ALD AUTOMOTIVE LIMITED

Registered Number: 987418

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 December 2019

ALD AUTOMOTIVE LIMITED

DIRECTORS

M W Dawson (resigned 1 July 2019)
T Laver (appointed 1 July 2019)
D A Yates

SECRETARY

A Woodward

AUDITORS

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

BANKERS

Société Générale
One Bank Street
Canary Wharf, London
E14 4SG

SOLICITORS

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

REGISTERED OFFICE

Oakwood Drive
Emersons Green
Bristol
BS16 7LB

The directors present the audited financial statements of ALD Automotive Limited ("the Company" or "ALD") for the year ended 31 December 2019. 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 2019, our fleet increased to 158,487 (2018 Restated: 144,162). As at 31 December 2019 the order bank was 6,283 (2018: 6,916).

The overall profit for the year after taxation amounted to £37,204k (2018: £46,698k). At the balance sheet date total assets were £2,213,548k (2018 Restated: £1,893,392k), net assets being £115,786k (2018: £125,280k).

During the year a dividend of £46,698k (£476,510 per share) was paid (2018: £40,853k and £416,867 per share). No dividend has been proposed subsequent to the balance sheet date in relation to the year ended 31 December 2019.

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 continued development of a multi-channel sales strategy with our direct sales channels complemented by a partnership approach to expand routes to market.
2. Continuous product development and the evolution of digital solutions to meet changing market needs.
3. The continued delivery of high quality customer service in each of our target markets.

Key Performance Indicators

	2019	2018 (Restated)	Definition and analysis
Gross margin (%)	14.2	14.8	Gross margin is the ratio of gross profit to revenue expressed as a percentage.
Return on shareholders' funds (%)	32.1	37.3	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)	158,487	144,162	Total fleet size is the total number of vehicles managed and/or funded. Fleet size continued to grow, recording an increase of 9.9% during the year.
Productivity	256.8	274.2	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)	13.2	17.8	Stock turnover is the annualised ratio of stock to cost of sales expressed as a number of days.

Section 172 (1) statement – Directors' duty to promote success of the Company

In accordance with Section 172 of the Companies Act 2006, the directors of the Company must act in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, they have regard (among other matters) to:

S172 (1) (a) "The likely consequences of any decision in the long term"

The directors consider the scalability and sustainability of the Company's business model to be central to the success of the Company in the long term. New operational processes across the business are continuously being developed not only to improve internal efficiencies but, to enhance the customer journey; this is enabling the pursuit of further growth opportunities whilst keeping overhead costs under control. As customers become increasingly accustomed to doing business online, we also continue to enhance our offering of innovative digital products. At the end of 2019, the directors appointed a dedicated Head of Change to coordinate and ensure a coherent approach to the range of projects and initiatives across the business.

The landscape of the mobility sector is evolving rapidly. It is shaped by changing customer priorities and developing technologies such as autonomous and alternatively fuelled vehicles. The UK government is proposing to ban the sale of new petrol and diesel cars from 2035 and electric vehicles are already a viable option for many. The directors' aim is for ALD to have a central role in shaping the future of sustainable mobility. To this end and in collaboration with the wider ALD Group, we have entered into strategic partnerships with both Polestar and Tesla to offer leases on their vehicles through fully digital platforms.

S172 (1) (b) "The interests of the Company's employees"

The directors are dedicated to promoting employee engagement within the Company. Historically, an annual survey was carried out to gather employee views on ALD as an employer but in 2019 we launched a quarterly 'YourVoice' survey to gain more regular feedback. This survey is used to track our Employee Net Promoter Score (eNPS).

Employees can also submit feedback and suggestions at any time to the YourVoice Group, a team of employee representatives that helps the Board to prioritise issues important to the wider employee population. 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 intranet, which also contains the latest news from Société Générale, ALD Group and the industry.

The ALD learning and development program is designed not only to ensure that all staff have the skills and knowledge to perform their roles competently but to enable staff to continually develop throughout their time at ALD. Specific attention has been paid to the continued implementation of the Senior Managers & Certification Regime ("SMCR"), with all employees engaged with the Conduct Rules. Both skills based training and study support is made available to staff.

We understand the importance of equality, diversity, inclusion and promoting well-being to ensure we have a workforce that reflects our environment.

As a company, we take diversity and inclusion extremely seriously and have policies in place to ensure there is equality of opportunity for every employee irrespective of age, disability, gender, race, religion and sexual orientation. There is need for continuing work in this area and whilst we have made good progress to date we will continue to build on our strong foundation.

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.

S172 (1) (c) "The need to foster the Company's business relationships with suppliers, customers and others"

The Company's robust growth in recent years is testament to the strength of our business relationships with key stakeholders, including customers (both retail and corporate), white label partners, credit intermediaries (i.e. dealers and brokers), suppliers, and our regulator the Financial Conduct Authority ("FCA").

We are committed to treating customers fairly and openly at all times. We launched a company-wide Customer Excellence programme in 2015 to further embed a customer service culture across the business. This programme has continuously evolved to ensure the ongoing improvement to service quality and the customer experience. We are a corporate member of the Institute of Customer Service and a number of employees are working toward formal qualifications with this organisation.

The Company has a positive and collaborative relationship with its intermediary network and other key suppliers. We have a robust supplier on-boarding process to ensure that appropriate due diligence is undertaken, and a monitoring program to enable oversight of outsourced functions in accordance with SMCR. 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 2019 was 16.4 days (2018 Restated: 24.7 days), based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

S172 (1) (d) "The impact of the Company's operations on the community and the environment"

Corporate social responsibility is integrated within our business strategy at both a Group and local level and is based upon 4 core pillars:

- Promoting **sustainable mobility** solutions to our customers
- Demonstrating our **responsibility as an employer**
- Embracing **responsible business practices** in everything we do
- **Responsible conduct internally** to reduce our environmental footprint

Central to ALD's business strategy, therefore, is the help we offer in creating fleet policies which reduce emissions from internal combustion engine ("ICE") vehicles, assist in the transition towards zero emission road transport and in the development of more sustainable options for travel in the future.

ALD is focused on helping to tackle the issue of climate change and the growing concern of road transport pollution and congestion and, as a result has seen a progressive rebalancing of its fleet portfolio as customers switch from diesel to petrol and alternatively-fueled vehicles (AFVs).

