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**SG Equipment Finance (December) Limited**

**Annual Report and Financial Statements**

31 December 2019

**Registered number:**

01529010

**Registered Office**

Parkshot House

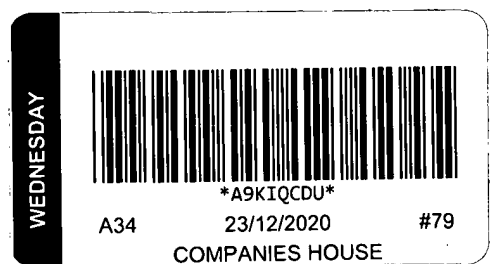
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## Strategic report

### Principal activity and review of the business

The principal activity of the SG Equipment Finance (December) Ltd (the "Company"), privately limited by shares, is the provision of lease finance over a range of asset types.

The directors set out below a review of the business performance and development during the year and the position of the business at the end of the year. The review is consistent with the size and nature of the business and is written in the context of risks and uncertainties faced, bearing in mind the support of the ultimate parent company, Société Générale. The immediate parent, Societe Generale Equipment Finance Limited, is the holding company of SG Equipment Finance (December) Limited which is concerned with the vendor and equipment finance business of Société Générale Equipment Finance SA in the UK. Société Générale Equipment Finance SA is a global business line of Société Générale's International Banking and Financial Services division. It delivers equipment finance solutions in 35 countries.

During the year the company entered into operating and finance leases of £253k (2018 – £2.0m). Different levels of business are expected from year to year in SG Equipment Finance (December) Limited, part of Societe Generale Equipment Finance Ltd, in the UK depending upon timing, source and the nature of transactions concerned. Generally Societe Generale Equipment Finance in the UK has remained successful in 2019. The directors anticipate the business continuing in a similar vein during the new financial year.

The business uses the return on the total portfolio, calculated as profit before tax as a percentage of the average portfolio, as a Key Performance Indicator (KPI) in assessing the level of return. In 2019, the return increased to 12.8% from 5.84% last year. This is a reflection of the mix of deals within the portfolio and also reflects movements in underlying cost of funds. The return varies from year to year according to the profile of the business contained therein and the level of return on the residual value investments. This was particularly pertinent in 2019 with higher returns of assets sales increasing profitability whilst simultaneously decreasing portfolio size, thus in percentage terms producing a significantly higher return than the prior year.

### Principal risks and uncertainties

The company manages financial risk by ensuring that the portfolio is funded in such a way that it is hedged against movements in interest rates. The funding is provided by its holding company, Societe Generale Equipment Finance Limited, and in the opinion of the directors achieves this objective.

The business environment in which the company operates continues to be highly competitive. The main risks within the business are the ability to collect the rentals that are due and the interest retained in residual values. The former risk is managed by careful assessment of the credit and asset covenants in transactions the Company undertakes. The Company has implemented policies that require appropriate level credit checks on potential customers before deals are written. The latter is managed on a prudent basis and with reference to experience gained over a number of years. In the opinion of the directors these risks are mitigated by the support of the parent company and the quality and wide spread of the underlying customer credits.

### **Brexit**

At the date of signing the accounts there is still no clear outcome as to whether the Brexit negotiations will be concluded ahead of the 31 December 2020 deadline. The UK formally left the EU on 31 January 2020 but there is still a lot of work needed to decide what the future relationship with the EU will look like, particularly with regards to the common fishery policy, competition rules and how a deal will be policed. These discussions will need to be worked out during the transition period which began on 01 February 2020 and will remain in place until 31 December 2020. The leasing business is predominately carried out within the UK so any complications arising from cross border arrangements are unlikely to have much impact upon the business. Nevertheless, although the uncertainty of leaving the European Union will undoubtedly have an effect upon the decision of a number of our customers to enter into leasing arrangements, the lack of clarity around the final outcome makes it impossible to draw any real conclusions as to the extent of the impact.

