

ALD AUTOMOTIVE LIMITED

Registered Number: 987418

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 December 2022

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ALD AUTOMOTIVE LIMITED

Contents

Company Information	1
Directors' Report	2
Strategic Report	21
Statement of Directors' Responsibilities	25
Independent Auditor's Report to the members of ALD Automotive Limited	26
Statement of Comprehensive Income	31
Statement of Financial Position	32
Statement of Changes in Equity	33
Statement of Cash Flows	34
Notes to the Financial Statements	35

ALD AUTOMOTIVE LIMITED

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ALD AUTOMOTIVE LIMITED

Directors' Report

The directors present the audited financial statements of ALD Automotive Limited ("the Company" or "ALD") for the year ended 31 December 2022. The Company is a limited liability company domiciled and incorporated in the United Kingdom.

Business review and principal activities

ALD's principal activity during the year continued to be the arrangement of vehicle financing and provision of fleet management services to external customers, including the sale of used motor vehicles.

2022 saw a continuation of the challenges faced by the market in 2021 owing to a complex geopolitical landscape, including the protracted war in Ukraine which combined with the existing pandemic-related component shortage to stifle new vehicle supply. The economy experienced a shock in September 2022 which, allied to a significant increase in energy costs, contributed to the cost of living crisis and a surge in inflation. This forced a rise in interest rates in Q3 2022 to more than 3% for the first time since Q4 2009 and the inevitable impact on the cost of borrowing.

Despite these factors, the market remained resilient as businesses continued to encourage workers back to offices following a relaxation of the pandemic restrictions. ALD also saw a continuation of the trend in demand for used vehicles which is expected to continue over the short term.

In 2022, ALD's fleet decreased to 151,112 (2021: 156,485). As at 31 December 2022 the order bank was 7,925 (2021: 5,459).

The overall profit for the year after taxation amounted to £131,433k (2021: £116,809k). At the balance sheet date total assets were £2,824,303k (2021: £2,557,161k), net assets being £210,015k (2021: £195,391k).

During the year a dividend of £116,809k (£1,191,929 per share) was paid (2021: £40,349k and £411,724 per share). No dividend has been proposed subsequent to the balance sheet date in relation to the year ended 31 December 2022.

The vehicle asset finance market in the UK is mature and, as such, is highly developed and extremely competitive.

As a result of continuing environmental and social pressures, technological advances and increasing interest in new forms of mobility, a pre-requisite for sustainable profitable growth is a need to differentiate ALD's business proposition. This is being achieved through:

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

ALD AUTOMOTIVE LIMITED

Directors' Report

Key Performance Indicators

	2022	2021	Definition and analysis
Gross margin (%)	28.0%	23.8%	Gross margin is the ratio of gross profit to revenue expressed as a percentage. The increase is attributable to exceptional profits on disposals during the year.
Return on shareholders' funds (%)	62.6%	59.8%	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. The increase is attributable to exceptional profits on disposals during the year.
Fleet size (units)	151,112	156,485	Total fleet size is the total number of vehicles managed and/or funded. Fleet size decreased by 4% during the year as a result of on going supply chain disruption during the year.
Productivity	214.5	229.1	Productivity is the average fleet size divided by the average number of full time equivalent employees employed during the period. The decline is attributable to continued growth in headcount within Operations.

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

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

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

The directors consider the scalability and sustainability of the Company's business model to be central to the success of the Company in the long term. New operational processes across the business are continuously being developed not only to improve internal efficiencies but, to enhance the customer journey; this is enabling the pursuit of further growth opportunities whilst keeping overhead costs under control. As customers become increasingly accustomed to doing business online, ALD also continued to enhance its offering of innovative digital products.

The landscape of the mobility sector is evolving rapidly. It is shaped by changing customer priorities, developing technologies and alternatively fuelled vehicles. The UK government has brought forward its ban on the sale of new petrol and diesel only cars to 2030 and sales of electric vehicles have accelerated as a result. The directors' aim is for ALD to have a central role in shaping the future of sustainable mobility, helping transition its customers from internal combustion engine (ICE) vehicles to electrification and integrating new mobility solutions.

ALD AUTOMOTIVE LIMITED

Directors' Report

ALD's positive stance and proactive approach to electrification, together with significant investment in digital online platforms, has been key to developing strategic partnerships with a number of leading EV manufacturers in recent years. ALD's aim is to work with companies who share its vision of delivering mobility that supports sustainable and connected urban lifestyles. This is reflected in ALD being selected as the exclusive fully digital operational leasing services partner of Smart, for which ALD has been planning and executing across 2022 to ensure a successful product launch in 2023.

This latest partnership fully aligns with ALD's ambitions to facilitate the energy transition and to lead in the sustainable mobility revolution. The aim is to launch the Smart offering in the UK and across Europe in Q3 2023, coinciding with the launch of its new premium compact SUV.

This announcement followed the successful launch of a digital sales partnership with Polestar in 2020. ALD is also Tesla's preferred operational leasing partner in Europe. In addition, ALD developed a new EV digital platform in conjunction Ford which was completed in time for the launch of the new Mustang Mach E electric vehicle. ALD and Ford have been strategic partners in the UK since 2011 when Ford Lease was first established. The partnership was then further strengthened with the launch of Ford Fleet Management (FFM) in 2020.

These new partnerships, and others ALD is looking to build over the next five years, reflect an exciting and shared vision in the future of electric vehicles and digital platforms. They support the company's growth strategy as a key player in energy transition and underline ALD's commitment to providing innovative mobility solutions.

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

ALD is fully committed to following and applying all the agreements and specific charters signed by Société Générale. These help ensure the highest standards of integrity and behaviour and stand up for fundamental rights and freedom of association. They also create a work environment conducive to inclusion, promoting employee diversity reflecting ALD's customers and societies and fighting all forms of discrimination. ALD is committed to developing a respectful and safe working environment to enable each employee to work in the best possible setting, guaranteeing health and wellbeing and actively seeking to offer its employees the tools to help balance and reconcile their work with their private lives.

Eight core values underpin ALD's business strategy and the quality of its relationships with its employees, customers and business partners.

- Team spirit
- Innovation
- Responsibility
- Commitment
- Customer obsession
- Diversity
- Simplicity
- Empowerment

ALD AUTOMOTIVE LIMITED

Directors' Report

These values are essential in helping ALD achieve its ambition of becoming the global leader in sustainable mobility. The aim is to make ALD a great place to work and to create a company where it can nurture the development of all its employees and offer a positive, engaging and learning environment for everyone.

To improve motivation, performance, productivity and reduce stress the company supports and encourages colleagues to achieve a better balance between work commitments and other priorities, such as caring responsibilities, leisure activities, further learning and personal interests.

ALD offers an exciting and varied work environment and a wide range of career development opportunities, not only within the UK but, globally, across the entire ALD Automotive Group and Société Générale.

An emphasis on learning and development ensures ALD's teams are not only equipped to meet the changing needs of the mobility sector, but that its employees are skilled and flexible to benefit from any alternative career choice they may wish to make in the future.

Colleagues' development is looked at holistically providing training on business skills, soft skills, compliance and regulatory learning. ALD has a dedicated internal People Development Team who build and deliver various training initiatives, including digital learning. They also have relationships with suppliers to help bring in technical and behavioural expertise when required. The People Development Team are subject matter experts that provide support and advice to the business on Company Induction, Professional Qualifications, Coaching, Digital training, Personal Development Plans and any other training requests employees may need.

ALD has a well-rounded development plan aimed at looking at all areas of a colleague's personal development. The plan focuses on a number of areas including Behaviours, Results, Competency and Development, ensuring colleagues are assessed and supported throughout their time at ALD Automotive across a broad range of subject areas. ALD also has a Behavioural Framework that sets out behavioural expectations for all job role levels to promote the right culture and ensure greater accountability.

The development plan process enables managers to have wider performance conversations, not only focusing on deliverables, but how ALD does things and their future career aspirations. ALD also operate Continuous Professional Development hours across the business, allowing employees at all levels time to enhance their self-development.

Employee wellbeing

Employee wellbeing has always been a primary concern and throughout the pandemic, company employees have been very supportive of the flexible approach adopted in managing the challenging personal circumstances faced.

This approach complemented the long-standing support infrastructure offered including occupational health, free of charge counselling, workplace mediation, flexible working and a range of optional benefits such as a health cashback plan and childcare voucher scheme.

ALD AUTOMOTIVE LIMITED

Directors' Report

Mental health is treated equally seriously within ALD and the company have 26 Mental Health First Aiders (MHFAs) each of whom play a vital role within the business. They are supported by 186 line managers who are all trained in MHFA awareness.

Health and wellbeing articles, guides and helpful videos are regularly featured within internal communications and employees are actively encouraged to talk about any issues they may be experiencing and to seek support, whether that be in financial wellbeing, physical health, mental health or social wellbeing.

An Employee Assistance Programme is also offered which provides assistance to employees on a range of different subjects such as counselling and legal advice. In addition, ALD offers employees a confidential helpline support through BEN, the Motor and Allied Trades Benevolent Fund dedicated to those in the automotive sector. This provides employees with a range of free support services, including help with coping strategies, managing sleeping difficulties and assistance with money worries.

Flexible working

In 2022 ALD introduced and piloted a number of flexible working patterns with individual departments trialling various options within their focal teams to find out which were most suitable for individual roles. These included part-time working, compressed working patterns, different degrees of home working and flexible start and end times. The company encourages its teams to consider the wide range of alternative solutions available to meet the ever-changing needs of both employees and customers.

Employee benefits

During the course of 2021 ALD worked on a new benefit platform and interactive HR website, My Life@ALD, which launched in March 2022. This provides an interactive experience for employees to view their current benefit offering as well as select additional optional benefits. It will shortly incorporate a total reward statement, highlighting the overall value of an individual's remuneration package. ALD also launched re:lease, its employees' internal car leasing scheme for their second-hand lease vehicles.

Employee satisfaction

Employee comment is encouraged via a continuous employee feedback loop including one to ones, structured surveys, exit interviews, probation reviews and post training feedback.

ALD also operates bi-annual surveys at parent company level (Société Générale) and annual surveys at ALD Automotive Group level, in addition to ALD UK's own local surveys. This collective flow of information acts as a constant barometer of employee satisfaction, with verbatim comment providing valuable feedback on which the company can act where appropriate.

Employee Consultation Group

While ALD does not recognise any trade unions in the UK, it operates an Employee Consultation Group (ECG) chaired by ALD's HR Director. The ECG comprises of employees from across the business, each of whom are elected to represent their colleagues on matters such as compensation and benefits packages, flexible working opportunities and any key changes that might affect the general employee population.

ALD AUTOMOTIVE LIMITED

Directors' Report

Equality, Inclusion and Diversity Working Group

The company is constantly striving towards being a more inclusive employer and wants to create an environment where employees from all backgrounds feel engaged, empowered, recognised and valued. ALD's Equality, Inclusion and Diversity Working Group provides a forum to help employees achieve these goals.

Promoting diversity and inclusion is key to building a company that is both efficient and innovative as well as responsible and open to the world. ALD believes it is vital to the strengthening of its culture and is determined to be a company where employees feel good as they are, reflecting the diversity of the customers it serves and the society in which it operates.