A UK Business Intelligence and Consultancy team operate as part of a global team of consultancy experts. Their role is to help support customers through a range of issues, offering advice and recommendations to meet their specific needs. To assist them in this process, the ALD Mobility Experience brings together multiple decision makers across a customer's fleet to challenge the more traditional approach to business travel and identify opportunities to promote sustainability mobility in the future.

Whilst helping enable this transition to cleaner, greener vehicles is key to ALD's strategy, equally important is the support ALD offer in promoting the benefits of smarter driving behavior. This is just one of the key benefits provided by ALD's telematics solution, ProFleet. In 2020, this service will be further enhanced by the launch of a new connected car solution developed in conjunction with the ALD Group and a US-based connected car platform provider, Vinli.

ALD is aware of its role within the community and 4 core values underpin its strategy

- **Innovation**
- **Team Spirit**
- **Responsibility**
- **Commitment**

ALD encourages and supports employees to play an active role in its community by engaging in a range of volunteering and fund-raising activities. Building on their passion and enthusiasm this fosters team spirit, loyalty and pride in the business. To promote and co-ordinate these activities ALD appointed a dedicated Corporate Social Responsibility ("CSR") manager in January 2019.

Reporting directly to the UK Board he is supported locally by a UK team of CSR Ambassadors and a global CSR community coordinated by a Group CSR Director based in Paris. In addition, ALD employ a team of specialists in mobility, electric vehicles, compliance, mental health, IT security, customer excellence and other areas fundamental to a wider CSR effort.

The importance of CSR is underlined by it being one of 9 company awards presented annually. The Recognition of Outstanding Service and Contribution to ALD ("ROSCA") Awards, is one of the highlights of the year for ALD staff.

ALD's ethical and environmental standards are benchmarked annually through EcoVadis. Their Sustainability Ratings are adopted by Global 500 Companies to assess and improve CSR performance. The company achieved gold certification in 2019 which places ALD UK's operation in the top 25% for labour practices and sustainable procurement, the top 5% for fair business practices and top 1% for environment.

Whilst ALD promote the value of sustainable mobility externally and embed responsible business practice internally it recognizes its responsibility to manage its internal carbon footprint and to align its sustainable practices accordingly. The company are, therefore, pro-active in efforts to reduce business travel, encourage alternative commuting options and improve energy efficiency and responsible recycling.

To help reduce single occupancy travel to and from work ALD promote car sharing and have 34 designated car sharing bays at their offices in Bristol. A 'park and ride' shuttle bus service also operates between both buildings. For those able to walk or jog to work, or wish to switch to two-wheeled travel, ALD offer 15 dedicated motor cycle bays and covered cycling bays for 92 bikes and have on-site shower, drying room and locker facilities too. In addition, ALD participate in a cycle to work scheme which is promoted twice a year.

For those employees that choose to commute to ALD 24 electric vehicle charging points are available for staff free of charge. We are also working to reduce the carbon footprint of our offices through the installation of roof-top solar panels.

We have partnered with several local organisations to identify volunteering opportunities for our employees, and have also supported fundraising initiatives for local and national charities.

We have been able to further support our local community during the COVID-19 pandemic by making a number of vehicles available to frontline workers free of charge.

During the COVID-19 pandemic, ALD took part in a national relief effort to help both front-line NHS staff and those in the community most vulnerable, this involved:

- Financial donations to two local health charities and FareShare South West
- Free of charge vehicles to support local hospital staff and foodbank charity work
- Vehicle logistics with staff delivering key Personal Protective Equipment ("PPE") items and food boxes
- PPE donations for use by NHS front-line staff and keyworkers on the road
- Staff appeal for FareShare South West
- Promoting safe volunteering

This was in addition to supporting vulnerable customers to ease them through the crisis.

S172 (1) (e) "The desirability of the Company maintaining a reputation for high standards of business conduct"

We always strive to maintain high standards of business conduct, and take our responsibility for treating customers fairly very seriously. This is more important than ever at a time when there is increasing regulatory focus on the motor finance market (referenced in the two FCA publications in March and October 2019). In particular 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.

There is a group wide Code of Conduct that staff are required to abide with and which describes the key principles expected of each of them. It forms the basis of our professional ethics and our commitment to meeting the needs of each of our stakeholders, our employees, customers, partners, regulators and society as a whole.

It promotes our respect for human rights, the environment, prevention of conflicts of interest and corruption, the fight against money laundering and the financing of terrorism, respect for the integrity of markets, protection of data and conduct with respect to gifts and hospitality and responsible purchasing. It also sets out procedures for employees to exercise their right of whistle-blowing in confidence and with the promise that they will not suffer any discrimination for speaking up.

We apply a zero-tolerance approach to all forms of inappropriate behaviour such as bullying, sexual harassment, sexist, racist and homophobic conduct and enshrined within our Code of Conduct are detailed policies to prevent and address such issues.

By embracing our Culture and Employee Development programme we also ensure the highest standards are maintained in our core values, quality of leadership and behavioural integrity.

ALD has always taken its responsibilities under data protection law seriously. With the strengthening of data protection law through the implementation of GDPR in 2018, ALD has developed its data protection policies and procedures to ensure that they are robust and compliant, overseen by its Data Protection Officer.

As a part of our comprehensive data protection governance of IT, legal and cybersecurity processes, our aim is not only to ensure our compliance in the area of personal data processing, but also to ensure our capacity to continue to develop our service offering in a spirit of mutual trust with all of our stakeholders.

S172 (1) (f) "The need to act fairly as between members of the Company"

The strategy of the Company is informed by and consistent with that of the ALD Automotive Group of which it is a 100% subsidiary.

COVID-19

After the balance sheet date, the UK has been affected by the global COVID-19 pandemic. The COVID-19 pandemic has significantly impacted trading conditions since March 2020. Intermediaries such as dealerships were unable to trade under lockdown due to being classed as "non-essential" retail businesses. In April 2020, new car registrations were down 97.3% and new Light Commercial Vehicle ("LCV") registrations were down 86.2% relative to April 2019.

Following lockdown measures implemented by the UK government and against the backdrop of a sharp contraction in new vehicle registrations, fleet additions have tracked significantly below budget. Terminations have also decreased as many customers have chosen to keep their current vehicles and to extend contracts due to terminate. However the fleet is relatively robust to shocks due to the multi-year operational cycle. Fleet additions have already started to pick up from the start of June, whilst many contracts have been extended in order to maintain existing business.