### **Section 172(1) Statement**

Section 172(1) of the Companies Act 2006 set out the general duty of directors to act in good faith in promoting the success of the Company for the benefits of all its stakeholders. In doing so, the directors must have regard to:

- (a) the likely consequences of any decision in the long term,
- (b) the interests of the company's employees,
- (c) the need to foster the company's business relationships with suppliers, customers and others,
- (d) the impact of the company's operations on the community and the environment,
- (e) the desirability of the company maintaining a reputation for high standards of business, and
- (f) the need to act fairly as between members of the company.

The directors are aware of their duties under section 172 of the act. The Company is a subsidiary of Societe Generale Equipment Finance Ltd and has no employees. The statements below identify the major stakeholders of the Company, and identify where the directors have had regard to the matters noted above when performing their duties in the year to 31 December 2019:

#### Shareholder

The Company is wholly owned by Societe Generale Equipment Finance Ltd. The operations are therefore carried out with a view to creating a sustainable profit to be distributed by way of a dividend payment.

#### Suppliers and customers

The customer base is predominately made up of Local Authorities (LA) where business is introduced through specialised intermediaries who act within the best interest of the LAs. Whilst, the Company has no employees the engagement of stakeholders is key to creating long-term strategic partners. The directors recognise this and employ the same values as those highlighted in the financial statements of Societe Generale Equipment Finance Ltd.

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### COVID-19

Developments in COVID-19 remain a source of uncertainty, although on 08 December 2020 the first UK vaccination was administered offering hope that the pandemic will soon be under control. Whilst this did not impact the current year's financial results, the initial lockdown measures imposed physical difficulties in managing end of term asset disposals as social distancing rules significantly impaired the ability to collect assets. A number of auction houses also temporarily closed due to government lockdown measures. Despite the slowdown in the general economy a significant portion of the underlying customer base are local authorities; many of whom will no doubt be key to kick starting the UK economy as lockdown measures ease up. The Company therefore believes that the impact of COVID-19 will be relatively immaterial upon 2020 financial results.

### Future developments

Future developments have been covered in the directors' report and added here as a cross reference.

On behalf of the Board



Timothy Edward Goodship

Director

14 December 2020

## **Directors' report**

The directors present their report and the financial statements of SG Equipment Finance (December) Ltd for the year ended 31 December 2019. The accounts were issued to the directors on 15 September 2020 and approved for signing on 15 September 2020.

### **Directors**

The directors who held office during the year, and up to the date of signing, were as follows:

G Turner (resigned 1 February 2019)

D Yates-Mercer (resigned as secretary 1 February 2019)

D Hughes

S Bowden

T Goodship (appointed 1 February 2019 as both director and secretary)

### **Results and dividends**

The profit for the year after taxation amounted to £1,327,394 (2018 – profit of £855,790). A dividend was paid during the year of £4m (2018 – £Nil).

### **Going concern**

The directors have completed a formal assessment of the Company's financial resources, including its budgets and forecasts, as part of their review of the Societe Generale Equipment Finance UK group of companies. Based on this review, the directors believe that the Company is well placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook, both as a result of BREXIT and the current COVID-19 pandemic. After making appropriate enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. Principal risk and uncertainties as well as the financial risk management have been covered in the strategic report and has been added here as a cross reference.

### **Events after the reporting period**

On 29 January 2020, the first confirmed case of COVID-19, a highly infectious respiratory disease which originated in China prior to the accounting year end date, was announced in the UK. On 11 February, the World Health Organization officially named the virus as COVID-19 and on 11 March 2020 declared it as a global pandemic. Since then, the UK government has implemented special measures to put the UK into two national lockdowns as well as introduce a 3 Tier system designed to restrict the activities of individuals and businesses within certain sectors. At the date of signing, circa 1.75m people in the UK have been confirmed as having contracted the virus with over 62,000 confirmed deaths.

There is still a large degree of uncertainty as to how long both the lockdown and social distancing measures will remain in place, although the breakthrough of a vaccination does provide a degree of hope that these restrictions won't remain beyond 2021. Accordingly, the Company has reviewed the quality of the underlying customer base, which predominately consists of UK sovereign exposure, and have concluded the impact to immaterial upon the financial statements.