To be a sustainable and successful business, ALD recognises the need to have a diverse and inclusive workforce that reflects the world in which it operates and harnesses the talent within the business. This fundamental belief is codified within the company's core values which, together, promote a culture of inclusivity that's open to challenge and change.

Policies are in place to ensure there is equality of opportunity for every employee irrespective of gender, age, disability, race, religion and sexual orientation. ALD is equally mindful however, that it is the responsibility of each and every one of its employees to respect this. It is by, collectively, working together and by speaking up that ALD can create an environment where employees can be themselves, regardless of their background, and thrive both as individuals and as a company.

Embracing diversity, ALD welcomes transparency around its gender pay gap. The company acknowledges the ongoing challenge in the financial services sector to attract and retain talented women, particularly at senior levels, and is making positive progress.

ALD is proud to be a Disability Confident employer in recognition of its commitment to the recruitment and retention of disabled people and those with health conditions. ALD ensures there are equal opportunities for people in society living with disabilities, thereby drawing from the widest possible pool of talent available and securing the highest quality of employees. It further helps in creating and strengthening a positive, inclusive culture throughout the business.

Apprenticeships

Within ALD's Technology department the company runs an internal apprenticeship scheme. This supports employees wishing to further develop their skills and career by enabling them to enrol onto a recognised apprenticeship programme.

Work experience

In order to help shape the future of the industry and provide invaluable career insight to local students ALD delivered its first holistic work experience programme in 2022.

Recognition and appreciation

To maintain a culture of engagement, loyalty and high performance ALD has operated a structured programme run by the Recognition and Appreciation Working Group since 2017.

ALD AUTOMOTIVE LIMITED

Directors' Report

This programme is designed for employees to build a sense of security in their own value, demonstrating how they, or their work, is valued by their peers and the business overall. It operates at various levels and culminates in an annual awards evening.

For those employees whose performance or approach to work is considered deserving of greater acknowledgement, a ROSCA nomination can also be made in Recognition of Outstanding Service and Contribution to ALD. Nominations are validated by senior management throughout the year and employees are, initially, rewarded with a gift voucher. The Employee Engagement Working Group is then tasked with short-listing the most deserving nominations which are announced at the annual ROSCA Awards.

Employee loyalty

For many years ALD has been able to build a positive culture within the business which has resulted in growing employee loyalty. In 2022, ALD awarded 91 long service awards and had 264 employees with over five years of service

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

Customers are at the heart of ALD's business strategy and its Customer Excellence programme, first launched in 2015, continues to enhance the customer experience.

Driving investment in digital technology is one of the key deliverables within the Move 2025 strategy and the company is making significant investment in developing its online capabilities to enhance its service delivery. ALD wants to offer a best-in-class digital experience across all of its sales channels and to complement the close working relationships that have been integral to its growth in recent years.

ALD's corporate customer Net Promoter Score (NPS*) is +17 (2021: +42). This is calculated based on half yearly satisfaction surveys completed by corporate drivers, fleet managers and decision-makers.

At ALD Automotive Group level satisfaction surveys amongst its international key accounts (IKAs) are also undertaken. In addition a Customer Advisory Board meets twice a year at an international level and consults a number of major accounts including UK customers on strategic decisions, particularly regarding product or commercial development. In response to the FCA's announcement that they would be introducing the Consumer Duty on July 31st 2023, ALD launched a company-wide programme to ensure that it was up to speed in time for the new legislation.

ALD is committed to 'Treating Customers Fairly' at all times and 'Doing the Right Thing'. Since December 2019, the Senior Managers and Certification Regime (SMCR) was expanded to embrace ALD Automotive and all other financial services firms regulated by the Financial Conduct Authority (FCA). Alongside this, ALD is ensuring that it upholds Consumer Duty regulations, which sets higher and clearer standards of consumer protection across financial services, and requires firms to put their customers' needs first. Its aim is to improve

ALD AUTOMOTIVE LIMITED

Directors' Report

culture, governance and accountability within the financial services sector and drive personal accountability by promoting improved corporate culture, governance, and transparency. It also stipulates that all employees must adhere to the five conduct rules and that employees in roles that could have significant impact on consumers, or to the UK's financial stability, are annually approved.

To support ALD's managers and employees in understanding the importance of the Senior Managers and Certification Regime the company operates a bespoke in-house training programme, Doing the Right Thing. It is a continuous programme which re-enforces ALD's need to meet its regulatory responsibilities, as well as making sure it maintains the right culture and has its customers' interests at the heart of its strategy.

ALD wants to foster a culture of individual accountability across the whole of the business and encourage openness and honesty from everyone, ensuring the company works in the best interests of its customers at all times.

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

The Company has a positive and collaborative relationship with its intermediary network and other key suppliers. ALD has a robust supplier on-boarding process to ensure that appropriate due diligence is undertaken, and a monitoring program to enable oversight of outsourced functions in accordance with SMCR. Its policy and practice is to agree terms of payment with suppliers. It is its policy to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

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

Corporate Social Responsibility (CSR) is integrated within ALD's business strategy and there are four dimensions to its sustainability approach. This ensures the company has a positive impact on the community and the environment:

- Shaping the future of sustainable mobility
- Being a committed and responsible employer
- Implementing a responsible business culture and practices
- Reducing internal carbon emissions

ALD's commitment to sustainable mobility is based on three levels:

- **the profile of its vehicle fleet in terms of powertrains**; helping its customers transition to electrification away from vehicles powered by internal combustion engine (ICE)
- **adapting to new societal trends including the sharing economy**; integrating alternative forms of transport and on-demand solutions into its product offer
- **driver safety**; raising awareness of risk prevention training and accident management services.

ALD AUTOMOTIVE LIMITED

Directors' Report

Central to its business strategy is the role ALD plays in helping organisations design vehicle fleet policies which reduce emissions caused by ICE vehicles, assisting them in the transition towards zero emission road transport and promoting more sustainable and safer travel.

ALD is focused on helping to tackle the issue of climate change and the growing concern of road transport pollution and congestion and, as a result has seen a progressive rebalancing of its fleet portfolio as customers switch from diesel to petrol and electric vehicles. This is reflected by 28.7% of all new car deliveries to ALD customers being EVs in 2022; including battery-only, plug-in EV and hybrid-EVs.

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

Sustainability rating

Across the ALD Group ethical and environmental standards are benchmarked annually by EcoVadis, the leading solution for monitoring sustainability in global supply chains. Their assessments focus on 21 key issues which are grouped into 4 core themes: Environment, Labour and Human Rights, Ethics, Sustainable Procurement. This criteria is based upon international sustainability standards such as the Global Compact Principles, the International Labour Organization (ILO) conventions, the Global Reporting Initiative (GRI) standard, the ISO 26000 standard, and the CERES principles.

Having been awarded the newly created Platinum certification in 2020 - the highest level of accreditation - ALD retained Platinum status in 2021 and 2022. This places ALD Automotive UK in the top 1% of companies rated by EcoVadis in the mobility sector and:

- top 2% for sustainable procurement
- top 4% for environmental issues
- top 3% for labour and human rights
- top 4% for ethics

Environmental responsibility

While ALD promote the value of sustainable mobility and the general decarbonising of business activities externally it recognises its responsibility to ensure its own internal carbon emissions are managed equally effectively.

The company is, therefore, continually looking at ways in which it can improve, from encouraging alternative commuting options and reducing business travel, to energy efficiency and responsible recycling. To further support the business in this process it has appointed a specialist consultancy company in 2022 to analyse its energy consumption and carbon footprint in more detail and provide more comprehensive benchmarking from which to progress.

ALD AUTOMOTIVE LIMITED

Directors' Report

Carbon emission goals

In its Move 2025 Strategic Plan, the ALD Group has committed to reduce its internal footprint by 30% compared to the 2019 baseline and, in line with Société Générale, it has also targeted a 50% reduction by 2030 compared to the 2019 baseline.

The key components of ALD's internal carbon footprint, as defined by Société Générale are:

- **Car fleet:** tailpipe emissions from company cars and electrification of company cars leading to CO2 reduction
- **Business travel:** emissions from flights and trains (a 'train-first' policy) and a reduction in travel
- **Energy:** moving to renewable energy and a reduction in energy consumption in buildings, IT and data-centres
- **Other:** reduction in paper consumption, waste disposal, single use plastics.

All data related to consumption is populated on an annual basis as part of ALD's internal Planethic Reporting process. This is translated into CO2 equivalent metrics, using market-place 'emission factors' defined by Société Générale.

Carbon emissions are then grouped into 3 scopes:

1. Emissions generated by energy (except electricity) used in office premises, including business mileage from company cars – an internal emission
2. Emissions generated by the production of electricity used – an internal emission
3. Emissions coming from upstream (production of goods or services bought), and downstream (usage of products and services by customers) – mostly external emissions e.g. business travel, paper and waste

Commuting

ALD encourages employees to cycle, walk or jog to the office and many participate in a cycle to work scheme which is promoted twice a year. To complement this the company has 92 covered cycling bays and 15 dedicated motorcycle bays as well as shower, drying room and locker facilities at its Bristol offices.

For those employees who travel by car to ALD, ALD current has 28 EV charging points, with EV charging provided at no cost to employees or customers. To reduce single occupancy travel ALD has also actively promote car sharing and have 34 designated car sharing bays.

EV Company Car policy

During the course of 2021 ALD transitioned most of its company cars from petrol and diesel models to electric vehicles.

The decision to switch to a 100% EV car policy in 2021 followed comprehensive analysis of ProFleet telematics data from company vehicles prior to the pandemic. This data highlighted:

- 99% of daily journeys – less than 175 miles
- Average business journeys – only 33 miles
- Average personal trips – less than 9 miles.

ALD AUTOMOTIVE LIMITED

Directors' Report

While ALD recognises that it may not be appropriate to draw wider conclusions from a period disrupted by travel restrictions and changes in working patterns, it was concluded that even if business travel were to return to the same pre-pandemic levels, the environmental case for transitioning to EVs was overwhelming.

Environmental Efficiency Award

Société Générale has operated an internal Environmental Efficiency Awards programme since 2014. It rewards the best environmental efficiency initiatives launched across the Société Générale Group in Real Estate, IT, Paper, Mobility and Waste Management. Based on an original internal carbon tax scheme, these awards aim to reduce the Group's overall carbon footprint by 50% by 2030, achieve carbon neutrality by 2050, and help deliver the carbon neutrality targets set by the Paris Agreement.

Applications were submitted from 23 countries in 2021 and ALD UK won in the Mobility category with its initiative 'ProFleet Telematics: Decarbonising the Internal Company Car Fleet'. This award recognised the significant and sustainable impact of ALD's new EV Company Car policy.

Driver safety

For employees who are not entitled to a company vehicle but need to drive on business ALD ensures that all journeys are carried out using cars from its ALD Flex fleet of pool vehicles. This means that employees have access to vehicles with the latest safety and fuel technology, that the cars are properly serviced and maintained, and drivers are appropriately insured for business purposes.

