

3207783

Volvo Car Finance Limited

Annual report for the year ended 31 December 1998

	Pages
Directors' report	1 - 3
Report of the auditors	4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7 - 14



Directors' report for the year ended 31 December 1998

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 1998.

Principal activities

The principal activities are the offering of motor vehicle financing to and through the Volvo Dealer Network.

Review of business and future developments

In 1998, the Company's second year of operation, great strides have been taken in performance, both in terms of penetration and the delivery of a satisfactory profit. The company has continued to work with and receive a strong level of support from both the Volvo dealer network and Volvo Car UK Ltd.

Despite the reduction in Volvo new car registrations (down 7.5%) and an extremely competitive UK car finance market, the company increased its penetration with a resulting growth in new car financing. However, the used car market was both slow in volume terms, and saw significant reductions in used car prices in the second half of the year.

1999 will see a continued period of consolidation as the company enters its third year which will bring the portfolio to a more level basis as contracts are written on average for approximately 36 months. However, the slowdown in the UK economy will bring significant challenges, for which the Company is strongly placed to tackle.

Directors

The directors who served the company during the year are as follows:

Hugh Reid
Anders Lofgren (Chairman) Resigned 08/06/98
Malcolm Wade
Salvatore Mauro
Gerard Keaney
Anders Jansson (Chairman)

Directors' interests

None of the directors held any beneficial interest in the share capital of Volvo Car Finance Limited. Two Directors held ordinary shares in the Company's ultimate parent company as shown below :

	1st January 1998	31st December 1998
Mr. A Jansson	-	1,000 Ordinary Shares
Mr. S Mauro	250	500 Ordinary Shares

Mr. G Keaney also held one ordinary share in Volvo Car UK Ltd.

Dividends and transfers to reserves

The directors do not recommend the payment of a dividend (1997: £ Nil). The profit for the year of £3,341,000 (1997 profit: £224,000) will be transferred to reserves.

Directors' report (continued)

Year 2000

The Company receives IT services from within the Volvo group and from Lloyds UDT Ltd. The Company is participating in the Volvo group programme designed to address the impact of the year 2000 on all the group's business. The Volvo UK car companies have set up a steering committee to control this project and it provides regular updates to the Board.

An analysis of areas of significant risks has been performed to determine the impact of the issues on our activities. From this, prioritised action plans have been developed that are designed to address the key risks in advance of critical dates and without disruption to the underlying business processes. These plans also include a requirement for the testing of all critical systems. The risk analysis has also included the relationships with our key suppliers and customers, and formal assurance has been sought from these suppliers.

The costs associated with this work are mainly borne by other group companies and at a local level are not considered material.

Introduction of the Euro

During the year the Company participated in a Volvo car group steering committee to evaluate the introduction of the euro. In conjunction with its ultimate parent company the internal computer software and procedures are being upgraded to handle the euro and its implications. Training of the appropriate staff has also commenced. The costs associated with this work are mainly borne by other group companies and at a local level are not considered material.

Policy and Practice on Payment of Creditors

The company is a supporter of the CBI's Prompt Payers Of Good Practice to which it subscribes when dealing with all of its suppliers. Trade creditors at the end of the year represented 22 days (1997 : 4 days) of purchases.

Post balance sheet events

In January 1999, the company's ultimate parent company, AB Volvo, signed heads of agreement with Ford Motor Company to sell Volvo's passenger car business of which this company forms a part. The sale was conditional upon the approval of both AB Volvo's shareholders and pertinent authorities. The shareholders approved the sale in an Extraordinary General Meeting on March 8th 1999 and the approval from the pertinent authorities was received on March 31st 1999.

Employees

The company's employment policies are based on the principles of equal opportunity, with a strong commitment to training and developing individuals based on the needs of the organisation and the abilities of the individual.

All employees are encouraged to become more involved in the business, and active steps are taken to focus each individual's efforts on achieving clear business objectives, through effective consultation, communication, leadership, motivation and incentive schemes.

Directors' report (continued)

Employment of disabled people

It is the company's policy to ensure that disabled persons are treated fairly and consistently in terms of recruitment, training, career development and promotion and that their employment opportunity should be based on a realistic assessment of their aptitudes and abilities.