The Company has transitioned to a remote-working operating model in line with government guidance on social distancing. This has demonstrated our operational resilience, as all staff have been able to perform their roles from home and no employees have been furloughed. We have also cross-trained employees across many of our operational roles to enable an agile response to changing customer needs.
The governance structure and key controls have been largely maintained, although digital approvals have replaced physical signatures for most processes and key committee meetings are held using conferencing software rather than in person. The directors have exercised closer oversight of operations during this period of disrupted operations through more frequent board meetings and enhanced Key Performance Indicator ("KPI") reporting.

The pandemic and resulting government lockdown measures on "non-essential" retail businesses and restrictions on "non-essential" travel have caused financial difficulties for many of our customers. We are pleased to have been able to support customers experiencing short-term payment difficulties by granting deferrals of monthly lease payments in line with FCA guidance on three month payment holidays. In June, these deferrals have been taken up by 6.8% of our customers.

Clearly these payment deferrals and related forbearance measures, along with a potential increase in customer defaults, will negatively impact our cash inflows. However it is also the case that cash outflows have been significantly reduced due to lower fleet additions. Based on cash flow forecasts across a range of potential scenarios over the next 12 months and comfortable headroom in our loan facilities with ultimate parent Société Générale, we do not expect the liquidity or solvency of the Company to be compromised as a result of COVID-19. Refer to Note 1 of the financial statements entitled "Basis of preparation" for more detailed considerations on going concern assumption.

Brexit

We also anticipate that Brexit may impact trading conditions in 2021, however at this stage there is significant uncertainty over the form of Brexit and therefore how the wider economy is likely to be affected. We continue to monitor the latest government guidance and expect to have further clarity at the end of the first stage of government trade talks with the EU.

Going concern

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

The business environment in which we operate has been significantly impacted by the COVID-19 pandemic. However, our business model operates on a multi-year cycle and is as a result resilient to short term external shocks. 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.

The directors therefore do not believe that a material uncertainty exists regarding 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. Refer to Note 1 of the financial statements entitled "Basis of preparation" for more detailed considerations on going concern assumption.

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 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

T Laver
Director

23 July 2020

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 the largest vehicle leasing provider in Europe, and operates in more countries than any other vehicle leasing provider, funding and managing over 1.7 million cars and light commercial vehicles worldwide.

In the UK, we manage a fleet of over 158,000 vehicles. We are the 5th 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. 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 British Vehicle Rental and Leasing Association ("BVRLA") and the Finance and Leasing Association ("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 small and medium-sized enterprises ("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 (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 creating solutions focused on cost control, risk management, carbon reduction, operational efficiencies and sustainable mobility.

IT solutions

Continuing investment in IT and online systems to deliver efficiency improvements and added value service is a cornerstone of our strategy.

Future outlook

Our multi-channel business model continues to provide both resilience and flexibility to cope with the cyclical nature of different markets and enables us to react quickly to new opportunities that are presented.

It has adapted and evolved to continuing changes within our market and we remain well positioned to grow market share through product innovation and high quality customer service, with our core capabilities of finance, servicing, re-marketing and customer excellence remaining fundamental necessities in our market for the foreseeable future.

We understand the changes happening within our sector and the key trends which are shaping its future, including the impact of Covid-19, and we are confident we have products, services and resources to continue to meet the needs of our corporate, SME and consumer markets.

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 changing 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 2019, 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.

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.

As a result of COVID-19, there was a short term impact on our key partners as dealerships were closed during the lockdown, however, they have since resumed normal service from early June. The unprecedented impact of the virus and the lockdown may also cause uncertainties over the residual value market, however that 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. Further details are set out in note 22 (b).

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

T Laver
Director

23 July 2020

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.

Opinion

We have audited the financial statements of ALD Automotive Limited for the year ended 31 December 2019 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 2019 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.

Emphasis of matter – Effects of COVID-19

We draw attention to notes 1 and 24 of the financial statements, which describes the economic disruption the company is facing as a result of COVID-19 which is impacting financial markets. Our opinion is not modified in respect of this matter.

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 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 13, 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.

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.

Ernst & Young LLP

Richard Page (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Bristol
28 July 2020

ALD AUTOMOTIVE LIMITED
Statement of Comprehensive Income for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Continuing operations			
Interest revenue	2	100,348	78,843
Other revenue	2	777,416	735,724
Cost of sales		(747,750)	(692,260)
Net impairment losses on lease receivables		(5,516)	(1,882)
GROSS PROFIT		124,498	120,425
Administrative expenses		(47,053)	(43,277)
OPERATING PROFIT	3	77,445	77,148
Finance income	5(a)	6,482	3,885
Finance costs	5(b)	(37,213)	(23,410)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		46,714	57,623
Taxation	6	(9,510)	(10,925)
PROFIT FOR THE FINANCIAL YEAR		37,204	46,698
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		37,204	46,698
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT		37,204	46,698

The notes on pages 21 to 56 are an integral part of these financial statements.

ALD AUTOMOTIVE LIMITED
Statement of Financial Position as at 31 December 2019

	Notes	2019 £'000	2018 Restated £'000
NON-CURRENT ASSETS			
Intangible assets	7(a)	8,191	8,548
Property, plant and equipment	7(b)	1,613,177	1,414,564
Trade and other receivables	8	319,856	241,523
Deferred tax asset	6(c)	13,976	5,501
Derivative assets	9	572	383
		1,955,772	1,670,519
CURRENT ASSETS			
Inventory	10	27,343	33,925
Trade and other receivables	8	229,209	187,041
Cash and cash equivalents		1,224	1,907
		257,776	222,873
TOTAL ASSETS		**2,213,548**	**1,893,392**
NON-CURRENT LIABILITIES			
Long term borrowings	11	1,369,836	1,115,598
Long term provisions	12	1,128	2,912
Derivative liabilities	9	1,893	662
		1,372,857	1,119,172
CURRENT LIABILITIES			
Short term borrowings	13	556,291	478,124
Income tax liabilities	13	7,834	6,065
Trade and other payables	13	35,458	48,474
Short term provisions	12	-	422
Accruals and deferred income	13	125,322	115,855
		724,905	648,940
TOTAL LIABILITIES		**2,097,762**	**1,768,112**
CAPITAL AND RESERVES			
Called up share capital	14	-	-
Capital contribution reserve		2,254	2,254
Retained earnings		113,532	123,026
TOTAL EQUITY		**115,786**	**125,280**
TOTAL EQUITY AND LIABILITIES		**2,213,548**	**1,893,392**

Registered number 987418. The notes on pages 21 to 56 are an integral part of these financial statements.