Driver safety is taken very seriously and this is reflected in the number of employees (560) trained in Occupational Road Risk. The guidance and training given covers driving skills and knowledge, and awareness of the employees' responsibilities to themselves, their passengers and other road users. Training subjects covered include the dangers of irresponsible driving, fatigue, speeding and poor vehicle maintenance.

Video conferencing

With many employees now operating remotely, Microsoft Teams is firmly integrated into daily work routines to maintain effective communication. ALD anticipates this trend will continue to grow as a result of a more permanent and fundamental re-evaluation of the need for physical meetings and a consequent reduction in business travel. With video conferencing being strongly encouraged, therefore, and complemented by the EV car policy, ALD will see a progressive and sustainable reduction in carbon emissions from UK and international business travel and commuting in the coming years.

Energy

Whilst ALD has minimal opportunity to improve the structural energy efficiency of the buildings it leases, the company is party to a Société Générale Group-wide commitment to reduce carbon emissions and greenhouse gas (GHG) emissions, and to increase the energy performance per occupant in all office premises. In line with this, since November 2021, 100% of the energy used by ALD UK comes from renewable energy sources.

ALD AUTOMOTIVE LIMITED

Directors' Report

In 2022, across three premises, electricity consumption increased 9.5% from 1.43 GWh to 1.61 GWh. Over the same period gas consumption fell 10% to 56,813kWh.

Waste management

As the leading consumable used by service activities, paper represents a significant economic challenge and a sensitive environmental theme in terms of waste management, combating climate change and pollution. ALD's aim, therefore, is to continue to develop a seamless digital experience for its customers and deliver a continuous and sustainable reduction in total paper consumption.

As a result of increased digitalisation across the business and smarter business practices, paper consumption reduced by 0.2% to 3.57 tonnes in 2022. The proportion of duplex printing increased from 62% in 2021 to 69% in 2022.

Mobile phones are returned to O2 at the end of their life and computer hard disks are recycled via Waste Electrical and Electronic Equipment (WEEE).

Energy and Carbon Report

Scope 1 consumption and emissions relate to direct combustion of natural gas, and fuels utilised for transportation operations, such as company vehicle fleets, and grey fleet. Scope 2 consumption and emissions relate to indirect emissions relating to the consumption of purchased electricity in day-to-day business operations.

Totals

The total consumption (kWh) figures for energy supplies reportable by ALD Automotive Limited are as follows:

Utility and Scope	Consumption (kWh)	
	2022	2021
Grid-Supplied Electricity (Scope 2)	1,741,773	1,432,698
Gaseous and other fuels (Scope 1)	58,341	61,379
Transportation (Scope 1)	52,892	169,573
Total	1,853,006	1,663,650

The total emission (tCO₂e) figures for energy supplies reportable by ALD Automotive Limited are as follows.

Utility and Scope	Consumption (tCO ₂ e)	
	2022	2021
Grid-Supplied Electricity (Scope 2)	336.82	304.20
Gaseous and other fuels (Scope 1)	10.65	11.24
Transportation (Scope 1)	12.20	39.32
Total	359.67	354.77

ALD AUTOMOTIVE LIMITED

Directors' Report

Intensity Metric

An intensity metric of tCO₂e m² has been applied for the annual total emissions of ALD Automotive Limited. The methodology of the intensity metric calculations is detailed below, and results of this analysis is as follows:

Intensity Metric	2022	2021
tCO ₂ e / m ²	0.05	0.052

Volunteering

ALD encourages and supports employees to play an active role in its community by engaging in a range of volunteering and fund-raising activities. Building on their passion and enthusiasm this fosters team spirit, loyalty and pride in the business.

A dedicated CSR Manager co-ordinates all of ALD UK's activities. The CSR Manager chairs a CSR Committee comprising of 21 CSR ambassadors and reports directly into the UK Board. This committee also forms part of a global CSR community co-ordinated by the Group CSR Director based in Paris.

With £90,000 donated or fundraised for the Societe Generale UK Foundation, £14,950 for BEN (Motor & Allied Trade Benevolent Fund) and £12,000 Shelter in 2022, ALD has also donated or fundraised over £35,000 for other charities, as well as donated or loaned vehicles and computers for local causes.

ALD employees have knowledge, skills, experience and practical support that can be shared with local community organisations. Through its volunteering programme ALD supports a number of different partners and, at the same time, help employees to build confidence and develop a wider range of professional skills and expertise.

Through team challenges and individual opportunities ALD's principal aims are to:

- Raise educational aspirations e.g. primary school tutoring, mentoring young people
- Improve employability e.g. supporting schools and local education services with career talks, CV and interviewing skills, enterprise workshops, office visits
- Build stronger communities e.g. volunteering with local charities who support homeless, vulnerable families and children in need

ALD recognises its employees also have their own charitable interests too, and it actively supports employee-led volunteering and fundraising initiatives through a matching programme, facilitated by the Société Générale (SG) UK Foundation. This is an initiative whereby colleagues who have raised funds or volunteered for a charity (either through ALD or independently) can request the Foundation to make a financial donation to the charity in recognition of their efforts in areas such as:

- Education of children and young adults
- Community employability, disability, social exclusion, social enterprise
- Environmental initiatives to minimise harmful emissions
- Arts and culture - provision of access for the disadvantaged
- Health

ALD AUTOMOTIVE LIMITED

Directors' Report

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

ALD always strives to maintain high standards of business conduct, and it takes its responsibility for treating customers fairly seriously. This is more important than ever at a time when there is increasing regulatory focus on the motor finance market. In particular ALD has implemented a robust policy to ensure all employees 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.

Société Générale code of conduct

All employees need to adhere to the Société Générale Group code of conduct and a suite of ALD Automotive policies which describe the key principles expected of everyone employed by the Group.

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

ALD apply a zero-tolerance approach to all forms of inappropriate behaviour such as bullying, sexual harassment, sexist, racist and homophobic conduct. Enshrined within the Culture and Conduct programme are detailed policies to prevent and address such issues and, by embracing this, ALD ensures the highest standards are maintained in its core values, quality of leadership and behavioural integrity.

Risk management

ALD is committed to upholding the highest standards of ethical and responsible conduct for customers, employees, shareholders and wider society and the company has invested in a comprehensive Enterprise Risk Management Framework (ERMF) to support the delivery of its strategic objectives.

The ERMF outlines ALD's governance structure including its three lines of defence model, committee structure and the roles and responsibilities for risk management. It also outlines ALD's approach to the risk management process, including the identification, assessment, management, monitoring and reporting of risk.

ALD has also implemented an organisational-wide risk management system, including a system for internal control which is subject to rigorous Quality Assurance and reporting. The measures to mitigate and control key risks are independently assessed by Internal and External audit.

Business continuity planning

The primary aim of business continuity planning is to ensure the health and safety of ALD's employees and to safeguard the continuity of key business processes, to minimise the impact on its customers and partners. On an annual basis ALD review and robustly test all of its

ALD AUTOMOTIVE LIMITED

Directors' Report

Business Continuity documentation and processes and this helped in preparing for many of the unique and challenging circumstances brought about by the COVID-19 pandemic.

Data protection

ALD takes its responsibilities under data protection law very seriously and all policies are overseen by its Data Protection Officer.

The company takes all reasonable steps to ensure that adequate technical and operational security measures, confidentiality obligations and compliance procedures are in place to prevent inappropriate access to, and alteration or deletion of, personal data. ALD Automotive operates information security policies and guidelines relating to electronic data and information, which may include personal data.

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

Cyber essentials

ALD has maintained Cyber Essentials accreditation since 2015 and has implemented a comprehensive range of controls including boundary firewalls, secure configuration, access control, malware protection and patch management. All of these significantly reduce the risk of prevalent but unskilled cyber-attack and provide reassurance to customers, employees, regulators, investors and insurers.

Sustainable sourcing

ALD has strengthened its Purchasing Department to better co-ordinate procurement processes across the ALD Group and apply the principles and rules defined at Société Générale level, particularly with regard to CSR.

Tier one suppliers are assessed against the Group and international standards for operational risk management, compliance and reputation (including environmental and social issues). The 'Know your Supplier' assessment is systematic and is the subject of an internal directive and incorporates the well-established fundamentals of 'Know your Customer' processes.

The company is currently re-defining a new sustainable procurement policy to build strong, long term relationships based on trust, fairness and transparency. This will ensure all major UK suppliers are able to demonstrate appropriate and tangible measures are in place which evidence their position on human rights, health and safety at work, environmental concerns, supply chain transparency and the fight against corruption.

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

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

ALD AUTOMOTIVE LIMITED

Directors' Report

Securitisation

In December 2018, the Company completed an asset backed commercial paper securitisation transaction. The Company transferred a portfolio of lease receivables with a carrying amount of £600m to a bankruptcy remote special purpose vehicle, Red & Black Auto Lease UK 1 PLC ("the SPV"). Secured on this portfolio, the SPV issued £414m senior Class A Notes to an external investor and £186m junior Class B Notes to the Company. The SPV is responsible for making interest and principal payments to the Class A Noteholder.

The securitisation arrangement has been renewed in February 2023 with a revolving period of 12 months until February 2024. Following this period the Class A Notes will be redeemed in line with the amortisation profile of the underlying portfolio.

Ukraine-Russia conflict

The Ukraine-Russia conflict has exacerbated existing supply shortages in the global vehicle market which will continue to cause challenges in relation to the delivery of new vehicles for the foreseeable future. ALD has a process in place to ensure all sanctions are being adhered to however there is no direct risk to the Company's operations which are entirely based in the UK. ALD continues to monitor the latest government guidance, however, no significant impact on its business model and operating procedures is expected in the short term.

Going concern

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

The business environment in which ALD operates has been impacted by the knock on effects of COVID-19 pandemic restrictions and their subsequent easing. In addition the global cost of living crises has put upward pressures on supply side pricing whilst reducing disposable income for its customers. However, ALD's business model operates on a multi-year cycle and is as a result resilient to short term external shocks. ALD expects to continue to generate positive operating cash flows on its own account for the period to 30 June 2024. In addition ALD benefits from access to funding via the ultimate parent undertaking Société Générale.

The directors therefore do not believe that a material uncertainty exists regarding the ability of the Company to continue as a going concern or its ability to continue with the current funding arrangements provided by the ultimate parent undertaking.

Refer to note 1 of the financial statements entitled "Basis of preparation" for more detailed considerations on going concern assumption.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, 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 directors of the Company in office during the year and to date of approval of these financial statements are as listed on page 1.

Particulars of the directors' emoluments are set out in note 21.

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

Corporate governance arrangements

ALD Automotive is committed to promoting the highest standards of corporate governance, and has practices in place to support the Board in achieving sustainable value and Board effectiveness. For the year ended 31 December 2022, under The Companies (Miscellaneous Reporting) Regulations 2018, ALD applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council 'FRC' in December 2018). The following section explains ALD's approach to corporate governance, and its application of the relevant principles. ALD is a subsidiary of ALD Automotive Group (headed by ALD S.A.), a French fleet management and operational car leasing company whose shares are traded on the regulated market of Euronext Paris. ALD S.A. is a subsidiary of Société Générale and Société Générale is one of the largest European Financial Services group.