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### **Future development**

The directors expect the business to contract over the course of the coming financial year due to the general slowdown in the UK economy as a result of COVID-19. The expectation however, as the economy picks up, is for new business levels to reach pre-COVID-19 levels toward the end of the fourth quarter of 2020. In terms of overall portfolio size, the business is unlikely to start expanding again before the second quarter of 2021.

### **Liability Insurance for company officers**

The Company has taken out liability insurance as permitted under Part 10 of the Companies Act 2006 to cover directors and officers.

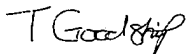
### **Disclosure of information to auditor**

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, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### **Appointment of Auditors**

A resolution to reappoint Deloitte LLP as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors



Timothy Edward Goodship

Director

14 December 2020

## **Statement of directors' responsibilities**

The directors are responsible for preparing 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 "Reduced Disclosure Framework". 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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.



## **Independent auditor's report to the members of SG Equipment Finance (December) Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of SG Equipment Finance (December) Ltd (the 'company'):

- give a true and fair view of the state 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 13.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

#### **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.

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 Financial Reporting Council's (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 are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, 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.

### **Auditor's 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**

**Opinions 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

**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.



Ben Jackson, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

14 December 2020

## Statement of comprehensive income for the year ended 31 December 2019

	Note	2019 £	Restated* 2018 £
Interest from finance agreements	2	649,361	711,472
Operating lease rentals	2	3,785,831	3,944,860
<b>Turnover</b>		<b>4,435,192</b>	<b>4,656,332</b>
Depreciation on operating leases	5	(3,046,638)	(3,276,419)
Interest payable and similar charges		(219,564)	(389,977)
<b>Gross profit</b>		<b>1,168,990</b>	<b>989,936</b>
Administration expenses	3	(268,033)	(392,859)
Expected credit loss	6	(10,937)	(984)
Other operating income		754,256	490,809
<b>Profit before taxation</b>		<b>1,644,276</b>	<b>1,086,902</b>
Tax charge on profit	4	(316,882)	(231,112)
<b>Profit for the financial year</b>		<b>1,327,394</b>	<b>855,790</b>
<b>Items that cannot be reclassified to profit or loss</b>			
Other Comprehensive income		0	0
<b>Total comprehensive income for the year</b>		<b>1,327,394</b>	<b>855,790</b>

\* The comparative information for the reclassification has been provided in note 11

All turnover and profits relate to continuing operations.

The notes on pages 13 to 28 form an integral part of these financial statements

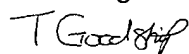
**Statement of financial position  
as at 31 December 2019**

	Note	2019 £	Restated* 2018 £
<b>Assets:</b>			
<b>Non-current assets</b>			
Operating lease assets	5	10,061,122	12,013,268
Trade receivables	6	196,451	719,017
Deferred tax	7	957,107	938,921
		<u>11,214,680</u>	<u>13,671,206</u>
<b>Current assets</b>			
Trade receivables	6	1,662,757	4,868,424
Other receivables	8	10,924	24,970
		<u>1,673,681</u>	<u>4,893,394</u>
<b>Total assets</b>		<u>12,888,361</u>	<u>18,564,600</u>
<b>Liabilities:</b>			
<b>Current liabilities</b>			
Payables	9	(10,732,853)	(13,736,486)
		<u>(10,732,853)</u>	<u>(13,736,486)</u>
<b>Total liabilities</b>		<u>(10,732,853)</u>	<u>(13,736,486)</u>
<b>Net assets</b>		<u>2,155,508</u>	<u>4,828,114</u>
<b>Equity</b>			
Share capital	10	1,000	1,000
Retained earnings		2,154,508	4,827,114
<b>Total equity and reserves</b>		<u>2,155,508</u>	<u>4,828,114</u>

\* The comparative information for the reclassification has been provided in note 11

