SpA which are publically available from the address of Pirelli & C. SpA's registered office at Viale Piero e Alberto Pirelli n.25 Milan, Italy.

The principal accounting policies adopted by the company are set out in note 2 below.

2. Accounting policies

2.1 Basis of preparation

The financial statements are prepared on a going concern basis in accordance with the historical cost convention and in accordance with FRS 101 'Reduced Disclosure Framework' and the Companies Act 2006 as applicable to companies using FRS 101.

The principal accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018. These policies have been applied consistently to all the years presented, unless otherwise stated.

SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 31 December 2018

2.1 Basis of preparation (continued)

The company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirements of IFRS 7 Financial Instruments: Disclosures;
b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
c) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements ('IAS 1') to present comparative information in respect of:
   i) paragraph 79(a)(iv) of IAS 1;
   ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
   iii) paragraph 118(e) of IAS 38 Intangible Assets; and
d) the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
e) the requirements of IAS 7 Statement of Cash Flows;
f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures ('IAS 24');
h) the requirements in IAS 24 to disclose related party transactions entered into between two or more members of a company, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
i) the requirements of paragraphs 130(f)(ii), 130(f)(iii) 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets,

2.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS101 requires management to make assumptions, estimates and judgements that affect the amounts reported as assets and liabilities as at the balance sheet date and the amounts reported as revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

i. Operating lease commitments
The company obtains the use of property, plant and machinery as a lessee. The company has determined, based on an evaluation of the terms and conditions of the arrangements such as the lease term not constituting a substantial portion of the economic life of property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the leased property, and accounts for the contracts as operating leases.

ii. Finance lease commitments
The company leases certain property, plant and equipment. Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 31 December 2018

2.2 Judgments and key sources of estimation uncertainty (continued)

The following estimates are dependent upon assumptions which could change in the next financial year and could have a material effect on the carrying amount of assets and liabilities recognised at the balance sheet date.

i. Taxation
Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 6.

ii. Estimation of useful life
The depreciation charge for an asset is derived using estimates of its expected useful life and expected residual value, which are reviewed annually. Increasing an asset's expected life or residual value would result in a reduced depreciation charge in the profit and loss account. Management determines the useful lives and residual values for assets when they are acquired, based on experience with similar assets and taking into account other relevant factors such as any expected changes in technology.

iii. Inventory provision
The company sells tyres. As a result, it is necessary to consider the recoverability of cost of inventory and the associated provisioning required. When calculating the inventory provision management considers the nature, age, condition of the inventory, as well as assumptions around anticipated saleability of the finished goods. See note 9 for the net carrying amount of the inventory.

2.3 Significant accounting policies

Going Concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least one year from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Intangible Assets

Intangible assets acquired separately from a business are capitalised at cost and are amortised on a straight line basis within costs of sales over their estimated useful lives as follows:

Applied software	3 years

The carrying value of intangible assets with finite lives is assessed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable. The amortisation period and the amortisation method are reviewed at least at each financial year end. Amortisation is charged to cost of sales and distribution and selling costs within the profit and loss account.

Tangible Assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible assets, other than land and assets under construction, on a straight-line basis to its residual value over its expected useful life as follows:

Leasehold buildings	over 40 years or term of lease, whichever is less or over the period to the next break clause in the lease where applicable
Plant, machinery and vehicles	3-5 years
Fixtures, fittings and equipment	2-5 years

SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 31 December 2018

2.3 Significant accounting policies (continued)

Operating Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

Finance Leases

The company leases certain property, plant and equipment. Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition on a first-in, first-out basis. Goods for resale are held at their purchase cost. The company classifies uniforms as consumables and therefore includes these within stock. These are also held at their purchase cost. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Provision is made where appropriate for obsolete, slow moving and defective stocks.

Pensions and other post-employment benefits

The company participates in the defined contribution section of the Pirelli Tyres Limited 1988 Pension & Life Assurance Fund which is a trustee administered fund.

The company's contributions in respect of the defined contribution section are charged to the profit and loss account in the periods in which they fall due.

