

ALD AUTOMOTIVE LIMITED

Registered Number: 987418

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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COMPANIES HOUSE

ALD AUTOMOTIVE LIMITED

DIRECTORS

M W Dawson
T Laver
D A Yates
M Masterson

SECRETARY

A Woodward

AUDITORS

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

BANKERS

Société Générale
41 Tower Hill
London
EC3N 4SG

SOLICITORS

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

REGISTERED OFFICE

Oakwood Drive
Emersons Green
Bristol
BS16 7LB

ALD AUTOMOTIVE LIMITED

Directors' Report

The directors present the audited financial statements of ALD Automotive Limited ("the Company") for the year ended 31 December 2017. 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 provision of fleet management services to external customers, including the arrangement of vehicle financing, and the sale of used motor vehicles.

In 2017, our fleet increased to 137,983 (2016: 132,516). As at 31 December 2017 the order bank was 3,906 (2016: 8,053).

The overall profit for the year after taxation amounted to £40,853,000 (2016: £38,475,000). At the balance sheet date total assets were £1,683,751,000 (2016: £1,528,804,000), net assets being £122,984,000 (2016: £118,352,000).

During the year a dividend of £38,475,000 (£392,602 per share) was paid (2016: £42,190,000 in total and £430,510 per share). No dividend has been proposed subsequent to the balance sheet date in relation to the year ended 31 December 2017.

Business environment

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

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

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

Our commitment to these areas is evidenced through the ongoing Customer Excellence programme and the launch of the NatWest Flex Car Finance pilot scheme in 2017.

Going concern

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

We expect to continue to generate positive cash flows on our own account for the foreseeable future. In addition we benefit from access to funding via the ultimate parent undertaking Société Générale. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current funding arrangements provided by the ultimate parent undertaking.

ALD AUTOMOTIVE LIMITED

Directors' Report

Key Performance Indicators

	2017	2016	Definition and analysis
Gross margin (%)	14.4	14.7	Gross margin is the ratio of gross profit to revenue expressed as a percentage.
Return on shareholders' funds (%)	33.2	32.5	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)	137,983	132,516	Total fleet size is the total number of vehicles managed and/or funded. Fleet size continued to grow, recording an increase of 4.1% during the year.
Productivity	282.6	293.1	Productivity is the average fleet size divided by the average number of full time equivalent staff employed during the period. The decline year on year is attributed to new hires joining the Company.
Stock turnover (days)	11.0	12.5	Stock turnover is the annualised ratio of stock to cost of sales expressed as a number of days.

Employees

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

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

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

Policy and practice on payments of creditors

Our policy and practice is to agree terms of payment with suppliers. It is our policy to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract. Trade creditor days for the year ended 31 December 2017 was 7.9 days (2016: 11.3 days), based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Disclosure of information to the auditors

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

ALD AUTOMOTIVE LIMITED

Directors' Report

Directors

The names of the current directors are listed on page 1. There were no changes in directorship during the year or since the end of the year.

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

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

Auditors

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

On behalf of the Board



M W Dawson
Director

26 June 2018

ALD AUTOMOTIVE LIMITED

Strategic Report

ALD Automotive Limited is a subsidiary of the ALD Automotive Group, 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.

In June 2017, SG sold 20% of shares in the ALD Automotive Group in an initial public offering (IPO) on the Paris Euronext exchange. SG was the sole shareholder prior to this transaction, and remains the majority shareholder. The IPO is intended to enable the ALD Automotive Group to gain visibility and reputation in the mobility ecosystem as well as to access new means of financing and to increase its capacity to accelerate its development and to seize new growth opportunities in both the corporate and retail markets.

We operate within SG's International Banking and Financial Services division (one of the bank's three core divisions), as one of 43 entities within the ALD Automotive Group. The ALD Automotive Group is one of the largest providers in Europe, funding and managing over 1.5 million cars and light commercial vehicles worldwide.

In the UK, we manage a fleet of almost 138,000 vehicles. We are the 6th largest vehicle leasing provider in the market, offering a portfolio of vehicle leasing and fleet management services to large corporates, public bodies, SMEs, small and large partnerships, sole traders and private individuals.

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

Accreditations

We have been certified to the Quality Management System standard ISO 9001 since 1993. We are currently certified to the ISO 9001:2008 standard and are due to complete the three-year transition to the latest ISO 9001:2015 standard in 2018. 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 embraces the guidelines and codes of practice adopted by many trade bodies and associations in the sector including the BVRLA and the FLA.

Vision

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

Values

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

ALD AUTOMOTIVE LIMITED

Strategic Report

Strategy

Our business strategy is based on:

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

Business model

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

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

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

Product development

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

In 2017 we launched the NatWest Flex Car Finance pilot scheme, which offers hire purchase contracts on used cars to NatWest personal customers. The digital platform – which enables online quoting, finance application and payment – was developed at the ALD Development Centre in Bristol.

We launched the RBS Colleague Car Scheme later in the year. This scheme offers credit sale contracts on both new and used cars to RBS employees, and utilises a similar version of the digital platform underlying NatWest Flex Car Finance.

Development of the ThreeSixty online solution for corporate customers continues, with a number of new modules introduced in 2017 adding to the range of functionality already available.