The notes on pages 13 to 28 form an integral part of these financial statements. The financial statements were approved and authorised for issue by the directors on 14 December 2020

and are signed on their behalf by:



Timothy Edward Goodship

Director

14 December 2020

## Statement of changes in equity for the year ended 31 December 2019

	Note	Share Capital	Retained Earnings	Total Equity
		£	£	£
<b>At 1 January 2018 *Restated</b>		<b>1,000</b>	<b>3,971,324</b>	<b>3,972,324</b>
Profit for the year		0	855,790	855,790
Other comprehensive income		0	0	0
<b>Total comprehensive income for the year</b>		<b>0</b>	<b>855,790</b>	<b>855,790</b>
<b>At 31 December 2018</b>		<b>1,000</b>	<b>4,827,114</b>	<b>4,828,114</b>
<b>At 01 January 2019</b>		<b>1,000</b>	<b>4,827,114</b>	<b>4,828,114</b>
Profit for the year		0	1,327,394	1,327,394
Other comprehensive income		0	0	0
<b>Total comprehensive income for the year</b>		<b>0</b>	<b>1,327,394</b>	<b>1,327,394</b>
Equity Dividend Paid		0	(4,000,000)	(4,000,000)
<b>At 31 December 2019</b>		<b>1,000</b>	<b>2,154,508</b>	<b>2,155,508</b>

\* The comparative information for the reclassification has been provided in note 11

## Notes to the financial statements

### 1. Accounting policies

#### Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements and have been prepared on the going concern basis.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The Company's financial statements are presented in sterling which is the functional and presentation currency and all values are rounded to the nearest pound (£) except where otherwise indicated.

The accounting policies that follow set out those policies which apply in preparing financial statements for the year ended 31 December 2019. Certain disclosures exemptions are available to qualifying entities, as per the definition in FRS 101, provided that the application guidance in FRS 100 requiring an entity's parent to prepare financial statements in accordance with EU adopted IFRS is met. Consequently, the Company has taken advantage of the following disclosure exemptions under FRS 101:

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

## Accounting policies (continued)

### *Going concern*

The directors have completed a formal assessment of the Company's financial resources, including its budgets and forecasts, as part of their review of the Societe Generale Equipment Finance UK group of companies. Based on this review, the directors believe that the Company is well placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook, both as a result of BREXIT and the current COVID-19 pandemic. After making appropriate enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. Thus they continue to adopt the going concern basis of accounting for these financial statements.

### **Impact of initial application of IFRS 16 Leases**

In the current year, the Company has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Company's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the cumulative catch-up approach which:

- requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

#### (a) Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

#### (b) Impact on Lessee Accounting

##### (i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:



**Accounting policies (continued)**

- (a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
- (b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other operating expenses' in profit or loss.

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

**(c) Impact on Lessor Accounting**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

**Accounting policies (continued)**

**Financial Instruments**

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

Financial assets and financial liabilities are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs not directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets

**Classification and measurement**

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

### **Accounting policies (continued)**

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired.

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the 'interest income' line item.

### **Impairment**

The Company calculates the impairment of financial assets in accordance of a model of expected credit losses (ECLs) as prescribed by IFRS 9. In the calculation of ECLs the standard allows for the adoption of either a simplified method or general method to be followed; the Company has decided to apply the general approach. The impact of IFRS 9 is covered in note 6.

The general approach requires the calculation of ECLs on a three-step approach. Upon initial recognition losses expected from default events in the following year (12m ECL) are recognised as a loss allowance in stage 1. If there is a significant deterioration in the credit risk since initial recognition, but no impairment to creditworthiness, provisions are recognised in the amount of ECLs that result from all possible default events over the expected life of the instrument. This typically applies to any contractual payment falling over 30 days in arrears and is therefore placed in stage 2.

If there is an impairment of creditworthiness (default event), the amount of ECLs must represent the expected losses in contractual cash flows. A default occurs when a material contractual payment falls over 90 days due from the contractual due date unless this event is due to a commercial or legal dispute. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, that gives rise to the probability that they will enter bankruptcy or other financial reorganisation over the entire remaining contractual term. Impaired assets matching this description are categorised in stage 3.