Financial Instruments

Financial assets and financial liabilities are recognised in the balance sheet when the company becomes a party to the contractual provisions of the instrument.

i) Financial Assets

The classification depends on the purpose for which the financial assets were acquired. It depends on the company's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition. The company classifies its financial assets in the following categories:

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2018

2.3 Significant accounting policies (continued)

Financial Instruments (continued)

(a) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprise:

- Equity securities which are not held for trading, and which the company has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the company considers this classification to be more relevant.
- Debt securities where the contractual cash flows are solely principal and interest and the objective of the company's business model is achieved both by collecting contractual cash flows and selling financial assets.

(b) Financial assets at amortised cost

- The company classifies its financial assets as at amortised cost only if both of the following criteria are met:
- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

(c) Financial assets at fair value through profit or loss

The following financial assets are classified at fair value through profit or loss (FVPL):

- debt investments that do not qualify for measurement at either amortised cost (see notes (a) and (b) above)
- equity investments that are held for trading, and
- equity investments for which the has not elected to recognise fair value gains and losses through Other Comprehensive Income (OCI).

At 31 December 2018, the company's financial assets include cash at bank and in hand, amounts owed by group undertakings, debtors and other receivables.

Initial recognition and measurement

Purchases and sales of financial assets are recognised on trade date (that is, the date on which the company commits to purchase or sell the asset).

All financial assets are recognised initially at fair value.

Subsequent measurement

Subsequent measurement of debt instruments depends on the company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the company classifies its debt instruments:

(a) Financial assets at fair value through other comprehensive income

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss.

SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 31 December 2018

2.3 Significant accounting policies (continued)

Financial Instruments (continued)

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as a separate line item in the profit and loss account.

(b) Financial assets at amortised cost

Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the profit and loss account.

(c) Financial assets at fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Subsequent measurement of all equity investments is at fair value. Where the company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the company's right to receive payments is established.

Trade and other debtors

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade debtors.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Impairment of financial assets

The company assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or group of financial assets is impaired.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2018

2.3 Significant accounting policies (continued)

Financial Instruments (continued)

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

ii) Financial Liabilities

Initial recognition and measurement

Financial liabilities are measured at amortised cost, unless a standard requires them to be measured at fair value through profit or loss, or an entity has opted to measure a liability at fair value through profit or loss.

The company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The company's financial liabilities as at 31 December 2018 include bank overdrafts, creditors, accruals, amounts owed to group undertakings including forward currency contracts and other payables.

Subsequent measurement

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

iii) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

iv) Fair values, Derivative Financial Instruments and Hedging

The company uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations The cash flows for these financial instruments are not solely principal plus interest (SPPI) and therefore they are held at fair value through the profit and loss account. Therefore, derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2018

2.3 Significant accounting policies (continued)

Financial Instruments (continued)

The fair value is the price that would have been received to seal an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described in IFRS 13 'Fair Value Measurement'.

Specifically, the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Any gains or losses arising from changes in the fair value of derivatives are taken to the profit and loss account.The company does not apply hedge accounting.

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 such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit'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. Impairment losses on continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

Provisions for Liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Further details are provided in note 12.

Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services or goods supplied, stated net of discounts, returns, value added taxes and other sales taxes or duty.

The company recognises revenue when performance obligations have been satisfied and for the company this is when the services (engineering services, technical assistance, provision of tyres, fitting, transport) or goods (tyres) have transferred to the customer and the customer has control of these. The company bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Interest Income

Revenue is recognised as interest accrues using the effective interest method.

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2018

2.3 Significant accounting policies (continued)

Financial Instruments (continued)

Income Taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.
Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the profit and loss account within tax on profit.

Foreign Currencies

Transactions in foreign currencies are initially recorded in the entity's functional and presentational currency (Sterling) by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

This reflects the currency of the primary economic environment in which the company operates being Sterling, as the company is autonomous of its parent company and is based in the UK and primarily generates and expends cash in Sterling. The company is financed mainly through intercompany loans, which are primarily denominated in Sterling.

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2018

2.3 Significant accounting policies (continued)

Changes in accounting policies

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *'Revenue from Contracts with Customers'* establishes a new five-step model that will apply to revenue arising from contracts with customers, and provides a more structured approach to measurement and recognition of revenue. The review of the impact of IFRS 15 requires an assessment of each revenue stream and review of contracts and/or supply agreements in place with customers in order to establish and confirm the full impact of adopting this standard.

The company has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and possible adjustments to the amounts recognised in the financial statements. The new accounting policies are set out above.