ALD AUTOMOTIVE LIMITED

Strategic Report

IT solutions

Continuing investment in IT and online systems to deliver efficiency improvements and added value service is a cornerstone of our strategy. 2017 saw further growth in the Development Centre, which was set up in 2016 as a centre of excellence for development within the ALD Group and was central to the new product launches outlined above.

Customer service

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

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

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

Future outlook

With a proven and integrated IT infrastructure, enhanced by the opening of the Development Centre in March 2016, and a growing workforce of skilled people, we are well placed to manage increasing volumes of fleet management activity to meet market demand. Furthermore, following our relocation to a brand new, purpose-built head office at the end of 2016, we are extremely well positioned to grow market share through product innovation and high quality customer service.

The customer service teams, which are currently split between Bristol and Northampton, will be combined within a single, dedicated Customer Excellence Centre in Bristol in 2018. This recommendation follows a comprehensive review of how we can continue to deliver an exceptional level of service to all customers. The Northampton office is therefore expected to be closed towards the end of 2018.

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.

With planned systems development to the dealer services interface (DSi) and the ThreeSixty online solution for corporate customers, together with a range of potential applications of the digital platform underlying NatWest Flex Car Finance to be explored, there are a number of opportunities to further expand into both the SME and consumer markets under the ALD brand and via intermediaries.

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

ALD AUTOMOTIVE LIMITED

Strategic Report

This continued growth, building on extensive additional recruitment throughout 2017, 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.

The primary risk we face is that of movements in values within the used car market. It is our expectation that the used car market will remain relatively stable with reduced new car registrations supporting used values. More generally we expect pressure on margins to remain with our profitability maintained through the delivery of efficiency gains from our IT strategy.

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.



M W Dawson
Director

26 June 2018

ALD AUTOMOTIVE LIMITED

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

ALD AUTOMOTIVE LIMITED

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

Opinion

We have audited the financial statements of ALD Automotive Limited for the year ended 31 December 2017 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 25, 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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

ALD AUTOMOTIVE LIMITED

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Use of our report

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

A handwritten signature in black ink, appearing to read 'R Page', with a horizontal line drawn underneath the signature.

Richard Page (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Bristol
28 June 2018

ALD AUTOMOTIVE LIMITED**Statement of Comprehensive Income for the year ended 31 December 2017**

	Notes	2017 £'000	2016 £'000
Continuing operations			
REVENUE	2	767,722	689,974
Cost of sales		<u>657,162</u>	<u>588,176</u>
GROSS PROFIT		<u>110,560</u>	<u>101,798</u>
Administrative expenses		<u>38,280</u>	<u>34,664</u>
OPERATING PROFIT	3	72,280	67,134
Finance income	5(a)	15,727	15,793
Finance costs	5(b)	<u>(37,135)</u>	<u>(34,695)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		50,872	48,232
Taxation	6	<u>(10,019)</u>	<u>(9,757)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>40,853</u>	<u>38,475</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>40,853</u>	<u>38,475</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT		<u>40,853</u>	<u>38,475</u>

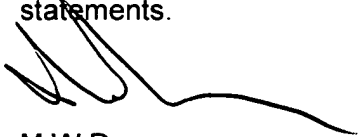
The notes on pages 17 to 45 are an integral part of these financial statements.

ALD AUTOMOTIVE LIMITED

Statement of Financial Position as at 31 December 2017

	Notes	2017 £'000	2016 £'000
NON-CURRENT ASSETS			
Intangible assets	7(a)	5,905	711
Property, plant and equipment	7(b)	1,302,684	1,198,474
Trade and other receivables	8	182,900	144,028
Deferred tax asset	6(c)	2,800	380
Derivative assets	13	145	3,817
		<u>1,494,434</u>	<u>1,347,410</u>
CURRENT ASSETS			
Inventory	9	19,875	20,175
Trade and other receivables	8	169,048	161,005
Cash and cash equivalents		394	214
		<u>189,317</u>	<u>181,394</u>
TOTAL ASSETS		<u>1,683,751</u>	<u>1,528,804</u>
NON-CURRENT LIABILITIES			
Long term borrowings	11	827,189	706,752
Long term provisions	12	2,507	2,671
Derivative liabilities	13	145	1,415
		<u>829,841</u>	<u>710,838</u>
CURRENT LIABILITIES			
Short term borrowings	10	605,969	587,359
Income tax liabilities	10	6,376	6,654
Trade and other payables	10	20,940	19,569
Short term provisions	12	665	1,714
Accruals and deferred income	10	96,976	84,318
		<u>730,926</u>	<u>699,614</u>
TOTAL LIABILITIES		<u>1,560,767</u>	<u>1,410,452</u>
CAPITAL AND RESERVES			
Called up share capital	15	-	-
Capital contribution reserve	23	2,254	-
Retained earnings		120,730	118,352
TOTAL EQUITY		<u>122,984</u>	<u>118,352</u>
TOTAL EQUITY AND LIABILITIES		<u>1,683,751</u>	<u>1,528,804</u>

Registered number 987418. The notes on pages 17 to 45 are an integral part of these financial statements.