T Laver
Director
23 July 2020

ALD AUTOMOTIVE LIMITED
Statement of Changes in Equity for the year ended 31 December 2019

	Share Capital £'000	Retained Earnings £'000	Capital Contribution £'000	Total £'000
Balance as of 31 December 2017	-	120,730	2,254	122,984
IFRS 9 initial application	-	(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
Dividend paid	-	(46,698)	-	(46,698)
Profit for the year and total comprehensive income	-	37,204	-	37,204
Balance as of 31 December 2019	-	113,532	2,254	115,786

ALD AUTOMOTIVE LIMITED
Statement of Cash Flows for the year ended 31 December 2019

	2019	2018 Restated
	£'000	£'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	46,714	57,623
Adjustments for:		
- Depreciation	293,796	272,488
- Amortisation	5,161	2,182
- Finance costs	33,464	22,748
- Finance income	(3,567)	(2,724)
- Derivatives	1,042	279
- Gain on disposal of property, plant and equipment	(23,003)	(24,572)
- Movement in provisions	(2,206)	162
Changes in operating assets and liabilities:		
- Increase in receivables and prepayments	(120,413)	(80,625)
- Movement in inventory	2,753	(16,729)
- Increase in payables and accruals	(2,749)	47,983
Other	21	25
	231,013	278,840
Interest received	3,456	2,415
Income tax paid	(16,215)	(13,196)
NET CASH FROM OPERATING ACTIVITIES	218,254	268,059
CASH FLOWS FROM INVESTING ACTIVITES		
Proceeds from sale of property, plant and equipment	346,751	337,219
Purchase of property, plant and equipment	(802,596)	(694,335)
Purchase of intangible assets	(4,804)	(4,825)
NET CASH FROM INVESTING ACTIVITIES	(460,649)	(361,941)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	1,206,083	2,119,318
Repayment of borrowings	(886,313)	(1,954,879)
Interest paid	(33,432)	(24,317)
Dividend paid	(46,698)	(40,853)
Payment of lease liabilities	(1,534)	-
NET CASH FROM FINANCING ACTIVITIES	238,106	99,269
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(4,289)	5,387
Cash and cash equivalents at the beginning of the year	(1,213)	(6,600)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	(5,502)	(1,213)

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 13.

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.

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 International Accounting Standard ("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.

Going concern

The business environment in which we operate has been significantly impacted by the COVID-19 pandemic. However, our business model operates on a multi-year cycle and is as a result resilient to short term external shocks. 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.

Management have also considered a range of scenarios which may impact the going concern including the effect on IFRS 9 reserves, residual values, overhead expenses and interest rates. Furthermore, detailed scenario analyses have been performed on cash flow forecasts and its impact on the funding structure which included stress and reverse stress testing reductions in vehicle sales performance and customer cash collections.

The directors therefore do not believe that a material uncertainty exists regarding 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.

After the balance sheet date, the UK has been affected by the global COVID-19 pandemic. The COVID-19 pandemic has significantly impacted trading conditions since March 2020. Intermediaries such as dealerships were unable to trade under lockdown due to being classed as "non-essential" retail businesses. In April 2020, new car registrations were down 97.3% and new LCV registrations down 86.2% relative to April 2019.

Following lockdown measures implemented by the UK government and against the backdrop of a sharp contraction in new vehicle registrations, fleet additions have tracked significantly below budget. Terminations have also decreased as many customers have chosen to keep their current vehicles and to extend contracts due to terminate. However the fleet is relatively robust to shocks due to the multi-year operational cycle. Fleet additions have already started to pick up from the start of June, whilst many contracts have been extended in order to maintain existing business.

The Company has transitioned to a remote-working operating model in line with government guidance on social distancing. This has demonstrated our operational resilience, as all staff have been able to perform their roles from home and no employees have been furloughed.

1. ACCOUNTING POLICIES (continued)

We have also cross-trained employees across many of our operational roles to enable an agile response to changing customer needs.

The pandemic and resulting government lockdown measures on "non-essential" retail businesses and restrictions on "non-essential" travel have caused financial difficulties for many of our customers. We are pleased to have been able to support customers experiencing short-term payment difficulties by granting deferrals of monthly lease payments in line with FCA guidance on three month payment holidays. In June, these deferrals have been taken up by 6.8% of our customers.

Clearly these payment deferrals and related forbearance measures, along with a potential increase in customer defaults, will negatively impact our cash inflows. However it is also the case that cash outflows have been significantly reduced due to lower fleet additions. Based on cash flow forecasts across a range of potential scenarios over the next 12 months and comfortable headroom in our loan facilities with ultimate parent Société Générale, we do not expect the liquidity or solvency of the Company to be compromised as a result of COVID-19.

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

Reclassification

During the preparation of the 2019 accounts, two prior period adjustments were identified around the cut-off and classification of fixed assets. These adjustments arose due to timing differences at year-end and were detected during the statutory audit. The 2018 balances have been restated to reflect the adjustments. As a result of the cut-off adjustment below, the VAT payable balance in 2018 has had to be reclassified as a VAT receivable. The opening adjustment to the statement of financial position is summarised below.

	31 December 2018 Original £'000	Opening Adjustment Cut-off £'000	Opening Adjustment Re-Class £'000	Opening Adjustment Re-Class VAT £'000	31 December 2018 Restated £'000
Property, plant & equipment	1,406,604	23,169	(15,209)	-	1,414,564
Trade and other receivables (Non-Current)	238,778	2,745	-	-	241,523
Inventory	18,716	-	15,209	-	33,925
Trade and other receivables (Current)	181,091	1,514	-	4,436	187,041
Trade and other payables	(16,610)	(27,428)*	-	(4,436)	48,474

*This figure includes the purchase ledger adjustment of £32,532k which has been netted down by the £5,104k input VAT adjustment.

1. ACCOUNTING POLICIES (continued)

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 lease services rendered to customers is recognised in the statement of comprehensive income over the lease term in accordance with IFRS 16 '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.

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'.