### **Derecognition of financial assets**

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss

### ***Financial liabilities***

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial liabilities that are not (i) held-for-trading, or (ii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, to the amortised cost of a financial liability.

**Accounting policies (continued)**

**Derecognition of financial liabilities**

Financial liabilities are derecognised when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

***Other receivables***

Other receivables are measured at amortised cost using the effective interest rate method less impairment. Interest is recognised by applying the effective interest rate.

**Assets under Operating Leases as lessor**

Equipment on hire, with the Company as lessor, under operating leases are treated as fixed assets and depreciated under a straight-line method to write off the cost of the fixed assets down to their estimated residual values over the minimum term of the hire contract. Rental income from operating leases is recognised in the statement of comprehensive Income on a straight-line basis over the lease term.

***Impairment of operating lease assets***

At each reporting end date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

***Provisioning***

Management constantly assesses whether amounts due in respect of finance lease, hire purchase and loan receivables agreements are impaired. This process is governed by policy but also through regular review meetings by senior management. The adoption of IFRS 9 has introduced a sophisticated approach in the modelling of ECLs but this requires significant judgement in determining the provisioning rates to be applied to groups of similar contractual assets. Following the adoption of IFRS 9 the process for determining the amount of lifetime ECLs for contracts which have suffered a significant degradation (Stage 3) in creditworthiness remains unchanged. Any such impairment relies upon the experience and judgement of those carrying out assessments of ability to meet their future debt obligations but also the potential proceeds which could be realised from asset recovery.

***Payables***

Payables represent intercompany borrowings which are measured at amortised cost. Payables are derecognised when, and only when, the Company's obligations are discharged, cancelled or they expire.

**Accounting policies (continued)**

***Taxation***

The tax expense represents the sum of the tax currently payable and the deferred tax.

UK corporation tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all temporary differences. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is accounted for using the balance sheet method.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that the taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is measured on a non-discounted basis.

***Administrative expenses***

All of the administrative costs are borne by Societe Generale Equipment Finance Ltd including remuneration of the directors and auditors' remuneration and are apportioned to the Company based upon its share of the total leased assets of the UK based Societe Generale Equipment Finance companies.

***Significant accounting judgements***

The preparation of the financial statements requires management to make judgements when applying the accounting policies. Uncertainty about these judgements could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The main area in which accounting judgement has made relates to:

**Lease classification**

In determining whether a lease should be classified as an operating lease or finance lease a number of different factors need to be considered. For instance, a critical judgement is made in relation to expectation of lease behaviour to extend beyond the contractual primary term. The outcome of which affects both the way in which leases are classified in the primary statements and their subsequent measurement.

**Accounting policies (continued)**

***Significant accounting estimates***

In applying the accounting policies the management has to make estimates that affect the reported amounts of revenues, expenses, asset and liabilities. The main areas in which management makes significant estimates are discussed below:

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Residual values

Residual values are attributed based on management's experience and judgment of the minimum prudently expected to be realisable after the end of the primary lease period. Unguaranteed residual values are regularly reviewed by the directors and are stated at the lower of initial attributed values and revised attributed values.

Provisioning

Management constantly assesses whether amounts due in respect of finance lease, hire purchase and loan receivables agreements are impaired. This process is governed by policy but also through regular review meetings by senior management. The adoption of IFRS 9 has introduced a sophisticated approach in the modelling of ECLs but this requires significant judgement in determining the provisioning rates to be applied to groups of similar contractual assets. Following the adoption of IFRS 9 the process for determining the amount of lifetime ECLs for contracts which have suffered a significant degradation in creditworthiness remains unchanged. Any such impairment relies upon the experience and judgement of those carrying out assessments of lessees to meet their future debt obligations but also the potential proceeds which could be realised from asset recovery.