M W Dawson
Director
26 June 2018

ALD AUTOMOTIVE LIMITED**Statement of Changes in Equity for the year ended 31 December 2017**

	Share Capital £'000	Retained Earnings £'000	Capital Contribution £'000	Total £'000
Balance as of 31 December 2015	-	122,067	-	122,067
Dividend paid	-	(42,190)	-	(42,190)
Profit for the year and total comprehensive income	-	38,475	-	38,475
Balance as of 31 December 2016	-	118,352	-	118,352
Dividend paid	-	(38,475)	-	(38,475)
Capital contribution from parent	-	-	2,254	2,254
Profit for the year and total comprehensive income	-	40,853	-	40,853
Balance as of 31 December 2017	-	120,730	2,254	122,984

ALD AUTOMOTIVE LIMITED

Statement of Cash Flows for the year ended 31 December 2017

	2017 £'000	2016 £'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	50,872	48,232
Adjustments for:		
- Depreciation	265,645	256,246
- Amortisation	240	-
- Finance costs	33,173	34,054
- Finance income	(14,166)	(13,420)
- Derivatives	2,402	(1,723)
- Gain on disposal of property, plant and equipment	(14,274)	(18,874)
- Movement in provisions	(1,213)	(13)
Changes in operating assets and liabilities:		
- Increase in receivables and prepayments	(46,372)	(28,228)
- Movement in inventory	4,660	(3,031)
- Increase in payables and accruals	14,160	18,444
Other	10	(76)
	<u>295,137</u>	<u>291,611</u>
Interest received	13,612	13,554
Income tax paid	(12,718)	(13,347)
NET CASH FROM OPERATING ACTIVITIES	<u>296,031</u>	<u>291,818</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	308,776	271,720
Purchase of property, plant and equipment	(668,716)	(653,790)
Purchase of intangible assets	(5,434)	(711)
NET CASH FROM INVESTING ACTIVITIES	<u>(365,374)</u>	<u>(382,781)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	568,939	434,335
Repayment of borrowings	(396,200)	(312,352)
Capital contribution	2,254	-
Interest paid	(33,303)	(34,535)
Dividend paid	(38,475)	(42,190)
NET CASH FROM FINANCING ACTIVITIES	<u>103,215</u>	<u>45,258</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	33,872	(45,705)
Cash and cash equivalents at the beginning of the year	(40,472)	5,233
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>(6,600)</u>	<u>(40,472)</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

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 under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through income set out in the relevant accounting policies and are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Revenue recognition

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

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

Sales proceeds received on the disposal of formerly leased vehicles are recognised in the period in which the sale occurs, with the book value of the vehicle being released from stock to cost of sales as per IAS 2 'Inventories'. Revenue includes total sales proceeds from operating leases.

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. The effective interest rate is calculated using the pre-tax actuarial method. For loan products the effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts over the expected life of a financial instrument to the net carrying amount of the financial asset or liability. The effective interest rate for leasing products is similar except that future cash payment and receipts are assessed over the contractual life of the agreement.

Other income includes amounts arising at the end of vehicle contracts, which are recognised in the period the contract terminates.

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. Movements in unrealised gains and losses arising are recognised in the statement of comprehensive income in the period in which they arise, within finance income or finance costs respectively.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

1. ACCOUNTING POLICIES (continued)

Intangible assets

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

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

Property, plant and equipment

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

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

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

Accounting for leases

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

Leasing and hire purchase commitments

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

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

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

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

1. ACCOUNTING POLICIES (continued)

Maintenance of contract hire vehicles

In order to ensure that income and costs are appropriately matched, the Company recognises the income associated with the maintenance element of each contract so as to be consistent with the expected timing of maintenance expenditure.

Securitisation

Lease receivables are transferred from the Company to ALD Funding Limited to support the securitisation. These lease receivables do not qualify for de-recognition as the Company continues to retain substantially all of the risks and rewards of these assets. The Company therefore continues to recognise the transferred lease receivables in their entirety and recognises a financial liability for the consideration received.

Inventory

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

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 derecognised 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 derecognised 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.

Financial liabilities are initially recognised at fair value less directly attributable transaction costs 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 within other financial liabilities.

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 period of the borrowings using the effective interest rate applicable to the instrument.

1. ACCOUNTING POLICIES (continued)

Derivative financial instruments are initially recognised at fair value on the date on which a derivative 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 using a discounted cash flow method, while taking into account current interest rates and exchange rates.

Impairment**Financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows. Future expected credit losses that have not yet been incurred are excluded from the estimation of future cash flows. The present value of the estimated future cash flows is discounted at the original effective interest rate of the financial asset, where applicable.

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.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

1. ACCOUNTING POLICIES (continued)

Contingent liabilities

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

Taxes

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

Current tax

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

Deferred tax

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

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

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

Pensions

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

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.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

1. ACCOUNTING POLICIES (continued)

Impairment of assets

Debt portfolio and trade receivables

The Company reviews its debt portfolio and trade receivables to assess for impairment on an annual basis. In determining whether impairment has occurred, the Company considers whether there is any observable data indication that there has been a measurable decrease in the estimated future cash flows and their timings. Such observable data includes whether there has been an adverse change in the payment status of borrowers and customers, or changes in economic conditions that correlate with defaults on assets in the Company.

Operating leases

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

Consumer Credit Act provision

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

Residual value

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

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

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

Segmental reporting

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

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

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.