1. ACCOUNTING POLICIES (continued)

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 Fit-out	-	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

For any new contracts entered into, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

Measurement and recognition of leases as a lessee

To apply the definition of a lease, the Company assesses whether the contract meets the below key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- The Company has the right to direct the use of the identified asset throughout the period of use.
- The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Since the adoption of IFRS16 from 01 January 2019, the Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

1. ACCOUNTING POLICIES (continued)

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification.

When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

The Company as a lessor

The Company's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Company classifies its leases as either operating or finance 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. All other assets provided by the Company under lease agreements are treated as operating leases ("contract hire").

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 was a revolving period of 1 year from December 2018 during which terminated contracts in the portfolio were replaced by additional contracts sold in. This revolving period has been extended by another 2 years from December 2019. 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.

1. ACCOUNTING POLICIES (continued)

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:

	2019 £'000
Carrying amount of transferred assets	414,000
Carrying amount of associated liabilities	410,799
Net position	3,201

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. Vehicles purchased in bulk from manufacturers are also kept within inventory until they are leased out. 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.

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.

1. ACCOUNTING POLICIES (continued)

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.

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.

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 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.

1. ACCOUNTING POLICIES (continued)

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. A relationship between unemployment and arrears was noted and a forward looking macroeconomic overlay has been applied to the provision for the year ended 31 December 2019. No conclusive relationship was found on other macroeconomic variables and therefore no additional adjustment was applied.

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.

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.

1. ACCOUNTING POLICIES (continued)

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.

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.

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.

1. ACCOUNTING POLICIES (continued)

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.

Extension options for leases
When the entity as a lessor has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. Financial impact of potential lease payments have not been included in the lease liabilities as it is not reasonably certain the extension option will be exercised.

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.

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.

	2019 £'000	2018 £'000
Analysis of revenue:		
Vehicle management services		
Operating lease agreements' rentals	421,481	388,967
Operating lease agreements' disposal proceeds	346,751	337,219
Finance lease agreements' rentals - interest	100,348	78,843
Finance lease agreements' rentals - other	3,957	3,438
Other	5,227	6,100
	877,764	814,567

3. OPERATING PROFIT

This is stated after charging / (crediting):

	2019 £'000	2018 £'000
Depreciation of property, plant and equipment	292,494	272,488
Depreciation of right-of-use assets	1,302	-
Amortisation of intangible assets	5,161	2,182
Operating lease rentals – land and buildings	45	1,263
Profit on disposal of property, plant and equipment	(23,003)	(24,572)
Auditors' remuneration – audit services	330	270

The operating lease rental figure of £45k represents the remaining payments for the old Milton Keynes lease before it expired. This is the only short term lease expense for the year; all other property leases were brought on the statement of financial position on initial application of IFRS 16 'Leases'.

4. STAFF COSTS

	2019 £'000	2018 £'000
Wages and salaries	20,762	19,309
Social security costs	2,163	1,899
Pension costs	1,476	1,401
Other	1,479	752
	25,880	23,361

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:

	2019	2018
Operations	229	87
Sales and marketing	104	212
Finance, IT and administration	256	215
	589	514

The customer services team (158 employees on average across 2019) was re-classified from "Sales and marketing" to "Operations" during the year.

5. FINANCE INCOME AND COSTS

(a) Finance Income

	2019 £'000	2018 £'000
Interest receivable from ALD Funding Limited	-	1,731
Interest receivable from Red & Black Auto Lease 1 PLC	2,877	153
Interest receivable from group undertakings	673	831
Fair value gain on financial instruments at fair value through profit or loss	2,915	1,163
Other	17	7
	6,482	3,885

(b) Finance Costs

	2019 £'000	2018 £'000
Interest payable to ALD Funding Limited	-	2,615
Interest payable to Red & Black Auto Lease 1 PLC	9,643	394
Interest payable to group undertakings	21,320	17,724
Interest payable to external funders	1,784	1,998
Fair value loss on financial instruments at fair value through profit or loss	3,957	662
Other	509	17
	37,213	23,410

6. INCOME TAXES

(a) Analysis of the tax charge in the period

	2019 £'000	2018 £'000
UK corporation tax:		
Current tax	18,016	13,191
Adjustments in respect of prior periods	(31)	(306)
	17,985	12,885
Origination and reversal of temporary differences:		
Current year deferred tax movement at 19% (2018: 19%)	(9,295)	(2,319)
Adjustments in respect of prior periods	(161)	113
Effect of change in tax rate	981	246
Total deferred tax	(8,475)	(1,960)
Tax on profit on ordinary activities	9,510	10,925

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% (2018: 19%). The differences are reconciled below.

	2019 £'000	2018 £'000
Profit on ordinary activities before tax	46,714	57,623
Profit on ordinary activities multiplied by standard rate UK corporation tax of 19% (2018: 19%)	8,876	10,948
Expenses not deductible for tax purposes	74	79
Non-taxable credits	-	-
Transfer pricing	15	(1)
R&D expenditure credits	(244)	(154)
Effect of change in tax rate	981	246
Adjustments in respect of prior periods	(192)	(193)
Total tax	9,510	10,925

Legislation has been proposed in the Finance Bill 2020, to increase the main rate of corporation tax for the Financial Year 2020 from the 17% previously announced to 19% with effect from 1 April 2020. This increase is not taken into account in calculating the deferred tax liability disclosed in the accounts. The effect of the change would be to increase the deferred tax asset by £1,644k.

(c) Deferred taxation

The deferred tax asset can be analysed as follows:

	2019 £'000	2018 £'000
Balance brought forward	5,501	2,800
IFRS 9 initial application	-	741
Adjusted balance brought forward	5,501	3,541
Deferred tax credit to profit and loss account	8,475	1,960
Balance carried forward	13,976	5,501
Decelerated capital allowances	13,476	4,734
Temporary differences	1,106	1,445
Intangible assets	(606)	(678)
Deferred tax asset	13,976	5,501

7. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS

(a) INTANGIBLE ASSETS

2019	Work in Progress £'000	Internally Developed Software £'000	Total £'000
Cost:			
At 1 January 2019	3,037	7,933	10,970
Additions	4,804	-	4,804
Project completion	(1,906)	1,906	-
At 31 December 2019	5,935	9,839	15,774
Amortisation:			
At 1 January 2019	-	2,422	2,422
Charge for the year	-	5,161	5,161
At 31 December 2019	-	7,583	7,583
Net book values:			
At 31 December 2019	5,935	2,256	8,191