In accordance with the transition provisions in IFRS 15, the company has adopted the new rules retrospectively. There is, however, no material impact on the comparatives for the 2017 financial year, or on the amount recognised in the balance sheet at the beginning of the earliest period presented (1 January 2017), and, accordingly, the comparative figures have not been restated.

There were no adjustments made to line items in the statement of profit or loss and the statement of other comprehensive income for the 2017 reporting period relating to IFRS 15 adjustments.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and possible adjustments to the amounts recognised in the financial statements. The new accounting policies are set out above.

In accordance with the transitional provisions in IFRS 9 paragraphs 7.2.15 and 7.2.26, comparative figures have not been restated. Moreover, there is no material impact on the company's retained earnings as at 1 January 2018.

There were no adjustments made to line items in the statement of profit or loss and the statement of other comprehensive income for the 2017 reporting period relating to IFRS 9 adjustments.

Impairment of financial assets

The company has the following types of financial assets that are subject to IFRS 9's new expected credit loss model:

- Trade debtors for sales of inventory and from the provisions of services
- Loans to Pirelli & C. SpA group companies
- Amounts owed by Pirelli & C. SpA group companies

The company was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. Specifically, the company applies the IFRS 9 simplified approach as allowed under IFRS 9 para 5.5.15 to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and

SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 31 December 2018

2.3 Significant accounting policies (continued)

contract assets. The impact of the change in impairment methodology on the company's retained earnings and equity is not material.

Similarly, whilst cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Other

There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2018 have had a material impact on the company.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. Turnover

Turnover represents the amount derived from services provided and goods supplied, after deducting rebates and discounts. All turnover is attributable to the company's provision of tyres and motorsport services operations, which are all based in the United Kingdom and are considered to be one class of business.

Turnover recognised in the profit and loss account is analysed as follows:

	2018	*2017*
	£000	*£000*
Sale of services	29,861	29,546
Sale of goods	12	316
Turnover from continuing operations	29,873	29,862

Geographical market supplied:		
United Kingdom	10	316
France	1	-
Germany	1	-
Italy	29,861	29,546
	29,873	29,862

2. Operating Profit

This is stated after charging:

	2018	*2017*
	£000	*£000*
Amortisation on intangible assets (note 7)	21	19
Depreciation and amounts written off owned tangible assets (note 8)	429	374
Loss on disposal of tangible assets	-	-
Auditors' remuneration (note 3)	13	13
Net foreign currency exchange differences	20	50
Cost of stocks recognised as an expense (included in cost of sales)	10,339	10,269
Impairment of inventory (included in cost of sales)	-	-
Reversal of impairment of inventory (included in cost of sales)	-	-
Operating lease payments:		
- Property	371	349
- Hire of plant and machinery	141	110
Total lease payments recognised in the profit and loss account	512	459

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

3. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements

	2018	*2017*
	£000	*£000*
Fees payable to the company's auditors for the audit of the financial statements	13	13

The company's auditors did not perform other services in the current or prior year.

4. Staff costs and directors' remuneration

a) Staff costs

	2018	*2017*
	£000	*£000*
Wages and salaries	2,455	2,487
Social security costs	269	270
Other pension costs (note 15)	99	99
	2,823	2,856

The average monthly number of employees during the year was:

	2018	*2017*
	No	*No*
Selling and distribution	41	43
Administration	1	1
	42	44

b) Directors' remuneration

Directors' emoluments have been borne by other companies within the Pirelli group since these directors are either officers or directors of other group companies. The directors' services to the company do not occupy a significant amount of their time. As such the directors do not consider that they have received any remuneration for their incidental services to the company for the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018

5. Interest payable and similar expenses

	2018 £000	2017 £000
Interest payable to Pirelli & C. SpA group companies	33	31
Finance Lease charge	7	4
	40	35

No material amount of borrowings costs have been capitalised in the current year or prior financial year.