ALD adheres to the same Company Bylaws and Board of Directors Internal Regulations as those of ALD Automotive (and Société Générale) which enhance ALD's corporate governance approach.

Purpose and leadership

The Board takes full responsibility for the success of ALD which incorporates responsibilities for the management of the culture, values and wider standards of ALD including its commitment to diversity, community engagement, social responsibility and environmental sustainability. The corporate culture factors in the needs of all stakeholders and strives towards the highest level of business conduct and customer experience. ALD's aim is to position itself at the centre of a fast changing mobility sector with the stated ambition of ALD Automotive Group to become a fully integrated sustainable mobility provider and a global leader in its field. To that end, the Board plays a role in monitoring the culture and values of ALD so as to ensure that they align with the wider Group strategy, discussed further in the Strategic Report.

Board composition

ALD's Board is made up of Tim Laver (Managing Director) and Ian Turner with Anna Woodward as company secretary. The Operating Board Committee support the Board. The current composition of the Board has the right mix of skills, experience and specialist knowledge about the Company. External advisors are engaged to address any knowledge gaps if required. The Board composition is reviewed regularly and any new appointments are based on merit and alignment with the Company's strategy. The current size of the Board is considered appropriate to the scale and complexity of the Company.

ALD AUTOMOTIVE LIMITED

Directors' Report

Directors' responsibilities

The directors have a responsibility to act at all times in the best interests of ALD and steer it towards achieving its strategic objectives. The Managing Director is responsible for the regular operations and management of the company and alongside other directors ensures that the Company's direction is consistent with the values, standards and objectives set by the Board.

The directors are provided with regular training in order to refresh knowledge on directors' duties and relevant regulatory requirements such as SMCR. A deep understanding of SMCR and its requirements was embedded across ALD (particularly to those performing controlled functions and falling under the certification regime) via a targeted training campaign. The Board operates three tiers of committees which ultimately feed back into the Operating Board Committee and the Board. The first tier is occupied by the Executive Risk Committee with the second tier being occupied by the following sub-committees: Operational Risk Committee, Customer & Conduct Committee, Maintenance Committee, Residual Value Committee and the Treasury Committee. The third tier is occupied by the Information Governance Committee and the CSR Management Committee. In accordance with Société Générale requirements, ALD operates a standalone Internal Control Co-ordination Committee which forms part of Société Générale's audit toolkit for the wider Group. The directors receive timely and regular information on various issues relevant to ALD both in and outside Board meetings.

Opportunity and risk

The Board is responsible for the strategic direction of ALD. Any changes in ALD's operating environment which could lead to opportunities and risks are considered by the Board (and the relevant board committee where appropriate) in regular Board meetings and appropriate plans of action are put in place which balance opportunity against risks. This ensures that ALD has the best chance for future success and is able to generate value for all its stakeholders.

The Board has implemented policies which encourage an efficient and effective controls framework which identifies and minimises risk in a timely manner. Once identified, risks are managed through appropriate management delegation with regular reporting to the Board. Further details around risks have been specified in note 23.

Remuneration

ALD S.A. sets the remuneration policy for Director Remuneration across the wider ALD Automotive group including ALD.

Stakeholders

The Board is committed to treating customers fairly and openly at all times in accordance with FCA requirements and principles. An ALD-wide Customer Excellence programme was launched in 2015 to further embed a customer service culture across the business and ALD's Customer and Conduct sub-committee support this work. This programme has continuously evolved to ensure the ongoing improvement to service quality and the customer experience.

ALD AUTOMOTIVE LIMITED

Directors' Report

ALD has a positive and collaborative relationship with its intermediary network and other key suppliers. A robust supplier on-boarding process is in place to ensure that appropriate due diligence is undertaken and an in-life contract monitoring program enables oversight of outsourced functions in accordance with FCA outsourcing requirements and internal ALD Automotive procurement policies and processes.

The Board is dedicated to promoting employee engagement across ALD. Employee comment is encouraged via a continuous employee feedback loop including one to ones, structured surveys and exit interviews. Employee surveys are conducted regularly and the information obtained acts as a constant barometer of employee satisfaction.

Climate change

The Company has considered the potential impacts of climate change on the financial statements, including on key assumptions and estimates used in the valuation of reported assets and liabilities, and concluded that there are no material implications at this time. Impacts of climate change will remain under review by the Directors.

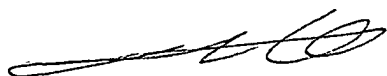
Events after reporting period

In May 2023, ALD, the France-headquartered parent company of ALD Automotive group acquired 100% of the share capital and voting rights of LP Group B.V., the holding company of LeasePlan Corporation N.V. ("LeasePlan"). The combination of ALD and LeasePlan is expected to create a leading global mobility player, strongly positioned to lead the digital transformation of the industry and capture mobility sector growth across geographies, including the UK.

Auditor

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

On behalf of the Board



T Laver

Director

30 June 2023

ALD AUTOMOTIVE LIMITED

Strategic Report

ALD Automotive Limited is a subsidiary of the ALD Automotive Group (headed by ALD S.A.), which is majority owned by Société Générale ("SG"). SG is one of the largest financial services groups in Europe and is the second largest French bank by market value. SG is publicly quoted and shares are traded on the Paris Euronext exchange. ALD S.A. has been listed on the Paris Euronext exchange since June 2017, when the sole shareholder SG sold 20% of its shares. SG remains the majority shareholder.

The company operates within SG's International Banking and Financial Services division (one of the bank's three core divisions), as one of 43 entities within the ALD Automotive Group. The ALD Automotive Group is the largest vehicle leasing provider in Europe, and operates in more countries than any other vehicle leasing provider, funding and managing over 1.7 million cars and light commercial vehicles worldwide.

In the UK, ALD manage a fleet of over 150,000 vehicles. The company is the 5th largest vehicle leasing provider in the market, offering a portfolio of vehicle leasing and fleet management services to large corporates, public bodies, SMEs, small and large partnerships, sole traders and private individuals.

It has operated for many years within the consumer credit marketplace and became formally authorised by the FCA for the purposes of Consumer Credit and Hire business in January 2016.

Accreditations

ALD has been certified to the Quality Management System standard ISO 9001 since 1993. ALD is currently certified to the ISO 9001:2015 standard. We have also been certified to the Environmental Management standard ISO 14001 since 2007.

Trade memberships

ALD is focused on delivering the highest standard of service delivery. ALD plays an active role within and embrace the guidelines and codes of practice adopted by many trade bodies and associations in the sector including the British Vehicle Rental and Leasing Association ("BVRLA") and the Finance and Leasing Association ("FLA").

Vision

ALD's aim is to be the UK leader in sustainable mobility and to be recognised as the most innovative and responsible provider of mobility in the UK.

Strategy

In November 2020, an ambitious five year strategic plan was launched, Move 2025. This strategy positions ALD Automotive at the centre of a fast changing mobility sector with the stated ambition of the ALD Automotive Group to become a fully integrated sustainable mobility provider and to be the global leader in its field. ALD's UK strategy is equally aligned to Move 2025 and the aim is to be the UK leader in sustainable mobility and to be recognised as the most innovative and responsible provider of mobility in the UK.

There are four strategic pillars of ALD's Move 2025 strategy in the UK

ALD AUTOMOTIVE LIMITED

Strategic Report

Move for Customers : to develop a unique mobility proposition in the UK and become the benchmark for customer service

- Creating a unique mobility brand proposition in the market
- Developing customised products and services which will meet the changing needs of the market
- Designing best-in-class digital tools which drive customer acquisition, improve the user experience and deliver greater efficiencies
- Being pro-active and lead the decarbonising of road transport and the transition to alternative fuelled vehicles
- Becoming the reference for customer service

Move for Growth : to become the market leader in sustainable mobility

- Increasing market share in all business channels with a full service lease offer and new mobility products
- Being agile and flexible to capture the growth opportunities that are presented
- Focusing growth in the direct corporate sales channel
- Strengthening ALD's partnerships and increasing collaboration to grow market share in the SME segment
- Optimising ALD's presence within the retail market through adaptable digital platforms

Move for Good : to shape the future of sustainable mobility

- Positioning ALD at the forefront of an emerging mobility revolution
- Being a responsible employer; enabling employees to shape its future and encouraging a sharper and stronger digital mind-set
- Reinforcing our responsible business culture and upholding the highest ethical standards; strengthening our risk management framework and compliance across the business
- Committing to a reduction in ALD's internal carbon footprint

Move for Performance : to create a scalable, profitable and dynamic business

- Driving investment in ALD's digital capabilities to support its growth and mobility ambitions
- Enhancing ALD's data management capabilities to drive value generation
- Generating value within a robust business operating framework and maintaining focus on cost efficiencies
- Improving revenues through optimal service penetration and effective pricing management
- Extending the vehicle life-cycle through second-life, car sharing and effective re-marketing

Business model

ALD's business model is based on providing vehicle funding products and mobility solutions to corporate customers and private individuals via both direct and indirect sales channels, with growing volumes of business transacted digitally, as per below:

- ALD Automotive: to large corporate and small and medium-sized enterprises ("SME")
- Manufacturing partners: partnerships with vehicle manufacturers typically targetting SME and consumer markets
- Banking partners: partnerships with Lombard and RBS Group, targetting large corporate, SME and consumer markets

ALD AUTOMOTIVE LIMITED

Strategic Report

- Dealer partners: selected dealership groups targeting SME and consumer markets
- Broker partners: approved Broker network principally targeting the SME and consumers markets
- Mobility solutions: accommodating new Mobility products such as ALD Flex, targeted at corporate businesses

ALD's 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 ALD's growth over the last 10 years and is maintained through continuous product development to meet constantly changing legislative and market needs. Product innovation has focused on creating solutions for customers designed to deliver effective cost control, risk management, carbon reduction, operational efficiencies and sustainable mobility.

IT solutions

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

Future outlook

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

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

ALD understands the changes happening within its sector and the key trends which are shaping its future and ALD is confident we have products, services and resources to continue to meet the needs of ALD's corporate, SME and consumer markets.

Over the next three years, ALD remains cautiously optimistic as the economy begins to recover from the cost of living crisis, however significant growth in both non-regulated and regulated markets is unlikely.

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

Key performance indicators

The key performance indicators are disclosed and explained on page 3 in the Directors' Report.

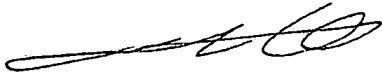
ALD AUTOMOTIVE LIMITED

Strategic Report

Principal risks and uncertainties

The management of the business and the execution of its strategy are subject to a number of risks. ALD's 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 23.

With the Ukraine-Russia conflict continuing to cause contraction in the market for new vehicles, particularly on the supply side, these disruptions have been further exacerbated by the ongoing cost of living crisis, which is causing uncertainties over the residual value market. This, however, is managed by the Company through robust internal procedures applied in order to set, control and re-evaluate the residual values on the running fleet. Further details are set out in note 23 (b).