Appropriate help and support is provided to individuals who may become disabled during their employment.

Charitable and political contributions

There was a charitable donation of £6,590 (1997 : £3,035) made to the Motor & Allied Trades Benevolent Fund. There were no political contributions.

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that 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.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which, Coopers & Lybrand resigned, and the directors appointed the new firm, PricewaterhouseCoopers as auditors.

A resolution to reappoint PricewaterhouseCoopers as auditors of the Company will be proposed at the next annual general meeting.

By order of the board



Company Secretary
2nd July 1999

Report of the auditors to the members of Volvo Car Finance Limited

We have audited the financial statements on pages 5 to 14, which have been prepared under the historical cost convention and the accounting policies set out on pages 7 & 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements as described on page 3. Our responsibilities, as independent auditors, are established by statute, the Audit Practices Board, and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view, and are prepared properly in accordance with the Companies Act. We also report to you if, in our opinion, the director's report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
15 July 1999

Profit and loss account for the year ended 31 December 1998

	Notes	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Turnover	2	40,847	19,396
Cost of sales	3	(31,725)	(15,107)
Gross profit		<u>9,122</u>	<u>4,289</u>
Administrative expenses		(5,470)	(4,065)
Operating profit		<u>3,652</u>	<u>224</u>
Profit on ordinary activities before taxation	6	3,652	224
Tax on profit on ordinary activities	7	311	-
Retained profit for the year	15,16	<u>3,341</u>	<u>224</u>

All activities of the company are regarding as continuing. The company has no recognised gains or losses other than the results above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Balance sheet at 31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible fixed assets	8	53,695	32,213
Current assets			
Debtors			
- amounts falling due within one year	9	254,821	141,447
- amounts falling due after more than one year	9	108,882	80,603
		363,703	222,050
Creditors: amounts falling due within one year	10	(273,479)	(137,386)
Net current assets		90,224	84,664
Total assets less current liabilities		143,919	116,877
Creditors: amounts falling due after more than one year	11	(105,781)	(92,080)
Net assets		38,138	24,797
Capital and reserves			
Called up share capital	14	35,000	25,000
Profit and loss account	15	3,138	(203)
Equity shareholders' funds	16	38,138	24,797

The financial statements on page 5 to 14 were approved by the board of directors on 20 July 1999 and were signed on its behalf by:



H L Reid
Director

Notes to the financial statements for the year ended 31 December 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Turnover

Turnover comprises interest receivable on finance leases, income on hire purchase contracts, rentals receivable on operating leases and income from dealer stocking finance.

Turnover consists entirely of sales made in the United Kingdom.

Finance leases and hire purchase contracts

Income from finance leases and hire purchase contracts is credited to the profit and loss account using the 'rule of 78' method so as to give a constant rate of return on the net cash investment in the leases.

Operating leases

Operating lease income is credited to the profit and loss account on a straight line basis over the lease term. Fixed assets held for leasing to third parties are depreciated over the useful economic life of the asset. Depreciation on leased assets is charged to cost of sales.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisitions.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned.

The principal annual rates used for this purpose are:

Plant & equipment	3-5 years	20 - 33.3%
Motor vehicles (leased to third parties under operating leases)	Written down to estimated residual value over the term of the lease	15 - 35%

Deferred taxation

Provision is made for deferred taxation using the liability method on all material timing differences to the extent that it is probable that a liability, or asset will crystallise.

Notes to the financial statements for the year ended 31 December 1998 (continued)

Pension scheme arrangements

The company participates in a defined benefit pension scheme operated by a fellow group undertaking. The fund is valued every three years by a professionally qualified independent actuary. The rates of contribution payable are determined by the actuary. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular costs are spread over the expected average remaining service lives of members of the scheme. Further details are given in note 13

The company provides no other post retirement benefits to its employees.

Cash flow statement

The company is exempt under the terms of Financial Reporting Standard No.1 from publishing a cash flow statement as the company is a wholly owned subsidiary of AB Volvo, which prepares a consolidated cash flow statement. The accounts of AB Volvo are publicly available.