	2017 £'000	2016 £'000
Analysis of revenue:		
Vehicle management services		
Operating lease agreements' rentals	388,804	364,332
Operating lease agreements' disposal proceeds	308,536	271,720
Finance lease agreements' rentals	64,023	49,355
Other	6,359	4,567
	<u>767,722</u>	<u>689,974</u>

3. OPERATING PROFIT

This is stated after charging / (crediting):

	2017 £'000	2016 £'000
Depreciation of property, plant and equipment	265,645	256,246
Operating lease rentals – land and buildings	1,018	887
Profit on disposal of property, plant and equipment	(14,274)	(18,874)
Auditors' remuneration – audit services	<u>228</u>	<u>188</u>

4. STAFF COSTS

	2017 £'000	2016 £'000
Wages and salaries	17,472	15,554
Social security costs	1,774	1,705
Pension costs	1,312	1,175
Other	1,121	911
	<u>21,679</u>	<u>19,345</u>

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

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

	2017	2016
Operations	81	82
Sales and marketing	218	195
Finance, IT and administration	180	158
	<u>479</u>	<u>435</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

5 FINANCE INCOME AND COSTS**(a) Finance Income**

	2017 £'000	2016 £'000
Interest receivable from ALD Funding Limited	10,754	10,912
Interest receivable from group undertakings	3,412	2,508
Fair value gain on financial instruments at fair value through profit or loss	1,560	2,362
Other	1	11
	<u>15,727</u>	<u>15,793</u>

(b) Finance Costs

	2017 £'000	2016 £'000
Interest payable to ALD Funding Limited	14,473	16,632
Interest payable to group undertakings	15,230	15,405
Interest payable to external funders	3,459	2,017
Fair value loss on financial instruments at fair value through profit or loss	3,962	639
Other	11	2
	<u>37,135</u>	<u>34,695</u>

6 INCOME TAXES**(a) Analysis of the tax charge in the period**

	2017 £'000	2016 £'000
UK corporation tax:		
Current tax	12,439	13,114
Origination and reversal of temporary differences:		
Current year deferred tax movement at 19.25% (2016: 20%)	(2,629)	(3,455)
Adjustment in respect of prior period	(85)	-
Effect of change in tax rate	294	98
Total deferred tax	<u>(2,420)</u>	<u>(3,357)</u>
Tax on profit on ordinary activities	<u>10,019</u>	<u>9,757</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

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 19.25% (2016: 20%). The differences are reconciled below.

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	<u>50,872</u>	<u>48,232</u>
Profit on ordinary activities multiplied by standard rate UK corporation tax of 19.25% (2016: 20%)	9,791	9,647
Expenses not deductible for tax purposes	45	12
Non-taxable credits	(25)	-
Transfer pricing	(1)	-
Effect of change in tax rate	294	98
Adjustments in respect of prior periods	(85)	-
Total tax	<u>10,019</u>	<u>9,757</u>

Legislation was introduced in Finance (No. 2) Act 2015 to reduce the main rate of corporation tax from 20% to 19% with effect from 1 April 2017, hence the average rate of 19.25% for the year ended 31 December 2017. A further measure in Finance Act 2016 enacted a reduction in the main rate of corporation tax to 17% from 1 April 2020. These tax rate reductions are taken into account in calculating the deferred tax asset disclosed in the accounts.

(c) Deferred taxation

The deferred tax asset can be analysed as follows:

	2017 £'000	2016 £'000
At 1 January	380	(2,977)
Deferred tax credit to profit and loss account	2,420	3,357
At 31 December	<u>2,800</u>	<u>380</u>
Accelerated capital allowances	1,909	(218)
Temporary differences	891	598
Deferred tax asset	<u>2,800</u>	<u>380</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

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

2017	Work in Progress £'000	Internally Developed Software £'000	Total £'000
Cost:			
At 1 January 2017	711	-	711
Additions	5,434	-	5,434
Project completion	(4,442)	4,442	-
At 31 December 2017	<u>1,703</u>	<u>4,442</u>	<u>6,145</u>
Amortisation:			
At 1 January 2017	-	-	-
Charge for the year	-	240	240
At 31 December 2017	<u>-</u>	<u>240</u>	<u>240</u>
Net book values:			
At 31 December 2017	<u>1,703</u>	<u>4,202</u>	<u>5,905</u>

2016	Work in Progress £'000	Internally Developed Software £'000	Total £'000
Cost:			
At 1 January 2016	-	-	-
Additions	711	-	711
At 31 December 2016	<u>711</u>	<u>-</u>	<u>711</u>
Amortisation:			
At 1 January 2016	-	-	-
Charge for the year	-	-	-
At 31 December 2016	<u>-</u>	<u>-</u>	<u>-</u>
Net book values:			
At 31 December 2016	<u>711</u>	<u>-</u>	<u>711</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

(b) PROPERTY, PLANT AND EQUIPMENT

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

2016	Freehold Property £'000	Short Leasehold Property £'000	Plant and computer equipment £'000	Motor Vehicles £'000	Total £'000
Cost:					
At 1 January 2016	546	1,869	10,606	1,453,141	1,466,162
Additions	-	1,232	1,380	651,178	653,790
Disposals	-	(1,244)	(8,148)	(477,654)	(487,046)
At 31 December 2016	546	1,857	3,838	1,626,665	1,632,906
Depreciation:					
At 1 January 2016	-	1,838	9,263	401,617	412,718
Charge for the year	-	82	499	255,665	256,246
Disposals	-	(1,222)	(8,083)	(225,227)	(234,532)
At 31 December 2016	-	698	1,679	432,055	434,432
Net book values:					
At 31 December 2016	546	1,159	2,159	1,194,610	1,198,474

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

(b) PROPERTY, PLANT AND EQUIPMENT (continued)

Vehicles rented to customers with a net book value of £1,296,230,000 at 31 December 2017 are included in the above (2016: £1,192,684,000). Contributing to the above net book value of motor vehicles is £7,294,000 of accelerated depreciation due to revised estimates of residual values (2016: £11,806,000).