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	3,037	7,933	10,970
Amortisation:			
At 1 January 2018	-	240	240
Charge for the year	-	2,182	2,182
At 31 December 2018	-	2,422	2,422
Net book values:			
At 31 December 2018	3,037	5,511	8,548

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

(b) PROPERTY, PLANT AND EQUIPMENT

2019	Land & Buildings £'000	Leasehold Fit-out £'000	Plant and computer equipment £'000	Motor Vehicles £'000	Total £'000
Cost:					
At 1 January 2019	-	5,031	5,034	1,888,662	1,898,727
Initial Recognition of Right of Use Asset	9,091	-	-	-	9,091
Adjusted Balance at 1 Jan 2019	9,091	5,031	5,034	1,888,662	1,907,818
Additions	640	(46)	1,099	801,544	803,237
Disposals	-	(168)	(582)	(582,643)	(583,393)
At 31 December 2019	9,731	4,817	5,551	2,107,563	2,127,662
Depreciation:					
At 1 January 2019	-	1,070	2,590	480,503	484,163
Charge for the year	1,302	732	902	290,860	293,796
Disposals	-	(168)	(582)	(262,724)	(263,474)
At 31 December 2019	1,302	1,634	2,910	508,639	514,485
Net book values:					
At 31 December 2019	8,429	3,183	2,641	1,598,924	1,613,177

2018 (Restated)	Land & Buildings £'000	Leasehold Fit-out £'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	690,920	694,335
Disposals	-	(168)	(624)	(548,152)	(548,944)
At 31 December 2018	-	5,031	5,034	1,888,662	1,898,727
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	-	1,070	2,590	480,503	484,163
Net book values:					
At 31 December 2018	-	3,961	2,444	1,408,159	1,414,564

(b) PROPERTY, PLANT AND EQUIPMENT (continued)

Vehicles rented to customers with a net book value of £1,598,812k at 31 December 2019 are included in the above (2018 Restated: £1,406,104k). Included within the above net book value of motor vehicles is (£3,819k) of decelerated depreciation due to revised estimates of residual values (2018: Accelerated depreciation of £1,203k).

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.

8. RECEIVABLES

	2019 £'000	2018 Restated £'000
Amounts falling due within one year:		
Trade receivables	35,973	34,203
Finance lease receivables	150,108	118,062
Amounts due from group undertakings	4,373	5,245
Prepayments and accrued income	31,467	25,094
Other taxes	7,288	4,437
	229,209	187,041
Amounts falling due after more than one year:		
Finance lease receivables	292,852	214,275
Prepayments and accrued income	16,204	12,848
Amounts due from group undertakings	10,800	14,400
	319,856	241,523
	549,065	428,564

The cost of vehicles acquired for the purpose of leasing under finance lease agreements for the year ended 31 December 2019 was £347,955k (2018 Restated: £269,099k).

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

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

8. RECEIVABLES (continued)

Movements on provisions for impairment of trade receivables are:

	2019 £'000	2018 £'000
At 1 January (adjusted for IFRS 9 application at 1 January 2018)	10,973	13,119
Charge for year	5,516	1,627
Utilised in the year	(4,218)	(3,773)
	12,271	10,973

9. DERIVATIVE FINANCIAL INSTRUMENTS

	Fair Value Assets £'000	Fair Value Liabilities £'000
Interest rate swaps	572	1,893
Total derivatives as at 31 December 2019	572	1,893
Total derivatives as at 31 December 2018	383	662

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.

10. INVENTORY

	2019 £'000	2018 Restated £'000
Vehicles	27,343	33,925

Inventory is stated net of a £342k provision (2018: £243k) representing the difference between net book value and estimated net realisable value for vehicle models expected to sell at a loss.

11. PAYABLES: amounts falling due after one year

	2019 £'000	2018 £'000
Long term borrowings payable:		
in 1 to 2 years	789,200	910,198
in 2 to 5 years	576,361	205,400
in 5+ years	4,275	-
	1,369,836	1,115,598

Of the loans analysed above, £913,444k (2018: £666,302k) are from Société Générale, the ultimate parent company. These loans are not secured and interest rates are fixed at the point of inception.

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 2018	-	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)
Unwinding of 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
Provided in the year	-	(128)	(1,796)	-	(1,924)
Utilisation in the year	(49)	(124)	-	(122)	(295)
Unwinding of discount rate	-	13	-	-	13
At 31 December 2019	-	1,078	50	-	1,128
Short term provisions	-	-	-	-	-
Long term provisions	-	1,078	50	-	1,128
	-	1,078	50	-	1,128

Provision for onerous lease
In the previous year, the IT Development team was relocated to the new Innovation and Development Centre. An onerous lease provision was recognised in respect of the former Development Centre, which was vacant at previous 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.

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 previous year end relates to an element of dual running which continued until March 2019.

13. PAYABLES: amounts falling due within one year

	2019	2018 Restated
	£'000	£'000
Short term borrowings:		
Bank overdraft	6,726	3,120
Amount due to group undertakings	523,156	446,969
Current instalments due on loans	25,149	28,035
Current portion of lease liabilities	1,260	-
	556,291	478,124
Trade and other payables:		
Trade payables	33,865	47,036
Other taxes and social security	1,593	1,438
	35,458	48,474
Income tax liabilities	7,834	6,065
Accruals and deferred income	125,322	115,855
	724,905	648,518

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

14. SHARE CAPITAL

	2019	2018
	£	£
Authorised:		
£1 ordinary shares	100	100
Allotted, called up and fully paid:		
£1 ordinary shares	98	98

15. 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	347,658	59,910	407,568
In one to two years	369,223	52,371	421,594
In two to five years	395,783	118,538	514,321
Total Exposure	1,112,664	230,819	1,343,483

16. FINANCIAL ASSETS AND LIABILITIES

	2019 £'000	2018 Restated £'000
Trade and other receivables	494,105	386,185
Derivative assets	572	383
Cash and cash equivalents	1,224	1,907
Total financial assets	495,901	388,475
Intangible assets	8,191	8,548
Property, plant and equipment	1,613,177	1,414,564
Deferred tax assets	13,976	5,501
Other assets	82,303	76,304
Total non-financial assets	1,717,647	1,504,917
TOTAL ASSETS	2,213,548	1,893,392
Borrowings	1,926,126	1,593,722
Trade payables	33,865	47,036
Derivative liabilities	1,893	662
Total financial liabilities	1,961,884	1,641,420
Other liabilities	135,878	126,692
Deferred tax liability	-	-
Total non-financial liabilities	135,878	126,692
TOTAL LIABILITIES	2,097,762	1,768,112