T Laver
Director
30 June 2023

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 UK adopted International Accounting Standards. 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 UK adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

ALD AUTOMOTIVE LIMITED

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

Opinion

We have audited the financial statements of ALD Automotive Limited (the 'company') for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; 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. 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the company's financial statement close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;
- We obtained an understanding of management's going concern assessment, which considers a period to 30 June 2024. We have assessed and challenged the underlying assumptions used in management's profit and cash flow forecasts and determined that the forecasts are appropriate to enable management to make an assessment;
- We have assessed the reasonableness of the stress tests performed by the management which include a number of adverse scenarios including reverse stress testing in their cashflow forecasts in order to incorporate unexpected changes to the forecasted cash flows;
- We evaluated the factors and assumptions included in each scenario within the cashflow and profitability forecast. These included performance of the used car market, direct debits from lease receivables and renewal of funding facilities. We considered the appropriateness of the assumptions used to calculate the cashflow forecasts and determined through inspection

ALD AUTOMOTIVE LIMITED

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

and testing of the methodology and calculations that the methods used were appropriately sophisticated to be able to make an assessment for the entity;

- We considered management's assessment of the operational impact on the business due to other ongoing circumstances, specifically climate change and the increased cost-of-living pressures by reference to the measures they have put in place;
- We considered the mitigating factors included in the cashflow forecasts that management are able to control. This includes cash flows related to purchase of vehicles which the company has more control and can cut off sales where required. We evaluated management's ability to control these outflows as mitigating actions if required;
- We reviewed management's reverse stress testing in order to identify which factors could lead to the company using up all its liquidity, including the plausibility of management actions available to mitigate the impact of the reverse stress test;
- We assessed the company's ongoing operational resilience through alternative ways of working which include transitioning of employees to hybrid working environment, online trading of suppliers and intermediaries; and
- We evaluated the adequacy of the directors' disclosure in relation to going concern in the directors' report and notes to the financial statements

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period to 30 June 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 contained within the annual report.

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.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

ALD AUTOMOTIVE LIMITED

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' 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 25, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than

ALD AUTOMOTIVE LIMITED

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

the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (UK adopted international accounting standards and the Companies Act 2006), the relevant direct and indirect tax compliance regulation in the United Kingdom, the Consumer Credit Act 1974 and the licence conditions and supervisory requirements of the Financial Conduct Authority (FCA).
- We understood how the company is complying with those frameworks by making enquiries of management, those charged with governance and those responsible for legal and compliance matters. We corroborated our inquiries through review of meeting minutes of Board, Risk Committee and key correspondence between the company and regulatory bodies.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We have identified risk of management override by assuming revenue, specifically topside adjustment and cut-off of the sale of terminated lease assets, to be subject to fraud risk. Our audit procedures included testing a sample of manual journals to evaluate the business rational for those transactions and, that the journals selected are supported, where appropriate, by appropriate source documentation. We also tested a sample of vehicle disposal transactions before and after year end to establish they have been recorded in the correct period to address the terminations cut-off risk by verifying against the supporting invoices and pay-out documents.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making enquiries of management, those charged with governance and those responsible for legal and compliance matters, , inquiring about the company's methods of enforcing and monitoring the compliance with such policies, reviewing complaints log and inspecting correspondence with the FCA.

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.

ALD AUTOMOTIVE LIMITED

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

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 'Ernst & Young LLP' with a stylized flourish at the end.

Richard Page (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Bristol
3 July 2023

ALD AUTOMOTIVE LIMITED**Statement of Comprehensive Income for the year ended 31 December 2022**

	Notes	2022 £'000	2021 £'000
Continuing operations			
Interest revenue	2	19,143	20,686
Other revenue	2	937,108	898,411
Cost of sales		(686,279)	(697,586)
Net impairment losses on receivables	8	(2,573)	(2,708)
GROSS PROFIT		267,399	218,803
Administrative expenses		(63,233)	(50,781)
OPERATING PROFIT	3	204,166	168,022
Finance income	5	35,995	8,347
Finance costs	5	(68,994)	(35,764)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		171,167	140,605
Taxation	6	(39,734)	(23,796)
PROFIT FOR THE FINANCIAL YEAR		131,433	116,809
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		131,433	116,809
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT		131,433	116,809

The notes on pages 35 to 70 are an integral part of these financial statements.

ALD AUTOMOTIVE LIMITED**Statement of Financial Position for the year ended 31 December 2022**

	Notes	2022 £'000	2021 £'000
NON-CURRENT ASSETS			
Intangible assets	7(a)	14,673	9,314
Property, plant and equipment	7(b)	2,089,545	1,917,687
Trade and other receivables	8	248,090	289,533
Deferred tax asset	6(c)	-	12,883
Derivative assets	9	14,283	700
		<u>2,366,591</u>	<u>2,230,117</u>
CURRENT ASSETS			
Income tax assets		6,904	5,555
Inventory	10	109,557	52,012
Trade and other receivables	8	340,683	267,833
Cash and cash equivalents	11	568	1,644
		<u>457,712</u>	<u>327,044</u>
TOTAL ASSETS		<u>2,824,303</u>	<u>2,557,161</u>
NON-CURRENT LIABILITIES			
Long term borrowings	12	1,604,216	1,479,404
Long term provisions	13	719	496
Deferred tax liability	6(c)	16,632	-
Derivative liabilities	9	14,283	913
		<u>1,635,850</u>	<u>1,480,813</u>
CURRENT LIABILITIES			
Short term borrowings	14	733,907	670,794
Trade and other payables	14	46,306	41,467
Accruals and deferred income	14	198,225	168,696
		<u>978,438</u>	<u>880,957</u>
TOTAL LIABILITIES		<u>2,614,288</u>	<u>2,361,770</u>
CAPITAL AND RESERVES			
Called up share capital	15	-	-
Capital contributions reserve		2,254	2,254
Retained earnings		207,761	193,137
TOTAL EQUITY		<u>210,015</u>	<u>195,391</u>
TOTAL EQUITY AND LIABILITIES		<u>2,824,303</u>	<u>2,557,161</u>

Registered number 987418.

The notes on pages 35 to 70 are integral part of these financial statements.


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Director

30 June 2023

ALD AUTOMOTIVE LIMITED**Statement of Changes in Equity for the year ended 31 December 2022**

	Share Capital £'000	Retained Earnings £'000	Capital Contribution £'000	Total £'000
Balance as at 31 December 2020	-	116,677	2,254	118,931
Dividend paid	-	(40,349)	-	(40,349)
Total comprehensive income	-	116,809	-	116,809
Balance as at 31 December 2021	-	193,137	2,254	195,391
Dividend paid	-	(116,809)	-	(116,809)
Total comprehensive income	-	131,433	-	131,433
Balance as at 31 December 2022	-	207,761	2,254	210,015

ALD AUTOMOTIVE LIMITED**Statement of Cash Flows for the year ended 31 December 2022**

		2022 £'000	2021 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		171,167	140,605
Adjustments for:			
- Depreciation	7b)	311,280	290,323
- Amortisation	7a)	2,990	3,840
- Finance costs	5	39,651	29,954
- Finance income	5	(6,350)	(3,254)
- Derivatives		(213)	229
- Gain on disposal of property, plant and equipment	4	(118,451)	(106,980)
- Movement in provisions		(227)	(645)
Changes in operating assets and liabilities:			
- Increase in receivables and prepayments	8	(31,379)	(39,812)
- Movement in inventory	10	(57,547)	(17,393)
- Increase in payables and accruals	14	33,016	59,377
Other		24	(87)
		<u>343,961</u>	<u>356,157</u>
Interest received	5	6,299	3,209
Income tax paid	5	(11,568)	(13,803)
NET CASH FROM OPERATING ACTIVITIES		<u>338,692</u>	<u>345,563</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment	2	457,553	468,163
Purchase of property, plant and equipment	7b)	(818,658)	(1,028,918)
Purchase of intangible assets	7a)	(9,820)	(5,853)
NET CASH ABSORBED BY INVESTING ACTIVITIES		<u>(370,925)</u>	<u>(566,608)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		1,289,340	1,271,040
Repayment of borrowings		(1,068,603)	(995,437)
Interest paid	5	(38,299)	(29,172)
Dividend paid		(116,809)	(40,349)
Payment of lease liabilities		(1,129)	(270)
NET CASH GENERATED BY FINANCING ACTIVITIES		<u>64,500</u>	<u>205,812</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		32,267	(15,233)
Cash and cash equivalents at the beginning of the year		(48,893)	(33,660)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u>(16,626)</u>	<u>(48,893)</u>

Net cash and cash equivalents at the end of the year comprises cash and cash equivalents as per the statement of financial position offset by the closing overdraft balance as per note 14.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES

Fundamental accounting concept

The financial statements have been prepared on the going concern basis because, whilst the Company has net current liabilities, group undertakings have agreed not to demand payment of intercompany balances should that result in the Company being unable to meet its liabilities to third parties as they fall due.

Basis of preparation

The financial statements are prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. Measurement bases applied are fair value for interest rate swaps and historical cost otherwise.

The Company is exempt by virtue of International Financial Reporting Standard ("IAS") 10 'Consolidated Financial Statements' from the requirement to prepare group financial statements due to the ultimate parent company preparing financial statements that are publically available (see note 22). These financial statements present information about the Company as an individual undertaking and not about its Group.

Going concern

The cost-of-living situation has been further exacerbated over the past year as a result of the ongoing war in Ukraine amongst other factors. Despite the magnitude of the multiple challenges, management do not believe that it has created material uncertainty over ALD's ability to continue as a going concern. ALD's revenue earning fleet is beginning to show signs of recovery whilst the fleet itself is relatively robust to shocks due to the multi-year operational cycle. Fleet additions have picked up during 2022 but growth is being constrained by supply issues. Many contracts continued to be extended throughout 2022 in order to maintain existing business alongside the new MCAM (Multi Cycle Asset Management) programme to counteract the supply constraints.

ALD expects to continue to generate positive operating cash flows its our own account for the period to 30 June 2024. In addition ALD benefits from access to funding via the ultimate parent undertaking Société Générale. The securitisation funding arrangement has two covenants which require monitoring. The delinquency rate should not exceed 6% at any time and the cumulative default rate should not exceed 3%. The Company has sufficient headroom in both with the delinquency rate at 0.47% and cumulative default rate at 0.52% as at May 2023.

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

The directors therefore do not believe that a material uncertainty exists regarding the ability of the Company to continue as a going concern or its ability to continue with the current funding arrangements provided by the ultimate parent undertaking.

ALD's fleet additions have seen a steady return in line with the wider market in 2022: YTD 2022 funded fleet additions were 62,481, up 46.4% from December 2021 (55,208) . However, the

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES (continued)

situation has seen a continued slowdown due to supply issues. Vehicle production has been affected by the semiconductor shortage in the market with the COVID-19 pandemic being a contributing factor to that shortage. This has led to longer lead times on new vehicles with some manufacturers taking up to 12 months. This has in part caused the dip in fleet size in 2022. The impact on overall fleet size has been more limited because the ALD business model operates on a multi-year cycle, with vehicle lease agreements typically being for a term of at least three years. Furthermore, many customers have chosen to keep their current vehicles and extend existing contracts rather than taking out new contracts so lower additions have been offset to some extent.