## SG Equipment Finance (December) Limited

Registered No: 01529010

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### 2. Turnover

Turnover on finance leases represents net earnings, after the deduction of direct costs associated with negotiating and arranging lease contracts, reflecting a constant periodic rate of return on the net investment.

Rental income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term. Turnover arises in the United Kingdom.

### 3. Administrative expenses

The immediate holding company bears all of the administrative cost of the group's UK operations and makes a recharge based upon outstanding value at the end of the charging period.

The directors of the Company are also directors of the immediate holding company and fellow subsidiaries. The directors' remuneration pertaining to the Company amounts to £17,712 (2018: £25,291). This has been borne by the immediate holding company and recharged. The highest paid director's remuneration pertaining to the Company amounts to £4,273 (2018: £9,980).

The auditors' remuneration for the audit of the Company's statutory financial statements has been borne by the immediate holding company for both this and the prior year. The auditor's remuneration pertaining to the Company amounts to £2,471 (2018: £3,743). There were no non-audit services for the year. The Company does not have employees. Staff costs are borne by the immediate company and recharged.

### 4. Tax on profit

#### a) Analysis of the tax charge in the period

	2019	2018
	£	£
Corporation tax:		
Corporation tax charge on profits of the period	335,323	439,337
Adjustments in respect of prior periods	(255)	70
<b>Total current tax charge</b>	<b>335,068</b>	<b>439,407</b>
Deferred tax:		
Origination and reversal of timing differences		
Current year deferred tax movement	(21,118)	(233,118)
Adjustments in respect of prior periods	792	322
Effect of change in tax rate	2,140	24,501
<b>Deferred tax:</b>	<b>(18,186)</b>	<b>(208,295)</b>
<b>Taxation on ordinary activities</b>	<b>316,882</b>	<b>231,112</b>

SG Equipment Finance (December) Limited

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4. Tax on profit on ordinary activities (continued)

b) Factors affecting the tax charge for the period

	2019 £	2018 £
Profit/(loss) before tax	<u>1,644,276</u>	<u>1,086,902</u>
Tax on profit at standard rate of 19.00% / 19.00%	312,412	206,511
Factors affecting the charge:		
Disallowable expenses	2,078	0
Non-taxable credits	0	(8)
Transfer pricing adjustments	(285)	(285)
Movement on unprovided deferred tax	0	0
Adjustments in respect of prior periods	537	393
Effect of change in tax rate	<u>2,140</u>	<u>24,501</u>
Current tax charge / (credit) for the year	<u>316,882</u>	<u>231,112</u>

5. Operating lease assets

	2019 £
Cost:	
At 1 Jan *	23,817,717
Additions	1,388,003
Disposals	<u>(1,065,709)</u>
At 31 Dec	24,140,011
Accumulated Depreciation:	
At 1 Jan *	(11,804,449)
Depreciation charge for the year	(3,010,055)
Disposals	<u>735,615</u>
At 31 Dec	(14,078,889)
Net book value:	
At 31 Dec	<u>10,061,122</u>
At 1 Jan *	<u>12,013,268</u>

\* The comparative information for the reclassification has been provided in note 11



**5. Operating lease assets (continued)**

Minimum lease payments under non-cancellable operating leases are set out as follows:

	IFRS 16 current year <b>2019</b>	Restated* IAS 17 Prior year comparative <b>2018</b>
	£	£
Operating lease which expire:		
Within one year	886,613	2,363,669
In the second to fifth years inclusive	776,996	1,486,501
Over five years	0	0
	<hr/>	<hr/>
	1,663,609	3,850,170
	<hr/> <hr/>	<hr/> <hr/>

\* The comparative information for the reclassification has been provided in note 11