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 £413,018k (2018 Restated: £293,854k). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

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:

	2019	Level 1	Level 2
	£'000	£'000	£'000
Financial assets at fair value through profit or loss:			
Derivative assets	572	-	572

	2019	Level 1	Level 2
	£'000	£'000	£'000
Financial liabilities at fair value through profit or loss:			
Derivative liabilities	1,893	-	1,893

	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

17. CAPITAL COMMITMENTS

At the balance sheet date the Company had placed orders for motor vehicles to the value of £41.9m (2018: £37.7m) in respect of new lease rental agreements commencing in 2020. At 31 December 2019, other capital commitments amounted to £nil (2018: £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 2019 totalled £1,476k (2018: £1,401k) representing contributions due to the scheme in the period. There were no unpaid contributions outstanding at the end of the year (2018: £nil).

19. LEASES

The Company has leases for the multiple office buildings and related facilities. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The company applied the modified retrospective approach to adoption of IFRS 16 and therefore the effect of initial application of the standard has been to recognise the lease liability and Right of Use ("ROU") asset as at 01 January 2019 with no restatement of prior year figures or impact on the opening balance of retained earnings.

The Company classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 7). Lease payments are generally fixed. Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company.

Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and related premises the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Information about leases for which the Company is a lessee is presented below.

Leases as Lessee

Right-of-use Assets

	Land and buildings £'000
Balance at 1 January 2019	9,091
Depreciation charge for the year	(1,302)
Additions to right-of-use assets	640
Balance at 31 December 2019	8,429

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

Lease Liabilities

Lease liabilities are presented in the statement of financial position within Long Term and Short Term Borrowings as follows:

	£'000
Current	1,260
Non-Current	7,770
	9,030

19. LEASES (continued)

Amounts recognised in profit or loss

2019 – Leases under IFRS 16

	£'000
Interest on lease liabilities	209
Expense related to short-term leases	45

2018 – Operating leases under IAS 17

	£'000
Lease expense	1,263

Amounts recognised in statement of cash flows

	£'000
Total cash outflow for leases at 31 December 2019	1,743

Maturity Analysis Lease Liability

As at 31 December 2019:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
Future minimum lease payments	1,439	1,439	965	871	749	4,606	10,069
Interest	(179)	(157)	(138)	(127)	(107)	(331)	(1,039)
Present value	1,260	1,282	827	744	642	4,275	9,030

There were no lease liabilities as at 31 December 2018 prior to adoption of IFRS 16 'Leases'. Lease liabilities have been included within short term and long term borrowings in the statement of financial position.

Leases as Lessor

The Company leases vehicles on operating and finance leases with rentals and repayments typically due monthly. The leases typically run for an initial period of 2-4 years, with rights to extend the lease beyond initial period if permissible for customer and lease type and agreed by both parties. Some lease contracts contain an option for the lessee to purchase the vehicle at the end of the lease term. The Company considers risks associated with rights it retains in underlying assets to be significant and employs various strategies to further minimise these risks. For example, ensuring all contracts include clauses requiring the lessee to compensate the Company when a vehicle has been subjected to excess wear-and-tear or mileage during the lease term. Details on the management of residual value risk are set out in Note 22.

19. LEASES (continued)

Finance Lease

For the year ended 31 December 2019, the finance receivables increased due the increase in contracts consistent with our continued business growth. The following table sets out a maturity analysis of finance lease ("FL") receivables, showing the undiscounted lease payments to be received after the reporting date.

As at 31 December 2019

FL Receivables (IFRS 16) comprise:	£'000
Within 1 year	134,390
1-2 years	73,785
2-3 years	48,372
3-4 years	21,183
4-5 years	3,460
Over 5 years	1
	281,191
Unguaranteed residual values	199,372
Gross investment	480,562
Unearned finance income	(37,602)
Total	442,960

As at 31 December 2018 (Restated)

FL Receivables (IAS 17) comprise:	£'000
Within 1 year	72,387
1-2 years	54,207
2-3 years	35,988
3-4 years	17,233
4-5 years	3,650
Over 5 years	1
	183,466
Unguaranteed residual values	173,011
Gross investment	356,477
Unearned finance income	(24,140)
Total	332,337

19. LEASES (continued)

Operating Lease

The following table sets out a maturity analysis of operating lease ("OL") payments, showing the undiscounted lease payments to be received after the reporting date.

As at 31 December 2019

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
OL IFRS 16	325,273	204,027	86,365	17,758	308	-	633,731

As at 31 December 2018

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
OL IAS 17	298,316	183,391	72,914	13,855	502	-	568,978

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)	
	2019	2018	2019	2018
Ultimate parent undertaking				
Loans owed to Société Générale			(1,436,601)	(1,113,271)
Loans due from Société Générale			15,173	19,645
Bank overdraft			(6,726)	(3,120)
Capital repayments	470,970	1,644,440		
Loan drawdowns	(794,300)	(1,709,500)		
Interest payable	(21,320)	(17,724)	(5,467)	(3,715)
Interest receivable	673	831	194	242
Bank charges	(258)	(193)		

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

	Transactions in the year (£'000)		Outstanding balance (£'000)	
	2019	2018	2019	2018
ALD S.A.				
Amount payable – central rebill	(3,997)	(5,535)	-	-
Amount receivable – central rebate	1,268	867	-	-
Amount receivable – IT recharge	2,570	2,962	-	614
Expense recharges	106	125	140	167
ALD Group Limited				
Amount payable - Dividend	46,698	40,853	-	-
Securitisation special purpose entities				
Loans repayable			(414,000)	(414,000)
Amounts due			2,484	2,484
Loan repayments	-	171,291	-	-
Loan drawdowns	(414,000)	(420,684)	-	-
Interest receivable	2,877	1,884	-	-
Interest payable	(9,643)	(3,009)	-	-

Transactions between the Company and key management personnel

Remuneration of the Company directors was as follows:

	2019 £'000	2018 £'000
Aggregate emoluments	586	691
Company contributions to defined contribution schemes	18	27
	604	718

The emoluments, excluding pension contributions, of the highest paid director were £289,998 (2018: £359,188), in addition, pension contributions of £nil were paid (2018: £nil). Retirement benefits are accruing for one director under a defined contribution scheme (2018: nil directors). 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:

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

	2019	2018
	£'000	£'000
Transaction value	307	489
Balance outstanding	1	-

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 2019 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.