Related party transactions

As permitted by FRS 8, transactions and balances with fellow group companies are not disclosed as the company is a wholly owned subsidiary of a group for which consolidated accounts are prepared.

2 Turnover

Turnover comprises:

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Income from finance leases	564	382
Income from hire purchase contracts	15,445	6,163
Rentals receivable in respect of operating leases	14,492	4,716
Interest receivable in respect of loans to dealers	9,107	7,223
Other income	1,239	912
	<hr/> 40,847	<hr/> 19,396

Turnover and cost of sales are stated exclusive of amounts paid to Volvo Car UK and received from the Volvo car dealers in respect of car purchases and sales. This amounted to £751,473,878 for each of these in the year ended 31st December 1998.

3 Cost of sales

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Interest payable in respect of loans repayable to group companies	4,791	2,626
Interest payable in respect of bank loans and overdrafts	15,500	7,884
Fees and commissions payable	1,829	1,548
Depreciation charged on assets leased to third parties	9,605	3,049
	<hr/> 31,725	<hr/> 15,107

Notes to the financial statements

for the year ended 31 December 1998 (continued)

4 Directors' emoluments

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Aggregate emoluments	102	84

There is one director to whom retirement benefits are accruing under the Volvo group's defined benefit pension scheme.

Directors loans

A loan was made to a director in connection with a car purchase during 1997, on the same terms as loans are available to other staff. The maximum loan balance during the year was £2,745 (1997: £3,952) and the balance at 31 December 1998 was £1,427 (1997: £2,745).

5 Employee information

Average employee numbers

The average employee numbers during the year, including permanent and temporary staff, were 28 (1997 : 26)

Staff costs for the above persons

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Wages and salaries	960	816
Social security	87	67
Other pension costs (see note 13)	115	95
	1,162	978

6 Profit on ordinary activities before taxation

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
The profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration for		
audit services	15	40
non-audit services	10	18
Loss on disposal of fixed assets	736	15
Depreciation on assets owned	22	16
Depreciation on assets leased to third parties	9,605	3,049

Notes to the financial statements

for the year ended 31 December 1998 (continued)

7 Tax on profit on ordinary activities

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
United Kingdom Corporation tax at 31.0 % (1997 : 31.5%)	100	-
Current deferred taxation	211	-
	<u>311</u>	<u>-</u>

The low effective rate of tax is due to the timing differences brought about by capital allowances on operating lease vehicles.

8 Tangible fixed assets

	Plant & equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 January 1998	2,731	32,553	35,284
Additions	224	35,509	35,733
Disposals	-	(5,364)	(5,364)
At 31 December 1998	<u>2,955</u>	<u>62,698</u>	<u>65,653</u>
Depreciation			
At 1 January 1998	322	2,749	3,071
Charge for the year	660	8,967	9,627
Disposals	-	(740)	(740)
At 31 December 1998	<u>982</u>	<u>10,976</u>	<u>11,958</u>
Net book value at 31 December 1998	<u>1,973</u>	<u>51,722</u>	<u>53,695</u>
Net book value at 31 December 1997	<u>2,409</u>	<u>29,804</u>	<u>32,213</u>

Of the above, fixed assets with a net book value of £53,662,000 (1997 : £32,179,000) are leased to third parties under operating leases.

**Notes to the financial statements
for the year ended 31 December 1998
(continued)**

9 Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year		
Loans to dealers	146,208	97,436
Amounts owed by group undertakings	138	5,354
Other debtors	17,735	1,327
Prepayments and accrued income	1,963	2,397
Deferred taxation	-	211
Other taxation and social security	826	1,624
Net investment in finance leases and hire purchase contracts	87,951	33,098
	<u>254,821</u>	<u>141,447</u>
Amounts falling due after more than one year	108,882	80,603
Net investment in finance leases and hire purchase contracts		
Rentals receivable during the year	84,532	72,443
Assets acquired for leasing under finance leases and hire purchase contracts during the year	<u>219,403</u>	<u>179,712</u>

10 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Bank loans and overdrafts	254,200	129,892
Trade creditors	11,265	1,745
Amounts owed to group undertakings	3,799	1,387
Accruals and deferred income	4,055	4,335
Corporation Tax	100	-
Other taxation and social security	60	27
	<u>273,479</u>	<u>137,386</u>

The company is party to a cross guarantee given by certain companies in the group, of which it is a member, to its bankers in respect of banking facilities provided.