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

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

	2017 £'000	2016 £'000
- not longer than 1 year	290,977	277,052
- longer than a year, less than 5 years	266,544	249,161
- longer than 5 years	-	-
	<u>557,521</u>	<u>526,213</u>

8. RECEIVABLES

	2017 £'000	2016 £'000
<u>Amounts falling due within one year:</u>		
Trade receivables	30,926	30,791
Finance lease receivables	98,480	82,162
Amounts due from group undertakings	3,600	3,600
Amounts due from ALD Funding Limited	12,967	10,877
Prepayments and accrued income	23,075	29,003
Other taxes	-	4,572
	<u>169,048</u>	<u>161,005</u>
<u>Amounts falling due after more than one year:</u>		
Finance lease receivables	154,248	122,428
Prepayments and accrued income	10,652	-
Amounts due from group undertakings	18,000	21,600
	<u>182,900</u>	<u>144,028</u>
	<u>351,948</u>	<u>305,033</u>

The cost of vehicles acquired for the purpose of leasing under finance lease agreements for the year ended 31 December 2017 was £189,904,000 (2016: £154,158,000).

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

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

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

8. RECEIVABLES (continued)

Movements on provisions for impairment of trade receivables are:

	2017 £'000	2016 £'000
At 1 January	6,979	6,670
Charge for year	1,870	1,649
Utilised in the year	(21)	(1,340)
	<u>8,828</u>	<u>6,979</u>

Finance lease contracts:

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

	2017 £'000	2016 £'000
Gross investment in finance leases, with remaining maturities		
- not longer than 1 year	105,784	88,552
- longer than a year, less than 5 years	165,123	131,745
- longer than 5 years	-	12
	<u>270,907</u>	<u>220,309</u>
Unearned finance income on finance leases	18,178	15,719
Net investment in finance leases	<u>252,729</u>	<u>204,590</u>
Net investment in finance leases, with remaining maturities		
- not longer than 1 year	98,480	82,162
- longer than a year, less than 5 years	154,249	122,428

9. INVENTORY

	2017 £'000	2016 £'000
Vehicles	<u>19,875</u>	<u>20,175</u>

Inventory is stated net of a £841,000 provision (2016: £346,000) representing the difference between net book value and estimated net realisable value for vehicle models expected to sell at a loss.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

10. PAYABLES: amounts falling due within one year

	2017 £'000	2016 £'000
<u>Short term borrowings:</u>		
Bank overdraft	6,994	40,686
Amount due to ALD Funding Limited	145,414	147,317
Amount due to group undertakings	425,451	372,612
Current instalments due on loans	28,110	26,744
	<u>605,969</u>	<u>587,359</u>
<u>Trade and other payables:</u>		
Trade payables	14,280	18,228
Other taxes and social security	6,660	1,341
	<u>20,940</u>	<u>19,569</u>
Income tax liabilities	6,376	6,654
Accruals and deferred income	96,976	84,318
	<u>730,261</u>	<u>697,900</u>

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

11. PAYABLES: amounts falling due after one year

	2017 £'000	2016 £'000
<u>Long term borrowings payable:</u>		
in 1 to 2 years	669,483	407,505
in 2 to 5 years	157,706	299,247
	<u>827,189</u>	<u>706,752</u>

Of the loans analysed above, £622,760,000 (2016: £508,464,000) are from Société Générale, the ultimate parent company. These loans are not secured and interest rates are fixed at the point of inception.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

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 2016	1,190	1,200	2,008	-	4,398
Provided in the year	-	476	-	-	476
Utilisation in the year	(451)	-	(92)	-	(543)
Movement due to passage of time and change in the discount rate	75	(21)	-	-	54
At 31 December 2016	814	1,655	1,916	-	4,385
Short term provisions	814	900	-	-	1,714
Long term provisions	-	755	1,916	-	2,671
	814	1,655	1,916	-	4,385
Provided in the year	-	74	-	415	489
Utilisation in the year	(814)	(900)	-	-	(1,714)
Movement due to passage of time and change in the discount rate	-	12	-	-	12
At 31 December 2017	-	841	1,916	415	3,172
Short term provisions	-	250	-	415	665
Long term provisions	-	591	1,916	-	2,507
	-	841	1,916	415	3,172

Provision for onerous lease

The lease term for the vacant property in respect of which an onerous lease provision had been made ended in December 2017. The remaining provision was therefore utilised in the year.

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 expected to be utilised once the Company has vacated.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

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

As outlined in the Strategic Report, the Bristol and Northampton customer service teams will be combined within a single, dedicated Customer Excellence Centre in Bristol in 2018. This proposal was communicated to all staff in March 2018. Provision has been made, in accordance with the IAS 37 recognition criteria, for costs in respect of which the Company had a present obligation at year end. The provision is expected to be utilised in 2018. Directors anticipate further costs of approximately £750,000 which have not been provided for within these financial statements.

13. DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount £'000	Fair Value Assets £'000	Fair Value Liabilities £'000
Interest rate swaps	300,000	145	145
Total derivatives as at 31 December 2017	<u>300,000</u>	<u>145</u>	<u>145</u>
Total derivatives as at 31 December 2016	<u>359,800</u>	<u>3,817</u>	<u>1,415</u>

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

14. RESIDUAL VALUE EXPOSURE

Year in which residual value will be recovered:

	Residual Value – Operating Leases £'000	Residual Value – Finance Leases £'000	Total £'000
Within one year	303,089	49,872	352,961
In one to two years	281,329	26,366	307,695
In two to five years	301,390	58,382	359,772
Total Exposure	<u>885,808</u>	<u>134,620</u>	<u>1,020,428</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

15. SHARE CAPITAL

	2017 £	2016 £
Authorised:		
£1 ordinary shares	<u>100</u>	<u>100</u>
Allotted, called up and fully paid:		
£1 ordinary shares	<u>98</u>	<u>98</u>

16. FINANCIAL ASSETS AND LIABILITIES

	2017 £'000	2016 £'000
Financial assets		
Trade and other receivables	318,222	271,458
Derivative assets	145	3,817
Cash and cash equivalents	394	214
Total financial assets	<u>318,761</u>	<u>275,489</u>
Non-financial assets		
Intangible assets	5,905	711
Property, plant and equipment	1,302,684	1,198,474
Deferred tax assets	2,800	380
Other assets	53,601	53,750
Total non-financial assets	<u>1,364,990</u>	<u>1,253,315</u>
TOTAL ASSETS	<u>1,683,751</u>	<u>1,528,804</u>
Financial liabilities		
Borrowings	1,433,158	1,294,111
Trade payables	14,280	18,228
Derivative liabilities	145	1,415
Total financial liabilities	<u>1,447,583</u>	<u>1,313,754</u>
Non-financial liabilities		
Other liabilities	113,184	96,698
Total non-financial liabilities	<u>113,184</u>	<u>96,698</u>
TOTAL LIABILITIES	<u>1,560,767</u>	<u>1,410,452</u>

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

Fair values of financial assets and financial liabilities

Fair values of finance lease agreements are estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar assets prevailing at the balance sheet date. The fair value of finance lease agreements is £253,642,493 (2016: £204,717,027). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

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:

<u>Assets measured at fair value</u>	2017 £'000	Level 1 £'000	Level 2 £'000
Financial assets at fair value through profit or loss:			
Derivative assets	145	-	145
<u>Liabilities measured at fair value</u>	2017 £'000	Level 1 £'000	Level 2 £'000
Financial liabilities at fair value through profit or loss:			
Derivative liabilities	145	-	145
<u>Assets measured at fair value</u>	2016 £'000	Level 1 £'000	Level 2 £'000
Financial assets at fair value through profit or loss:			
Derivative assets	3,817	-	3,817
<u>Liabilities measured at fair value</u>	2016 £'000	Level 1 £'000	Level 2 £'000
Financial liabilities at fair value through profit or loss:			
Derivative liabilities	1,415	-	1,415

17. CAPITAL COMMITMENTS

At the balance sheet date the Company had placed orders for motor vehicles to the value of £34.1m (2016: £43.8m) in respect of new lease rental agreements commencing in 2018. At 31 December 2017, other capital commitments amounted to £nil (2016: £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 2017 totalled £1,312,000 (2016: £1,175,000) representing contributions due to the scheme in the period. There were no unpaid contributions outstanding at the end of the year (2016: £nil).

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

19. OTHER FINANCIAL COMMITMENTS

At 31 December 2017 the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2017 £'000	2016 £'000
Operating leases which expire:		
Less than 1 year	148	887
From 1 to 5 years	330	94
Over 5 years	638	875
	<u>1,116</u>	<u>1,856</u>

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

	2017 £'000	2016 £'000
- not longer than 1 year	1,022	1,596
- longer than a year, less than 5 years	3,556	3,720
- longer than 5 years	5,779	6,623
	<u>10,357</u>	<u>11,939</u>

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

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

Relationship	Transactions in the year (£'000)		Outstanding balance (£'000)	
	2017	2016	2017	2016
Ultimate parent undertaking				
Loans owed to Société Générale	-	-	(1,048,211)	(881,076)
Loans due from Société Générale	-	-	21,600	25,200
Bank overdraft	-	-	(6,994)	(40,686)
Capital repayments	(393,165)	(306,876)	-	-
Loan drawdowns	560,300	423,500	-	-
Interest payable	15,230	15,405	(3,361)	(3,109)
Interest receivable	3,411	2,508	292	342
Bank charges	154	116	-	-

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

<i>Relationship</i>	Transactions in the year (£'000)		Outstanding balance (£'000)	
	2017	2016	2017	2016
Parent undertakings				
Amount payable – central rebill	5,289	4,635	-	-
Amount receivable – central rebate	(461)	(437)	-	-
Amount receivable – IT recharge	(2,539)	-	2,539	-
Expense recharges	(83)	(106)	227	-
ALD Funding Limited				
Loans repayable	-	-	(299,800)	(299,800)
Amounts due	-	-	12,967	10,877
Loan repayments	(11,812)	(6,708)	-	-
Loan drawdowns	19,612	9,609	-	-
Interest receivable	10,754	10,912	-	-
Interest payable	14,473	16,632	-	-