**6. Finance lease receivables**

	<u>Minimum lease payments</u> <u>(including residual values)</u>		<u>Present value of minimum lease</u> <u>payments (including residual</u> <u>values)</u>	
	2019	Restated*	2019	Restated*
	£	£	£	£
Amounts receivable:				
Within one year	1,582,816	5,120,853	1,662,757	4,868,424
In the second to fifth years inclusive	303,179	741,622	196,451	719,017
After five years	0	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>
	1,885,996	5,862,475	1,859,208	5,587,441
Less: unearned finance income	(26,788)	(275,035)	0	0
	<hr/>	<hr/>	<hr/>	<hr/>
Present value of minimum lease payments (including residual value)	1,859,208	5,587,441	1,859,208	5,587,441
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Analysed as:				
Non-current (recoverable after 12 months)			196,451	719,017
Current (recoverable within 12 months)			1,662,757	4,868,424
			<hr/>	<hr/>
			1,859,208	5,587,441
			<hr/> <hr/>	<hr/> <hr/>

\* The comparative information for the reclassification has been provided in note 11

**6. Finance lease receivables (continued)**

The Company enters into finance leasing arrangements in relation to plant and equipment.

The cost of assets acquired under finance leasing arrangements (including hire purchase) was Nil (2018: £414,182.20\* Restated).

Unguaranteed residual values of assets under finance leases at the balance sheet date were £6,387,437.37 (2018: £7,596,264.31\* Restated).

**IFRS 9 Expected credit losses  
for the year ended 31 December 2019**

	Stage 1	Stage 2	Stage 3	Total
<b>Adjusted B/fwd 01/01/2019 (restated)</b>	<b>(1,319)</b>	<b>(96)</b>	<b>0</b>	<b>(1,415)</b>
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	546	(9,650)	0	(9,104)
Transfer to Stage 3	0	0	0	0
Impact of transfer between stages	546	(9,650)	0	(9,104)
Other movements in loan loss provisions	(1,825)	0	0	(1,825)
<b>As at 31 December 2019</b>	<b>(2,598)</b>	<b>(9,746)</b>	<b>0</b>	<b>(12,344)</b>

**IFRS 9 Movement in NBV  
for the year ended 31 December 2019**

	Stage 1	Stage 2	Stage 3	Total
<b>At 1 January 2019 (restated)</b>	<b>5,553,581</b>	<b>33,860</b>	<b>0</b>	<b>5,587,441</b>
Additions	595,413	0	0	595,413
Repayments	(4,323,646)	0	0	(4,323,646)
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	0	0	0	0
Transfer to Stage 3	0	0	0	0
Impact of transfer between stages	0	0	0	0
<b>At 31 December 2019</b>	<b>1,825,348</b>	<b>33,860</b>	<b>0</b>	<b>1,859,208</b>
Allowance for impairment losses	(2,598)	(9,746)	0	(12,344)
<b>Total trade receivables</b>	<b>1,822,750</b>	<b>24,114</b>	<b>0</b>	<b>1,846,864</b>

**7 Deferred tax asset**

	2019	2018
	£	£
<b>a) Analysis of deferred tax balances</b>		
Short term timing differences	0	0
Accelerated capital allowances	957,107	938,921
Losses	0	0
Total provision, without discounting	<u>957,107</u>	<u>938,921</u>
<b>b) Analysis of movement in provision</b>		
	£	£
Assets at 1 January	938,921	730,626
Transfers out	0	0
Deferred tax charge/(credit) for the period	<u>18,186</u>	<u>208,295</u>
Balance at 31 December, without discounting	<u>957,107</u>	<u>938,921</u>

The deferred tax balance relates to the difference between the tax written down value of assets and their net book value.

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 £112,601.

**8 Other receivables**

	2019	Restated*
	£	2018
		£
Tax due to group entities	0	0
Accrued expenses	0	0
Deferred expenses on operating leases	10,956	24,689
Expense Creditors	0	281
	<u>10,956</u>	<u>24,970</u>

\* The comparative information for the reclassification has been provided in note 11

## 9 Payables

	2019	Restated*
	£	2018
		£
Amounts falling due within one year:		
Amounts due to group companies~	8,597,710	11,531,607
Deferred income on secondary period rentals	3,676	4,019
Deferred income on operating lease assets	1,886,158	1,752,631
Tax due to group entities	169,283	218,049
Other creditors	63,714	26,662
Other deferred income	0	202,111
Provisions	12,344	1,407
	10,732,885	13,736,486

~ Balance due from group companies are payable on demand and non-interest bearing and unsecured.