11 Creditors: amounts falling due after one year

	1998 £'000	1997 £'000
Bank loans	41,777	44,792
Amounts owed to group undertakings	63,186	47,000
Other creditors	818	288
	<u>105,781</u>	<u>92,080</u>
Maturity analysis of bank and group loans due after one year:		
1-2 years	57,376	27,000
2-5 years	47,587	64,792
	<u>104,963</u>	<u>91,792</u>

Notes to the financial statements for the year ended 31 December 1998 (continued)

12 Deferred taxation

	1998 £'000	1997 £'000
At 1 st January	(211)	-
Charged / (credited) to profit and loss account	211	(211)

At 31 st December	-	(211)
------------------------------	---	-------

	Amounts provided		Full Potential	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Accelerated capital allowances	-	-	1,099	2,174
Tax effect of losses carried forward	-	(211)	-	(551)
Other	-	-	(636)	(597)
Deferred tax (assets) / liability	-	(211)	463	1,026

The deferred tax asset in 1997 is included in Debtors - see note 9.

13 Pension schemes

The company is part of the Volvo Car UK Limited pension scheme and contributions are based on pension costs across the group as a whole. The pension schemes are defined benefit and their assets are held in trustee administered funds independent of group finances.

The total pension cost for the period was £115,000 (1997 : £95,000).

Contributions to the Volvo Car UK Pension Scheme are made in accordance with the advice of an independent professionally qualified actuary and the cost of providing pension benefits is spread over the average remaining service lives of the employees in the scheme.

The latest actuarial valuation of the scheme was at 31 December 1995. The assumptions that have the most significant effect on the valuation are those relating to the rate of return of investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8.5% per annum, that dividend increases would be 4.0% per annum, that salary increases would average 6.0% per annum and that present and future pensions would increase at the rate of 3.5% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £17.73m and the actuarial value of the assets was sufficient to cover over 100% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The long term contribution rate of 15.2% of basic salary was reduced to 13.6% of basic salary with effect from 1 January 1996.

An actuarial review is next planned for mid 1999, based on the scheme as at 31st December 1998.

Notes to the financial statements for the year ended 31 December 1998 (continued)

14 Share capital

	1998 £000	1997 £000
Authorised		
Ordinary shares £1 each	40,000	25,000
Allotted, called up and fully paid		
Ordinary shares £1 each	35,000	25,000

The authorised ordinary £1 share capital was increased in June 1998 by £8,000,000 and in December 1998 by £7,000,000. Following the increases in the authorised share capital 8,000,000 and 2,000,000 shares were issued at par.

15 Profit and loss account

	£'000
At 1 January 1998	(203)
Retained profit for the year	3,341
At 31 December 1998	3,138

16 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit/(loss) for the financial year	3,341	224
Issue of share capital	10,000	25,000
Net addition to shareholders' funds	13,341	25,224
Opening shareholders' funds	24,797	(427)
Closing shareholders' funds	38,138	24,797

17 Capital commitments

There is no capital expenditure that has been contracted for but not provided in the financial statements(1997:Nil).

18 Contingent liabilities

The company has guaranteed the second-hand value of certain vehicles that it may be required to purchase under the terms of certain financing agreements with customers. The maximum amount potentially payable under this guarantee at 31 December 1998 is £11,730,757 (1997 : £6,523,000). No provision has been made in these financial statements as the directors consider current second-hand car values are such that no liability is expected to arise.

**Notes to the financial statements
for the year ended 31 December 1998 (continued)****19 Ultimate parent undertaking and controlling entity**

At the end of the 1998 the ultimate parent undertaking and controlling entity was AB Volvo, a company incorporated in Sweden. AB Volvo's consolidated financial statements may be obtained from: AB Volvo, S/40508 Göteborg, Sweden.

Subsequent to the end of the year Ford Motor Company, a company incorporated in the USA, acquired Volvo Car Corporation and its subsidiaries, including Volvo Car Finance Ltd.