The Directors have assessed there to be minimal impact from the Ukraine crisis on the company's performance. This is predominantly due to the customer base being in the UK where there is little direct disruption in that regard. There has been an impact on the supply of vehicle parts which has contributed to longer lead times for new vehicles. We expect the disruption on this to again be minimal with other factor's outweighing it.

The UK continues to experience a cost of living crisis with inflation by the end of 2023 forecast to be 5.7% down from a high of 10.7% seen in March 2023. Therefore we expect some customers may have difficulty making payments when they fall due. ALD has factored this in its sensitivity analysis and evaluated that it would still have sufficient funding to operate as a going concern.

Based on cash flow forecasts across a range of potential scenarios for the period to 30 June 2024 and comfortable headroom in its loan facilities with ultimate parent Société Générale, ALD does not expect the liquidity or solvency of the Company to be compromised as a result of those events above.

Functional and presentation currency

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

New accounting standards and interpretations not yet adopted

The IASB has issued a number of minor amendments to IFRSs that are not mandatory for the current reporting year and have not been early adopted by the company. These amendments are not expected to have a material impact for the company.

Revenue recognition

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

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

Sales proceeds from the disposal of formerly leased vehicles are recognised in the period in which the sale occurs, as this is when the legal ownership of the vehicle is transferred and the performance obligation is satisfied in accordance with IFRS 15 'Revenue from Contracts with Customers'. The book value of the vehicle is released from stock to cost of sales as per IAS 2 'Inventories'.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES (continued)

Interest receivable on credit sale agreements, finance lease agreements and contract purchase agreements is recognised in the statement of comprehensive income over the estimated life of each contract using the effective interest rate method.

In order to recognise revenue in line with the completion of performance obligations as required by IFRS 15, the Company recognises the income associated with the maintenance element of lease contracts so as to be consistent with the expected timing of maintenance expenditure.

Other income includes amounts arising at the end of vehicle contracts, such as appraisal or early termination charges. These are recognised on contract termination in line with IFRS 15, as this is when the Company will be exposed to the residual value losses that the end of contract charges are designed to offset.

Finance income and expense

Fair value gains and losses on assets and liabilities at fair value through profit or loss are calculated as the difference between the current valuation of the asset or liability at the reporting date and the original cost. Unrealised gains and losses are recognised in the statement of comprehensive income in the period in which they arise, within finance income or finance costs respectively.

Intangible assets

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

Software development costs are held on the Statement of Financial Position within intangibles 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 7 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 Fit-out - Over length of lease
- Plant and equipment - Over 5 to 10 years
- Computer equipment - Over 3 to 5 years
- Computer software - Over 3 to 5 years
- Motor vehicles - Over the life of the individual hire contract

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

Accounting for leases

For any new contracts entered into, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES (continued)

(the underlying asset) for a period of time in exchange for consideration'.

Measurement and recognition of leases as a lessee

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

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

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

Since the adoption of IFRS16 from 1 January 2019, the Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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

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

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

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

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

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES (continued)

The Company as a lessor

The Company's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Company classifies its leases as either operating or finance leases. Where assets are provided by the Company under lease purchase or lease rental agreements that transfer substantially all the risks and rewards incidental to ownership, the assets are treated as if they had been sold outright and the corresponding asset to the Company is included as a lease debtor. Receipts from lease debtors are treated as consisting of capital and interest elements and the interest is credited to the profit and loss account using the implicit interest rate method. All other assets provided by the Company under lease agreements are treated as operating leases ("contract hire").

Securitisation

The company has securitised a portfolio of lease and residual value receivables. The Company continues to service the portfolio, including the collection management process. The Company will repurchase vehicles at a guaranteed price at contract end, so retains the residual value risk. In the event of realised credit losses on the portfolio resulting in incomplete redemption of the Notes, the Company as the Class B Noteholder would bear the shortfall.

It is therefore considered that ALD retains substantially all the risks and rewards of ownership of the portfolio, so the lease receivables do not qualify for de-recognition in accordance with IFRS 9. The Company continues to recognise the transferred lease receivables in their entirety and recognises a financial liability for the consideration received, which is deemed to be the £414m external funding raised from the securitisation transaction.

The financial liability is initially recognised at the book value of the securitised lease receivables plus directly related transaction costs and subsequently amortised. Interest charge is recognised and then settled each month.

The Class B Notes are not recognised on the Company balance sheet. This treatment is applied to avoid a duplication of assets on the balance sheet backed by the same cash flows, because the Class B Notes are funded by the lease receivables portfolio which is not de-recognised.

The following table shows the value of the assets transferred to support the Class A Notes, together with the associated liability:

	2022 £'000	2021 £'000
Carrying amount of transferred assets	414,000	414,000
Carrying amount of associated liabilities	411,443	411,334
Net position	2,557	2,666

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES (continued)

The associated liability represents the deemed intercompany payable in respect of the lease portfolio that does not qualify for de-recognition, net of a subordinated loan of £2,557k provided to the SPV and deferred transaction costs. The fair value of the above assets and liabilities is not considered to be materially different to the carrying amount at year end.

Inventory

Upon termination of a lease or rental agreement, the relevant assets are reclassified to inventory at their carrying amount. Vehicles purchased in bulk from manufacturers are also kept within inventory until they are leased out. Inventory is stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents are net of outstanding bank overdrafts.

Financial assets and liabilities

Financial assets of the Company include cash, trade and other receivables, amounts receivable on finance lease agreements, deposits with related parties and derivative assets. Financial liabilities comprise borrowings, trade and other payables and derivative liabilities.

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all of the risks and rewards of ownership. Financial liabilities are de-recognised only when the obligation in the contract is discharged, cancelled or expires.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are held at amortised cost.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included.

Borrowings are recognised initially at fair value, being the issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income through finance costs over the loan term using the effective interest rate applicable to the instrument.

Derivative assets and liabilities comprise interest rate swaps related to the securitisation transaction. Hedge accounting is not applied in these financial statements so the interest rate swaps are held at fair value through profit or loss.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES (continued)

Derivative financial instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swaps at the statement of financial position date. The fair value is calculated by the bank counterparty for each swap on a monthly basis.

Impairment

Financial assets

Impairment of financial assets is provided for in accordance with IFRS 9 'Financial Instruments' which was adopted as at 1 January 2018. The Company has elected to take the IFRS 9 simplified approach to providing for lease receivables, and therefore measures the loss allowance at an amount equal to lifetime expected credit losses. This applies to both finance and operating lease receivables. Where relevant, discounting of exposure at default values is applied to account for time value of money. The discount rate used in the expected credit loss calculation is the effective interest rate. The modelled outputs are regularly reviewed to ensure no material risk factors are excluded within the expected credit loss calculation.

Lifetime expected credit losses are assessed on a contract level and are calculated as the product of the probability of default, exposure at default, and percentage loss given default for each contract. Default for retail customers is defined as three rental payments in arrears or the credit control team considering that a significant credit impairment has taken place based on available evidence such as *credit score, payment behaviour or solvency information*. Default for corporate customers is defined as the credit control team considering that a significant credit impairment has taken place such as being declared insolvent, in liquidation or having entered the debt collection/repossession process. Due to their proactive credit management, extended days past due is not a reliable indicator of enhanced credit risk. The 90-day rebuttable presumption is therefore used for retail customers but not corporate customers due to the complexity of the repayment behaviour of the latter.

The lease contract portfolio is segmented according to customer type, product type, vehicle status and months in arrears, with probability of default (over an average contract term lifetime) and exposure at default calculated separately for each identified segment. Loss given default is estimated based on historical performance at a less granular level of segmentation.

The calculation of expected credit losses incorporates the use of forward looking information. Management consider empiric data, including loss emergence curves and trends in default rates, along with awareness of emerging risks, to decide whether post model adjustment overlays should be applied on top of historical performance to determine the credit risk provision in accordance with forward-looking information. Forecasts of these economic variables are sourced externally and provide the best estimate view of the economy in the future. The impact of these economic variables on modelled provisions has been determined through statistical analysis to understand how the changes in these variables historically have affected provision coverage.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES (continued)

Management have considered the interaction of various macroeconomic variables with the performance of the Company's receivables portfolio. The variables considered were CPI, unemployment, base rate and gross domestic product. A baseline, upside and downside scenario, and their corresponding probability weightings, are used to calculate the expected credit losses of the portfolio. Unemployment is shown to have a relationship with arrears and a forward looking macroeconomic overlay has been applied to the provision for the year ended 31 December 2022. No conclusive relationship was found on other macroeconomic variables and therefore no additional adjustment was applied.

Multiple economic scenarios have been assessed and probabilities applied within the calculation of expected credit losses. This reflects both market forecasts and management judgement to predict the impact of upside and downside scenarios on the performance of the portfolio. As with any economic forecasts, the projections and likelihoods of occurrence are subject to inherent uncertainty and therefore the actual outcomes may differ to those projected. The company considers the applied forecasts to represent the best estimate of possible outcomes.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, where applicable. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Provisions for liabilities and charges

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES (continued)

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.

Deferred income

The Company recognises deferred income in relation to maintenance income whereby the customer has been billed but maintenance has not yet been fully incurred.

Lease payment advances received in the form of deposits are deferred on the balance sheet and released in accordance with the relevant contractual agreements.

Volume Related Bonuses (VRBs)

The Company invoices VRBs to the manufacturer and the amount is deferred to the balance sheet. With operating lease vehicles the amount reduces the fixed asset addition and with finance lease vehicles the amount is written off straight line over the contract.

Ford Profit Share

The provision is based on terminations of Ford vehicles on both terminated and live vehicles forecasted to be returned. Costs incurred by the Company in relation to these vehicles is then set against the provision values. The provision is then released upon payment to Ford.

Pensions

The Company operates a defined contribution pension scheme. Contributions are charged in the

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES (continued)

statement of comprehensive income as they become payable in accordance with the rules of the scheme.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Impairment of assets

Lease receivables

The expected credit loss provision is calculated in accordance with IFRS 9 'Financial instruments' as outlined above. The sensitivity analysis below has been determined based on the changes in the unemployment rate as at the reporting date.

- A 10% reduction in the inflation rate would lead to a £104k reduction in the provision
- A 10% increase in the inflation rate would lead to a £104k increase in the provision

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 the current best estimate of the liability from calculated interest repayments together with related costs for the customers affected by breach of the relevant regulations.

Residual value

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

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 are 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

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

1. ACCOUNTING POLICIES (continued)

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.

The sensitivity analysis below has been determined based on the changes in the market values against expectation as at the reporting date.

- A 3% increase in market values would lead to a £4,257k change in the provision
- A 3% decrease in market values would lead to a £4,577k change in the provision

Extension options for leases

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

Segmental reporting

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

2. REVENUE

Revenue, which is stated net of Value Added Tax, represents amounts invoiced to third parties. Revenue arises wholly in the United Kingdom, and is attributable to the Company's continuing principal activity of the provision of fleet management services, including the arrangement of vehicle financing, and the proceeds on the sale of used motor vehicles.