6. Tax on profit

a) Tax charged in the profit and loss account

	2018 £000	2017 £000
Current income tax:		
Group relief	135	146
Adjustments in respect of previous years	102	9
Total current income tax	237	155
Deferred tax:		
Origination and reversal of timing differences	23	19
Adjustments in respect of previous years	(89)	(7)
Total deferred tax	(66)	12
Tax expense in the profit and loss account	171	167

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018

6. Tax on profit (continued)

b) *Reconciliation of the total tax charge*

The tax expense in the profit and loss account for the year is higher (2017: higher) than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are reconciled below:

	2018	*2017*
	£000	*£000*
Profit before taxation	836	826
Profit before taxation multiplied by UK standard rate of corporation tax of 19.00% (2017: 19.25%)	159	159
Effects of:		
Expenses not deductible for tax purposes	1	9
Adjustments in respect of previous years	13	2
Impact of difference between corporation tax rate and deferred tax rate	(2)	(3)
Total tax expense reported in the profit and loss account	171	167

The tax rate for the current year is lower than the prior year tax due to changes in the UK Corporation tax rate, which decreased from 20% to 19% from 1 April 2017.

c) *Change in corporation tax rate*

The UK corporation tax rate will reduce to 17% from 1 April 2020. The company considers that the timing differences included in the deferred tax calculation will, for the most part, reverse after 1 April 2020 and has therefore used a tax rate of 17% to calculate the related deferred tax on these timing differences.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 Dcccmber 2018

6. Tax on profit (continued)

d) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2018	*2017*
	£000	*£000*
Deferred tax assets (note 10)		
Fixed assets	281	215
	281	215

	2018	*2017*
	£000	*£000*
At 1 January	215	227
Tax income/(expense) recognised in profit and loss	66	(12)
At 31 December	281	215

All deferred tax balances are recognised (2017: all recognised).

Deferred tax in the profit and loss account:

	2018	*2017*
	£000	*£000*
Fixed assets	23	19
Adjustments in respect of previous years	(89)	(7)
Changes in tax laws and rates	-	-
Deferred tax (income)/expense	(66)	12

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018

7. Intangible assets

	£000
Cost:	
At 1 January 2018	63
Additions	-
At 31 December 2018	63
Accumulated amortisation:	
At 1 January 2018	27
Amortisation during the year	21
At 31 December 2018	48
Net book amount:	
At 31 December 2018	15
At 31 December 2017	36

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018

8. Tangible assets

	Leasehold land and buildings	*Fixtures, fittings and equipment*	*Plant, machinery and vehicles*	*Assets under construction*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Cost:					
At 1 January 2018	292	655	3,539	54	4,540
Additions	-	39	374	-	413
Brought into service	-	-	17	(17)	-
Disposals	-	-	(5)	-	(5)
At 31 December 2018	292	694	3,925	37	4,948
Accumulated depreciation:					
At 1 January 2018	292	542	2,622	-	3,456
Provided in the year	-	72	357	-	429
Disposals	-	-	(4)	-	(4)
At 31 December 2018	292	614	2,975	-	3,881
Net book amount:					
At 31 December 2018	-	80	950	37	1,067
At 31 December 2017	-	113	917	54	1,084

Assets under construction
Assets under construction at 31 December 2018 amounting to £37,000 (2017: £54,000) relates to expenditure for plant in the course of construction.

Leasehold land and buildings - other
All leasehold land and buildings are held under short leases.

Leasehold vehicles
Plant, machinery and vehicles includes two refrigerated trailers purchased under a finance lease arrangement.

Included in leasehold land and buildings is land valued at £nil (2017: £nil) which is not subject to depreciation. £157,000 tangible fixed assets are held under finance leases at 31 December 2018 (2017: £157,000).

The directors estimate that the fair value of tangible fixed assets, including land and buildings, equates to their carrying value.

No material amount of borrowing costs have been capitalised in the current or prior financial year.

£2,867,000 (2017: £2,710,000) of fully depreciated assets are still in use at the balance sheet date. No assets (2017: £nil) have been retired from active use.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018

9. Stocks

	2018	2017
	£000	£000
Finished goods	828	975
	828	975

Stock recognised as expenses in the profit and loss account amounted to £10,339,000 (2017: £10,269,000).

10. Debtors

Amounts falling due within one year:

	2018	2017
	£000	£000
Trade debtors	3	1
Amounts owed by Pirelli & C. SpA group companies	5,199	7,288
Corporation tax	-	-
Other debtors	116	357
Prepayments and accrued income	965	542
	6,283	8,188

Amounts owed by Pirelli & C. SpA. group companies are unsecured, payable on demand, interest free and on normal commercial terms.

Immaterial provisions are held for impairment (2017 : none).