Transactions between the Company and key management personnel

Remuneration of the Company directors was as follows:

	2017 £'000	2016 £'000
Aggregate emoluments	746	806
Company contributions to defined contribution schemes	34	94
	<u>780</u>	<u>900</u>

The emoluments, excluding pension contributions, of the highest paid director were £382,448 (2016: £293,625), in addition, pension contributions of £nil were paid (2016: £29,850). Retirement benefits are accruing for 1 director under a defined contribution scheme (2016: 3). 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 the three registered executive directors and in addition the directors of Sales, 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:

	2017 £'000	2016 £'000
Transaction value	432	214
Balance outstanding	-	-

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

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, remaining the majority shareholder following the IPO, is the Société Générale Group, a company registered in France. Copies of the Société Générale Group financial statements can be obtained from 29, Boulevard Haussmann, 75009 Paris, France or from their website at <https://www.societegenerale.com/en/measuring-our-performance/information-and-publications/financial-results>.

22. RISK MANAGEMENT

The Company's operations expose it to credit risk, liquidity risk, residual value 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.

Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company is exposed to credit risk in both the corporate (business to business) and personal consumer markets. The table below shows the level of exposure as measured by the contracted expiry date of the finance provided.

	2017	2016
	£'000	£'000
Leases expiring		
Within one year	394,794	369,828
In one to three years	947,795	865,191
Greater than three years	218,505	179,050
	<u>1,561,094</u>	<u>1,414,069</u>

Credit risk is managed in accordance with the guidelines, principles and authorisation levels set out by the Company's ultimate parent undertaking Société Générale. Annual 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.

In addition, credit risk may be further 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.

Receivables from customers are individually assessed on indications for impairment. The sources for such indications can be internal, such as internal credit score, payment behaviour or receivable ageing, or external, such as external credit ratings or solvency information. Impairment is recognised when collection of receivables is at risk and when the recoverable amount is lower than the carrying amount of the receivable.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

22. RISK MANAGEMENT (continued)

Trade receivables	Total	Neither past due nor impaired	<30 days	Past due but not impaired				
				30-60 days	61-90 days	91-120 days	>120 days	
2017	30,926	10,354	9,638	3,253	945	458	6,278	
2016	30,791	11,624	8,677	1,827	2,048	680	5,937	
							2017	2016
							£'000	£'000
Receivables from customers individually impaired							7,658	5,850

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.

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.

In March 2013, the Company completed an asset backed commercial paper securitisation transaction whereby £300,000,000 of funding was generated from the sale of future lease receivables and residual values originated by the Company to ALD Funding Limited, a bankruptcy remote special purpose vehicle.

Debt securities were issued by the special purpose vehicle and sold to external investors in March 2013 for a two-year revolving period which was subsequently extended. The special purpose vehicle was responsible for making interest and principal payments to the note holders.

The securitisation facility was terminated on 14 March 2018 and replaced by additional funding from the ultimate parent.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

22. RISK MANAGEMENT (continued)

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

	2017 £'000	2016 £'000
Less than 1 year	145,614	147,517
Within 2 to 5 years	154,386	152,483
Over 5 years	-	-
	<u>300,000</u>	<u>300,000</u>

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

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 2017

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

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

22. RISK MANAGEMENT (continued)

As at 31 December 2016

	0-3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Non- interest bearing £'000	Total £'000
Financial assets						
Trade receivables	-	-	-	-	30,791	30,791
Finance lease receivables	26,721	55,441	122,428	-	-	204,590
Amounts due from group undertakings	-	3,600	14,400	7,200	-	25,200
Amount due from ALD Funding Limited	-	-	-	-	10,877	10,877
Derivative assets	-	-	3,817	-	-	3,817
Cash and cash equivalents	214	-	-	-	-	214
	<u>26,935</u>	<u>59,041</u>	<u>140,645</u>	<u>7,200</u>	<u>41,668</u>	<u>275,489</u>
Financial liabilities						
Trade payables	-	-	-	-	18,228	18,228
Amounts due to group undertakings	100,139	260,261	508,464	-	12,212	881,076
Amounts due to ALD Funding Limited	44,764	102,553	152,483	-	-	299,800
External funding	6,028	20,716	45,805	-	-	72,549
Bank overdraft	40,686	-	-	-	-	40,686
Derivative liabilities	-	-	1,415	-	-	1,415
	<u>191,617</u>	<u>383,530</u>	<u>708,167</u>	<u>-</u>	<u>30,440</u>	<u>1,313,754</u>
Net financial assets/ (liabilities)	<u>(164,682)</u>	<u>(324,489)</u>	<u>(567,522)</u>	<u>7,200</u>	<u>11,228</u>	<u>(1,038,265)</u>

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 by discounting the future cash flows for each contract using the yield curve as at the end of the year and the credit risk inherent in the contract.

Interest rate swaps settle on a monthly, quarterly or semi-annual basis and use LIBOR reference rates on the floating side of the swap. The Company settles on the difference between the fixed and floating interest rate on a net basis and, therefore, the Company recognises net derivative assets and liabilities based on an overall exposure to individual counterparties.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

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 flows arising from financial liabilities on the closing balance sheet will arise within 5 years.