\* The comparative information for the reclassification has been provided in note 11

## 10 Issued share capital

	2019	2018
	£	£
Authorised, allotted, called up and fully paid 1,000 ordinary shares of £1 each	1,000	1,000

## 11. Impact on Statement of comprehensive income for reclassification

In 2019 the Company changed its approach to lease classification in order to bring about consistency in the way in which the definition of lease term was being applied for both lease classification and income recognition. Up until 2019, the Company took into consideration the expected number of months contracts would extend beyond their contractual period when determining lease term for lease classification purposes but not when applying it to income recognition, including in instances where no contractual options to extend the lease existed. The change sees a consistent use of lease term being applied for both lease classification and income recognition with non-contractual secondary lease term no longer being taken into consideration. The result is that a number of leases previously classified as finance leases are now being reclassified as operating leases due to lease term no longer representing the major part of the useful economic life as per condition 63 (c) in IFRS 16.

**11. Impact on Statement of comprehensive income for reclassification (continued)**

Below is the impact on the statement of comprehensive income relating to the reclassification of finance lease to operating lease:

		As Previously Reported	Reclassification Adj	As restated
<b>Turnover</b>				
Interest from finance agreements	2	997,770	(286,298)	711,472
Operating lease rentals	2	1,667,197	2,277,663	3,944,860
			<u>1,991,365</u>	
<b>Gross profit</b>				
Depreciation on operating leases	5	(1,285,054)	(1,991,365)	(3,276,419)
			<u>(1,991,365)</u>	

Below is the impact on the statement of financial position relating to the reclassification of finance lease to operating lease:

<b>Assets:</b>		As Previously Reported	Reclassificati on Adj	As restated
<b>Non-current assets</b>				
Operating lease assets	5	3,867,730	(8,145,538)	12,013,268
Trade receivables	6	5,157,246	4,438,229	719,017
Total movement on non-current assets			<u>(3,707,309)</u>	
<b>Current assets</b>				
Trade receivables	6	7,482,786	2,614,362	4,868,424
Other receivables	8	5,982	(18,988)	24,970
Total movement on current assets			<u>2,595,374</u>	
<b>Liabilities:</b>				
<b>Current liabilities</b>				
Payables	9	(12,516,329)	1,220,157	(13,736,486)
Net effect on payables			<u>1,220,157</u>	

**11. Impact on Statement of comprehensive income for reclassification (continued)**

Below is the impact on the statement of changes in equity relating to the reclassification of finance lease to operating lease:

Statement of changes in Equity	Share Capital	Retained Earning	Total Equity
<b>At 1 January 2018</b>			
As Previously Reported	1,000	4,079,546	4,080,546
Reclassification Adj	0	(108,222)	(108,222)
As restated	1,000	3,971,324	3,972,324

**12. Related party transactions**

The company is controlled by Societe Generale Equipment Finance Ltd. The company has taken advantage of the exemption given in paragraph 8 (k) in FRS 101 not to disclose transactions with fellow subsidiaries.

**13. Ultimate parent undertaking and controlling party**

SG Equipment Finance (December) Ltd, a private company limited by shares, is a subsidiary of Societe Generale Equipment Finance Limited (incorporated in the United Kingdom).

The ultimate holding company and controlling party of the company is Société Générale (incorporated in France).

The largest group in which the results are consolidated is that headed by Société Générale, and a copy of their financial statements may be obtained from 29 Boulevard Haussman, 75009 Paris, France.

The smallest group is headed by Société Générale Equipment Finance SA. A copy of their financial statements may be obtained from their registered address at 17 Cours Valmy, 92800 Puteaux, France.

**14. Events after the reporting date**

Events after the reporting date have been covered in the Directors report and has been added here as a cross reference.