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 Génerale Group, a company registered in France. Copies of the Société Génerale 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.

	2019	2018
	£'000	£'000
Within one year	454,655	408,860
In one to three years	1,199,019	1,032,242
Greater than three years	361,757	275,928
	2,015,431	1,717,030

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 2019 was determined as follows:

	31 December 2019 £'000	31 December 2018 £'000
Expected loss rate	2.4%	2.8%
Gross carrying amount – lease receivables	478,933	362,282
Loss allowance	11,517	10,032

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.

The closing loss allowances for lease receivables as at 31 December 2019 reconcile to the opening loss allowances as follows:

	2019 £'000
Loss allowance at 1 January	10,973
Charge recognised in profit or loss in year	5,516
Receivables written off in year	(4,218)
Loss allowance at 31 December	12,271

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.

22. RISK MANAGEMENT (continued)

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
2019	35,973	15,642	9,073	1,693	2,119	354	7,092
2018	34,203	12,124	11,140	1,834	762	504	7,839

	2019 £'000	2018 £'000
Receivables from customers individually impaired	6,489	5,629

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:

	2019 £'000	2018 £'000
Less than 1 year	-	-
Within 2 to 5 years	414,000	414,000
Over 5 years	-	-
	414,000	414,000

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. The committee is chaired by the director of legal and compliance and includes amongst its members various heads of departments and internal directors. Meetings are held monthly and it is the responsibility of the chair to report to the board any matter which is flagged as requiring escalation to the board.

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 2019:

	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	-	-	-	-	35,973	35,973
Finance lease receivables	71,181	78,927	292,840	11	-	442,959
Amounts due from group undertakings	773	3,600	10,800	-	-	15,173
Derivative assets	-	-	572	-	-	572
Cash and cash equivalents	1,224	-	-	-	-	1,224
	73,178	82,527	304,212	11	35,973	495,901
Financial liabilities						
Trade payables	-	-	-	-	33,865	33,865
Amounts due to group undertakings	114,373	396,571	913,444	-	12,212	1,436,600
Securitisation	-	-	410,799	-	-	410,799
External funding	6,272	18,877	37,822	-	-	62,971
Bank overdraft	6,726	-	-	-	-	6,726
Derivative liabilities	-	-	1,893	-	-	1,893
Lease liabilities	-	1,260	3,495	4,275		9,030
	127,371	416,708	1,367,453	4,275	46,077	1,961,884
Net financial assets/ (liabilities)	(54,193)	(334,181)	(1,063,241)	(4,264)	(10,104)	(1,465,983)

22. RISK MANAGEMENT (continued)

As at 31 December 2018 (Restated):

	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	76,766	214,264	11	-	332,337
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
	44,847	80,366	229,047	11	34,203	388,475
Financial liabilities						
Trade payables	-	-	-	-	47,036	47,036
Amounts due to group undertakings	111,976	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
	121,711	344,202	1,116,259	-	59,248	1,641,420
Net financial assets/ (liabilities)	(76,864)	(263,836)	(887,213)	11	(25,045)	(1,252,946)

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 2019

	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	33,865	-	32,351	713	801	-
Due to group undertakings:						
- Capital	1,436,601	12,212	28,748	85,626	396,571	913,444
- Interest	-	-	1,197	4,105	15,039	21,242
Due to Red & Black Auto Lease 1 PLC:						
- Capital	411,516	-	-	-	-	411,516
- Interest	-	-	528	1,056	5,279	12,249
Instalments due on loans:						
- Capital	62,971	-	1,937	4,336	18,877	37,821
- Interest	-	-	132	252	911	1,097
Bank overdraft	6,726	6,726	-	-	-	-
Derivative liabilities	1,893	-	-	-	-	1,893

As at 31 December 2018 (Restated)

	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	47,036	-	43,323	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

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 £207m which is the face value of the externally issued loan notes. Interest rate swaps settle on a monthly basis and are indexed on the London Inter-Bank Offered Rate ("LIBOR").

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 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach. The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.10%.

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The Company leases out motor vehicles as a lessor and has classified these leases as either operating or finance leases. The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

23. CHANGES IN ACCOUNTING POLICIES (continued)

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 January 2019 £'000
Right-of-use assets – property, plant and equipment	9,091
Lease liabilities	9,924

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

	£'000
Total operating lease commitments disclosed at 31 December 2018	11,885
Discounted using the incremental borrowing rate at 1 January 2019	9,969
Finance lease liabilities recognised at 31 December 2018	-
Less: Recognition exemption for leases with less than 12 months of lease term at transition	(45)
Lease liabilities recognised at 1 January 2019	9,924

24. SUBSEQUENT EVENTS

The Covid-19 pandemic, which has significantly affected the Company's business environment from March 2020 onwards, has been identified as a non-adjusting event in accordance with IAS 10 'Events after the Reporting Period.

The directors are closely monitoring the COVID-19 situation and have put in place the necessary measures to ensure business continuity, with consideration for staff and customer health and safety as a priority.

Work is ongoing to evaluate the potential effects of COVID-19 in terms of credit risk, used car sales activity and fleet development. From March 2020, provisions against customer receivables and inventory have been significantly increased. These are based on assumptions which will be revised as the likely impact of COVID-19 on the Company becomes clearer.

The principal factor determining the full impact on the Company is expected to be the duration of the crisis and associated confinement measures in the UK. Looking forward, the level of demand for leased cars is expected to depend on the economic impact of the crisis on the UK economy and the extent to which this is mitigated by government support measures.

24. SUBSEQUENT EVENTS (continued)

The Company has transitioned to a remote-working operating model in line with government guidance on social distancing. This has demonstrated our operational resilience, as all staff have been able to perform their roles from home and no employees have been furloughed. We have also cross-trained employees across many of our operational roles to enable an agile response to changing customer needs.

The governance structure and key controls have been largely maintained, although digital approvals have replaced physical signatures for most processes and key committee meetings are held using conferencing software rather than in person. The directors have exercised closer oversight of operations during this period of disrupted operations through more frequent board meetings and enhanced KPI reporting.