	2022 £'000	2021 £'000
Analysis of revenue:		
Vehicle management services		
Operating lease agreements' rentals	466,832	418,415
Operating lease agreements' disposal proceeds	457,553	468,163
Finance lease agreements' rentals - interest	19,143	20,686
Finance lease agreements' rentals - other	5,225	5,207
Other	7,498	6,626
	<u>956,251</u>	<u>919,097</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

3. OPERATING PROFIT

This is stated after charging / (crediting):

	2022 £'000	2021 £'000
Depreciation of property, plant and equipment	310,218	289,098
Depreciation of right-of-use assets	1,061	1,225
Amortisation of intangible assets	2,990	3,840
Profit on disposal of property, plant and equipment	(145,065)	(114,853)
Auditor's remuneration – audit services	<u>364</u>	<u>400</u>

4. STAFF COSTS

	2022 £'000	2021 £'000
Wages and salaries	27,242	23,685
Social security costs	2,858	2,331
Pension costs	2,159	1,774
Other	<u>1,318</u>	<u>408</u>
	<u>33,577</u>	<u>28,198</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:

	2022	2021
Operations	303	297
Sales and marketing	84	100
Finance, IT and administration	<u>330</u>	<u>273</u>
	<u>717</u>	<u>670</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

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

	2022 £'000	2021 £'000
Interest receivable from Red & Black Auto Lease 1 PLC	2,840	2,840
Interest receivable from group undertakings	2,422	393
Fair value gain on financial instruments at fair value through profit or loss	29,644	5,093
Interest receivable from Ford Fleet Management	1,089	21
	<u>35,995</u>	<u>8,347</u>

(b) Finance Costs

	2022 £'000	2021 £'000
Interest payable to Red & Black Auto Lease 1 PLC	10,938	6,433
Interest payable to group undertakings	26,382	21,147
Interest payable to external funders	1,705	1,722
Fair value loss on financial instruments at fair value through profit or loss	29,514	5,992
Other	455	470
	<u>68,994</u>	<u>35,764</u>

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

	2022 £'000	2021 £'000
UK corporation tax:		
Current tax	8,909	8,292
Adjustments in respect of prior periods	1,310	326
	<u>10,219</u>	<u>8,618</u>
Origination and reversal of temporary differences:		
Current year deferred tax movement at 19% (2021: 19%)	23,581	18,375
Adjustments in respect of prior periods	(1,150)	(105)
Effect of change in tax rate	7,084	(3,092)
Total deferred tax	<u>29,515</u>	<u>15,178</u>
Tax on profit on ordinary activities	<u>39,734</u>	<u>23,796</u>

ALD AUTOMOTIVE LIMITED**Notes to the Financial Statements for the year ended 31 December 2022****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% (2021: 19%). The differences are reconciled below.

	2022 £'000	2021 £'000
Profit on ordinary activities before tax	<u>171,167</u>	<u>140,605</u>
Profit on ordinary activities multiplied by standard rate UK corporation tax of 19% (2021: 19%)	32,523	26,715
Expenses not deductible for tax purposes	79	151
Non-taxable credits	(64)	(1)
R&D expenditure credits	(48)	(198)
Effect of change in tax rate	7,084	(3,092)
Adjustments in respect of prior periods	160	221
	<u>39,734</u>	<u>23,796</u>

Legislation was introduced in the Finance Act 2021, to increase the main rate of corporation tax for the Financial Year 2023 from 19% to 25% with effect from 1 April 2023. The increase was substantively enacted on 24 May 2021 and accordingly is taken into account in calculating the deferred tax liability disclosed in the accounts at 31 December 2022.

(c) Deferred taxation

The deferred tax asset/(liability) can be analysed as follows:

	2022 £'000	2021 £'000
Balance brought forward	12,883	28,061
Deferred tax credit to profit and loss account	<u>(29,515)</u>	<u>(15,178)</u>
Balance carried forward	(16,632)	12,883
Decelerated capital allowances	(17,882)	11,443
Temporary differences	1,608	2,242
Intangible assets	(542)	(802)
Accrued wages	184	-
Deferred tax asset/(liability)	<u>(16,632)</u>	<u>12,883</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

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

2022	Work in Progress	Internally Developed Software	Total
	£'000	£'000	£'000
Cost:			
At 1 January 2022	4,074	17,821	21,895
Additions	9,820	-	9,820
Disposals	(1,471)	-	(1,471)
Project completion	(9,199)	9,199	-
At 31 December 2022	<u>3,224</u>	<u>27,020</u>	<u>30,244</u>
Amortisation:			
At 1 January 2022	-	12,581	12,581
Charge for the year	-	2,990	2,990
At 31 December 2022	<u>-</u>	<u>15,571</u>	<u>15,571</u>
Net book values:			
At 31 December 2022	<u>3,224</u>	<u>11,449</u>	<u>14,673</u>
2021	Work in Progress	Internally Developed Software	Total
	£'000	£'000	£'000
Cost:			
At 1 January 2021	3,166	12,875	16,041
Additions	5,854	-	5,854
Project completion	(4,946)	4,946	-
At 31 December 2021	<u>4,074</u>	<u>17,821</u>	<u>21,895</u>
Amortisation:			
At 1 January 2021	-	8,741	8,741
Charge for the year	-	3,840	3,840
At 31 December 2021	<u>-</u>	<u>12,581</u>	<u>12,581</u>
Net book values:			
At 31 December 2021	<u>4,074</u>	<u>5,240</u>	<u>9,314</u>

Work in progress is internally developed software not yet available for use.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

7. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS

(b) PROPERTY, PLANT AND EQUIPMENT

2022	Plant and Land & Buildings £'000	Leasehold Fit-out £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost:					
At 1 January 2022	10,246	3,904	4,959	2,459,670	2,478,779
Additions	2,110	6	1,118	817,534	820,768
Disposals	(2,086)	(2,111)	(1,717)	(596,231)	(602,145)
At 31 December 2022	10,270	1,799	4,360	2,680,973	2,697,402
Depreciation:					
At 1 January 2022	3,611	2,583	2,582	552,316	561,092
Charge for the year	1,061	236	1,645	308,337	311,279
Disposals	(2,085)	(2,111)	(1,717)	(258,601)	(264,514)
At 31 December 2022	2,587	708	2,510	602,052	607,857
Net book values:					
At 31 December 2022	7,683	1,091	1,850	2,078,921	2,089,545
2021					
	Land & Buildings £'000	Leasehold Fit-out £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost:					
At 1 January 2021	9,731	4,898	5,178	2,068,110	2,087,917
Additions	515	32	1,328	1,027,043	1,028,918
Disposals	-	(1,026)	(1,546)	(635,483)	(638,055)
At 31 December 2021	10,246	3,904	4,960	2,459,670	2,478,780
Depreciation:					
At 1 January 2021	2,386	2,369	3,213	539,674	547,642
Charge for the year	1,225	636	915	287,547	290,323
Disposals	-	(422)	(1,546)	(274,904)	(276,872)
At 31 December 2021	3,611	2,583	2,582	552,317	561,093
Net book values:					
At 31 December 2021	6,635	1,321	2,378	1,907,353	1,917,687

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

7. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS (CONTINUED)

Plant and land & buildings includes leased assets related to office and buildings and are disclosed in Note 20

8. RECEIVABLES

	2022 £'000	2021 £'000
<u>Amounts falling due within one year:</u>		
Trade receivables	62,851	57,380
Finance lease receivables	189,946	155,105
Amounts due from group undertakings	19,517	4,129
Prepayments and accrued income	50,944	33,673
Other taxes	17,425	17,546
	<u>340,683</u>	<u>267,833</u>
<u>Amounts falling due after more than one year:</u>		
Finance lease receivables	192,129	256,881
Prepayments and accrued income	12,551	13,192
Amounts due from group undertakings	43,410	19,460
	<u>248,090</u>	<u>289,533</u>
	<u>588,773</u>	<u>557,367</u>

The cost of vehicles acquired for the purpose of leasing under finance lease agreements for the year ended 31 December 2022 was £209,841k (2021: £238,394k).

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

Movements on provisions for impairment of trade receivables are:

	2022 £'000	2021 £'000
At 1 January	16,324	16,997
Charge for year	2,573	2,708
Utilised in the year	(8,691)	(3,381)
	<u>10,206</u>	<u>16,324</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

9. DERIVATIVE FINANCIAL INSTRUMENTS

	Fair Value Assets £'000	Fair Value Liabilities £'000
Interest rate swaps	14,283	14,283
Total derivatives as at 31 December 2022	<u>14,283</u>	<u>14,283</u>
Total derivatives as at 31 December 2021	<u>700</u>	<u>913</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.

10. INVENTORY

	2022 £'000	2021 £'000
Vehicles	<u>109,557</u>	<u>52,012</u>

Inventory is stated net of a £854k provision (2021: £67k) representing the difference between net book value and estimated net realisable value for vehicle models expected to sell at a loss.

11. CASH AND CASH EQUIVALENTS

	2022 £'000	2021 £'000
Cash at bank	568	1,644
Bank overdrafts (see note 14)	<u>(17,194)</u>	<u>(50,537)</u>
Cash and cash equivalents	<u>(16,626)</u>	<u>(48,893)</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

12. PAYABLES: amounts falling due after one year

	2022 £'000	2021 £'000
Long term borrowings payable:		
in 1 to 2 years	733,892	1,089,187
in 2 to 5 years	867,506	386,706
in 5+ years	2,818	3,511
	<u>1,604,216</u>	<u>1,479,404</u>

Of the loans analysed above, £1,160,628k (2021: £1,021,542k) are from Société Générale, the ultimate parent company. These loans are not secured and interest rates are fixed at the point of inception.

13. PROVISIONS FOR LIABILITIES

	Provision for property dilapidations £'000	Provision for Consumer Credit Act £'000	Total £'000
At 1 January 2021	1,126	15	1,141
Provided in the year	-	481	481
Released in the year	(1,126)	-	(1,126)
At 31 December 2021	<u>-</u>	<u>496</u>	<u>496</u>
Long term provisions	-	496	496
	<u>-</u>	<u>496</u>	<u>496</u>
Provided in the year	-	-	-
Utilisation in the year	-	(227)	(227)
Transferred in the year	450	-	450
At 31 December 2022	<u>450</u>	<u>269</u>	<u>719</u>
Long term provisions	450	269	719
	<u>450</u>	<u>269</u>	<u>719</u>

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 probable repayment to customers where potential non-compliance with CCA was identified.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

14. PAYABLES: amounts falling due within one year

	2022 £'000	2021 £'000
<u>Short term borrowings:</u>		
Bank overdraft	17,194	50,537
Amount due to group undertakings	694,851	595,061
Current instalments due on loans	20,873	23,916
Current portion of lease liabilities	989	1,280
	<u>733,907</u>	<u>670,794</u>
	2022 £'000	2021 £'000
<u>Trade and other payables:</u>		
Trade payables	46,147	41,187
Other taxes and social security	159	280
	<u>46,306</u>	<u>41,467</u>
Accruals and deferred income	198,225	168,696
	<u>978,438</u>	<u>880,957</u>

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

15. SHARE CAPITAL

	2022 £	2021 £
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>

In 2017 the Company's immediate parent made a capital contribution of £2,254k to the Company. This balance is held within equity in the capital contribution reserve as at 31 December 2022.