Amounts falling due after more than one year:

	2018	2017
	£000	£000
Deferred tax (note 6)	281	215
	281	215

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018

11. Creditors

Amounts falling due within one year:

	2018	*2017*
	£000	*£000*
Trade creditors	3,020	987
Loans from Pirelli & C. SpA group companies	568	2,937
Amounts owed to Pirelli & C. SpA group companies	-	1,272
Corporation tax	-	155
Other taxation and social security payable	79	100
Lease payments	76	62
Other creditors	168	113
Accruals and deferred income	476	1,138
	4,387	6,764

Interest is charged on the loans from Pirelli & C. SpA group companies at 2.5% above the monthly average of the daily Euro Overnight Index Average as quoted daily by Bloomberg. The loans are payable on demand and unsecured.

Amounts owed to Pirelli & C. SpA group companies are unsecured, payable on demand, interest free and on normal commercial terms.

All amounts are unsecured (2017: all unsecured).

Amounts falling due after more than one year:

	2018	*2017*
	£000	*£000*
Lease payments	-	65

Finance leases

The future minimum finance lease payments are payable as follows:

	2018	*2017*
	£000	*£000*
Not later than one year	79	68
Later than one year and not later than five years	-	68
Later than five years	-	-
Total gross payments	79	136
Impact of finance expenses	(3)	(9)
Carrying value of liability	76	127

The finance leases primarily relate to refrigerated trailers which are leased from a specialist logistics company. The remaining lease term runs to the end of 2019 at which point ownership will transfer to the company.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018

12. Provisions for liabilities

	Dilapidations and property retirement costs
	£000
At 1 January 2018	212
Arising during the year	4
At 31 December 2018	216

The provision for dilapidations and property retirement costs represents the present value of the company's obligations under a short property lease where it is required by the terms of the lease to reinstate the property to its condition at the start of the lease. The company's obligations under the lease are expected to be discharged within the next two years.

13. Called up share capital

	2018	*2017*	*2018*	*2017*
	No.	*No.*	*£*	*£*
Authorised:				
Ordinary Shares of £1 each	1	1	1	1
Allotted and fully paid:				
Ordinary Shares of £1 each	1	1	1	1

Ordinary shares carry no rights to fixed income. Holders of ordinary shares are entitled to vote at meetings.

14. Capital Commitments

At 31 December 2018, amounts contracted for but not provided in the financial statements for the acquisition of tangible assets amounted to £nil (2017: £122,000) and for the acquisition of intangible assets amounted to £nil (2017: £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018

15. Pensions and other post-employment benefits

The company participates in the defined contribution section of the Pirelli Tyres Limited 1988 Pension & Life Assurance Fund which is a trustee administered pension scheme. Both the company and the members make contributions to the scheme.

The cost of contributions to the scheme amounted to £99,000 (2017: £99,000) and at the balance sheet date there was £nil (2017: £nil) employer contributions outstanding.

16. Obligations under leases

Operating lease agreements where the company is lessee
The company has entered into commercial leases on certain properties and items of machinery. These leases have durations of between 3 and 9 years. The property lease contains a three month rent free period in 2017 if the break clause is not exercised. There are no restrictions placed upon the lessee by entering into these leases.

Lease figures for 2018 due not later than one year include £391,000 (2017: £375,000) for the property rental lease. The balance is due to leases for air dryer rental equipment, radio communications systems and wireless trailer trackers.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2018	*2017*
	£000	*£000*
Not later than one year	512	486
After one year but not more than five years	-	486
After five years	-	-
	512	972

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

17. Ultimate parent company and controlling party

The company's immediate parent company is Pirelli Tyre SpA. Pirelli Tyre SpA is wholly owned by Pirelli & C. SpA which is the smallest group for which consolidated financial statements are prepared. The company's ultimate parent company and controlling party is China National Chemical Corporation which is the largest group for which consolidated financial statements are prepared.

Pirelli Tyre SpA and Pirelli & C. SpA are incorporated in Italy. China National Chemical Corporation is a Chinese state owned company incorporated in the People's Republic of China.

Copies of the financial statements of Pirelli Tyre SpA, Pirelli & C. SpA and China National Chemical Corporation may be obtained from the company's registered office at Derby Road, Burton-upon-Trent, Staffordshire, DE13 0BH.

18. Post Balance Sheet Events

An interim dividend of £4,300,000 (£4,300,000 per share) was proposed on 26 April 2019. This dividend is not included as a liability in these financial statements.