As at 31 December 2017

<u>Liabilities</u>	Carrying amount £'000	No stated maturity £'000	Less than 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000
Trade payables	14,280	-	11,869	1,259	1,152	-
Due to group undertakings:						
- Capital	1,048,211	12,212	24,782	100,267	288,191	622,760
- Interest	-	-	867	2,824	8,818	10,446
Due to ALD Funding Limited:						
- Capital	299,800	-	18,814	27,933	98,667	154,386
- Interest	-	-	474	929	2,990	2,538
Instalments due on loans:						
- Capital	78,152	-	2,340	4,560	21,210	50,042
- Interest	-	-	160	303	1,114	1,377
Bank overdraft	6,994	6,994	-	-	-	-
Derivative liabilities	145	-	-	-	-	145

As at 31 December 2016

<u>Liabilities</u>	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	18,228	-	16,120	1,660	448	-
Due to group undertakings:						
- Capital	881,076	12,212	17,180	82,959	260,261	508,464
- Interest	-	-	707	2,807	9,381	8,123
Due to ALD Funding Limited:						
- Capital	299,800	-	19,571	25,193	102,553	152,483
- Interest	-	-	787	1,416	5,209	4,978
Instalments due on loans:						
- Capital	72,549	-	1,966	4,062	20,716	45,805
- Interest	-	-	163	313	1,128	1,311
Bank overdraft	40,686	40,686	-	-	-	-
Derivative liabilities	1,415	-	-	-	-	1,415

22. RISK MANAGEMENT (continued)*Interest Rate Risk*

Interest rate risk is the risk that profitability of the Company is affected by movements in interest rates. The level of risk is illustrated by interest margins on existing contracts increasing or decreasing purely as a result of such movements. 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 Sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates as at the reporting date, assuming that the specified change takes place at balance sheet date and persists for the coming financial year. A 100 basis point change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

For the year from the balance sheet date, if interest rates were 100 basis points higher and all other variables were held constant:

- Net profit would be debited by £3,000,000 (2016: £3,000,000). This is mainly attributable to the Company's exposure to interest rates on variable rate borrowings.
- There would be no impact on net profit (2016: £598,000 credit) as a result of the change in mark to market valuation of interest rate swaps.

In the current climate it is not relevant to calculate the impact of interest rates being 100 basis points lower as this scenario is considered highly unlikely.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

22. RISK MANAGEMENT (continued)

The amounts due to ALD Funding Limited represent the sale of future lease receivables and residual values originated by the Company as part of the asset backed commercial paper securitisation transaction. A subordinated loan is netted off against the gross receivables and claims.

	2017 £'000	2016 £'000
<i>Movement in the sub-ordinated loan:</i>		
At the beginning of the period	156,807	153,906
Loan issued	19,612	9,609
Loan repaid	(11,812)	(6,708)
At 31 December	<u>164,607</u>	<u>156,807</u>

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.

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.

23. CAPITAL CONTRIBUTION

During the year the Company's immediate parent made a capital contribution of £2,254k to the Company (2016: nil). This balance is held within equity in the capital contribution reserve as at 31 December 2017.

24. POST BALANCE SHEET EVENT

The £300m securitisation facility was terminated on 14 March 2018 and replaced by additional funding from the ultimate parent.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

25. FUTURE ACCOUNTING DEVELOPMENTS

The following pronouncements will be relevant to the Company but were not effective at 31 December 2017 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	IASB effective date
IFRS 9 'Financial Instruments'	<p>Addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.</p> <p>IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.</p> <p>IFRS 9 requires use of the expected credit losses (ECL) model that replaces the incurred loss impairment model used in IAS 39. Entities must recognise 12-month ECL on initial recognition and thereafter unless there is a significant increase in associated credit risk, then lifetime ECL must be recognised. Provision for expected losses on sound debts must therefore be made. These calculations have been performed as at 31 December 2017 as comparative figures will be required for the 2018 financial statements, and are based on historic default rates. The provision on sound debts is calculated as £1.7m at the balance sheet date. Net assets as at 31 December 2017 will be reduced accordingly when stated as comparatives on transition for 2018.</p> <p>For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.</p>	Annual periods beginning on or after 1 January 2018

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2017

25. FUTURE ACCOUNTING DEVELOPMENTS (continued)

Pronouncement	Nature of change	IASB effective date
IFRS 15 'Revenue from contracts with customers'	Deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' along with related interpretations. The impact on the Company is not expected to be significant because revenue from lease contracts is governed by IAS 17 'Leases'.	Annual periods beginning on or after 1 January 2018
IFRS 16 'Leases'	<p>Requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 'Leases'. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (the lease liability) and an asset representing the right to use the underlying asset during the lease term (the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset through the statement of comprehensive income.</p> <p>Lessor accounting is substantially unchanged from IAS 17. Lessors will continue to classify all leases using the same classification principles as IAS 17 and distinguish between operating and finance leases. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17.</p> <p>The full impact of these accounting changes is being assessed by the Company. For leases with the Company as the lessor, the Company will not be required to change the accounting treatment significantly, although its corporate customers with contract hire agreements would be required to bring these on balance sheet. The Company does currently rent a number of offices as a lessee under operating leases, and these will result in additional assets and liabilities being recognised on the balance sheet for the year ending 31 December 2019.</p>	Annual periods beginning on or after 1 January 2019

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