ALD AUTOMOTIVE LIMITED**Notes to the Financial Statements for the year ended 31 December 2022****16. RESIDUAL VALUE EXPOSURE**

Year in which residual value will be recovered:

As at 31 December 2022

	Residual Value - Operating Leases £'000	Residual Value - Finance Leases £'000	Total £'000
Within one year	460,777	85,573	546,350
In one to two years	845,531	90,138	935,669
In two to five years	132,366	47,339	179,705
Total Exposure	<u>1,438,674</u>	<u>223,050</u>	<u>1,661,724</u>

As at 31 December 2021

	Residual Value - Operating Leases £'000	Residual Value - Finance Leases £'000	Total £'000
Within one year	452,496	72,163	524,659
In one to two years	348,494	66,099	414,593
In two to five years	527,902	91,071	618,973
Total Exposure	<u>1,328,892</u>	<u>229,333</u>	<u>1,558,225</u>

17. FINANCIAL ASSETS AND LIABILITIES

	2022 £'000	2021 £'000
Trade and other receivables	507,853	492,955
Derivative assets	14,283	700
Cash and cash equivalents	568	1,644
Total financial assets	<u>522,704</u>	<u>495,299</u>
Intangible assets	14,673	9,314
Property, plant and equipment	2,089,545	1,917,687
Deferred tax assets	-	12,883
Income tax assets	6,904	5,555
Other assets	190,477	116,422
Total non-financial assets	<u>2,301,599</u>	<u>2,061,861</u>
TOTAL ASSETS	<u>2,824,303</u>	<u>2,557,160</u>
Borrowings	2,338,124	2,150,198
Trade payables	46,147	41,187
Derivative liabilities	14,283	913
Total financial liabilities	<u>2,398,554</u>	<u>2,192,298</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

17. FINANCIAL ASSETS AND LIABILITIES (continued)

Other liabilities	199,102	169,472
Deferred tax liability	16,632	-
Total non-financial liabilities	215,734	169,472
TOTAL LIABILITIES	2,614,288	2,361,770

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 £423,697k (2021: £390,738k). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

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:

	2022 £'000	2021 £'000
Financial assets at fair value through profit or loss:		
Derivative assets	14,283	700
	2022 £'000	2021 £'000
Financial assets at fair value through profit or loss:		
Derivative liabilities	14,283	913

18. CAPITAL COMMITMENTS

At the balance sheet date the Company had placed orders for motor vehicles to the value of £213.5m (2021: £136.5m) in respect of new lease rental agreements commencing in 2023. At 31 December 2022, other capital commitments amounted to £nil (2021: £nil).

19. 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 2022 totalled £2,159k (2021: £1,774k) representing contributions due to the scheme in the period. There were no unpaid contributions outstanding at the end of the year (2021: £nil).

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

20. LEASES

The Company has leases for the multiple office buildings and related facilities. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The company applies the modified retrospective approach to adoption of IFRS 16.

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

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

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

Leases as Lessee

Right-of-use Assets

	Land and buildings £'000
Balance at 1 January 2022	6,635
Depreciation charge for the year	(1,061)
Additions to right-of-use assets	2,110
Balance at 31 December 2022	<u>7,683</u>

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

Lease Liabilities

Lease liabilities are presented in the statement of financial position within long term and short term borrowings as follows:

	£'000
Current	988
Non-Current	<u>7,049</u>
	<u>8,037</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

20. LEASES (continued)**Amounts recognised in profit or loss****2022 – Leases under IFRS 16**

	£'000
Interest on lease liabilities	170

2021 – Leases under IFRS 16

	£'000
Interest on lease liabilities	182

Amounts recognised in statement of cash flows

	£'000
Total cash outflow for leases at 31 December 2022	1,411
Total cash outflow for leases at 31 December 2021	1,439

Maturity Analysis Lease Liability

As at 31 December 2022:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
Future minimum lease payments	1,174	1,269	1,171	1,258	997	2,938	8,807
Interest	(186)	(159)	(130)	(103)	(72)	(120)	(770)
Present Value	988	1,110	1,041	1,155	925	2,818	8,037

As at 31 December 2021:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
Future minimum lease payments	1,406	871	749	738	738	3,676	8,177
Interest	(127)	(116)	(102)	(88)	(75)	(165)	(672)
Present Value	1,279	755	647	650	663	3,511	7,505

ALD AUTOMOTIVE LIMITED**Notes to the Financial Statements for the year ended 31 December 2022****20. LEASES (continued)**

Lease liabilities have been included within short term and long term borrowings in the statement of financial position.

Leases as Lessor

The Company leases vehicles on operating and finance leases with rentals and repayments typically due monthly. The leases typically run for an initial period of 2-4 years, with rights to extend the lease beyond initial period if permissible for customer and lease type and agreed by both parties. Some lease contracts contain an option for the lessee to purchase the vehicle at the end of the lease term. The Company considers risks associated with rights it retains in underlying assets to be significant and employs various strategies to further minimise these risks. For example, ensuring all contracts include clauses requiring the lessee to compensate the Company when a vehicle has been subjected to excess wear-and-tear or mileage during the lease term. Details on the management of residual value risk are set out in Note 23.

Finance Lease

For the year ended 31 December 2022, the finance receivables increased due the increase in contracts consistent with the continued business growth. The following table sets out a maturity analysis of finance lease ("FL") receivables, showing the undiscounted lease payments to be received after the reporting date.

	2022	2021
	£'000	£'000
FL Receivables comprise:		
Minimum lease payments		
Within 1 year	78,049	86,884
1-2 years	52,425	60,804
2-3 years	31,486	32,549
3-4 years	14,410	14,338
4-5 years	3,538	3,303
Over 5 years	1	17
	<u>179,909</u>	<u>197,896</u>
Unguaranteed residual values	<u>284,697</u>	<u>235,181</u>
Gross investment	464,606	433,076
Unearned finance income	<u>(82,531)</u>	<u>(21,090)</u>
Total	<u><u>382,075</u></u>	<u><u>411,986</u></u>

ALD AUTOMOTIVE LIMITED**Notes to the Financial Statements for the year ended 31 December 2022****20. LEASES (continued)****Operating Lease**

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

As at 31 December 2022:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
OL	370,447	233,011	103,141	23,623	634	-	730,856

As at 31 December 2021:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
OL	340,139	229,750	102,276	24,068	480	-	696,713

21. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

	Transactions in the year (£'000)		Outstanding balance (£'000)	
	2022	2021	2022	2021
Ultimate parent undertaking				
Loans owed to Société Générale	-	-	(1,855,479)	(1,616,603)
Loans due from Société Générale	-	-	62,928	23,589
Bank overdraft	-	-	(17,194)	(50,537)
Capital repayments	636,645	576,792	-	-
Loan drawdowns	(875,262)	(852,123)	-	-
Interest payable	(26,382)	(21,147)	(2,457)	(3,891)
Interest receivable	2,422	393	44	96
Bank charges	(352)	(179)	-	-
ALD S.A.				
Amount payable – central rebill	(6,309)	(5,551)	-	-
Amount receivable – central rebate	468	784	-	-
Amount receivable – IT recharge	1,540	1,499	-	-
Amount receivable - Expense recharges	142	108	-	148

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

21. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

Ford Fleet Management UK Limited	Transactions in the year		Outstanding balance	
	(£'000)		(£'000)	
	2022	2021	2022	2021
Loans owed to FFM UK Limited	-	-	(736)	(2)
Loans due from FFM UK Limited	-	-	58,636	15,849
Amount receivable - Expense recharges	447	176	85	10
Interest receivable	1,089	21	-	-
Transfer of assets	-	1,312	-	-
ALD Group Limited				
Dividend	(116,809)	(40,349)	-	-
Red & Black Auto Lease 1 PLC				
Loans repayable	-	-	(414,000)	(414,000)
Amounts due	-	-	2,484	2,484
Interest receivable	2,840	2,840	-	-
Interest payable	(10,938)	(6,433)	-	-

Transactions between the Company and key management personnel

Remuneration of the Company directors was as follows:

	2022	2021
	£'000	£'000
Aggregate emoluments	538	429
Company contributions to defined contribution schemes	46	38
	<u>584</u>	<u>467</u>

The emoluments, excluding pension contributions, of the highest paid director were £301,766 (2021: £231,238), in addition, pension contributions of £24,533 were paid (2021: £28,000). Retirement benefits are accruing for two directors under a defined contribution scheme (2021: two directors). As stated in note 18, the Company operates a defined contribution scheme only.

During the year the Company entered into transactions, at normal market prices, with key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The members of the Operating Board (comprising at year end the two registered executive directors and in addition the directors of Finance, Customer Service, IT, Operations, 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:

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

21. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

	2022 £'000	2021 £'000
Transaction value	94	121
Balance outstanding	-	-

Interest in unconsolidated structured entities

The Company has an interest in Red & Black Auto Lease 1 PLC ("the SPV"), the special purpose vehicle set up to facilitate the securitisation transaction. The equity shares of the SPV are held by Intertrust Corporate Services Limited as trustees. The directors nevertheless consider the SPV to be a subsidiary of the Company, because the financial and operating policies of the SPV were largely determined to obtain external funding on behalf of the Company.

The maximum exposure to loss from the SPV at 31 December 2022 is £188,484k which comprises the balance of the Class B Notes together with the subordinated loan.

The Company is exempt by virtue of IFRS 10 'Consolidated Financial Statements' from the requirement to prepare group financial statements. These financial statements therefore do not consolidate the results of the SPV.

22. ULTIMATE PARENT UNDERTAKING AND RELATED PARTIES

The Company's immediate parent undertaking is ALD Automotive Group Limited, a company registered in the UK which does not prepare group financial statements. The immediate parent of ALD Automotive Group Limited is ALD International SAS & Co. KG, a company registered in Germany. Copies of the ALD International group financial statements can be obtained from Nedderfeld 95, 22529 Hamburg, Germany.

The ultimate parent undertaking and controlling entity is the Société Générale Group, a company registered in France. Copies of the Société Générale Group financial statements can be obtained from 29 Boulevard Haussmann, 75009 Paris or online at <https://www.societegenerale.com>.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

23. RISK MANAGEMENT

The Company's operations expose it to credit risk, residual value risk, liquidity risk, interest rate risk and operational risk. Responsibility for the control of overall risk within the Company lies with the Board of Directors, operating within a managerial framework established by the ultimate parent Société Générale.

23(a) Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company is primarily exposed to credit risk on lease receivables, arising from finance and operating leases in both the corporate and retail markets.

The table below shows the level of exposure categorised by contractual lease expiry date.

	2022 £'000	2021 £'000
Within one year	595,929	570,401
In one to three years	1,401,445	1,314,633
Greater than three years	386,371	385,948
Balance at 31 December 2022	<u>2,383,745</u>	<u>2,270,982</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. Regular credit assessments are performed on all corporate and personal customers. This assessment uses group approved rating tools to score customers and assess the probability of default. Outside of limits delegated by the ultimate parent undertaking and for customers that are common to the Société Générale group, the Company prepares detailed credit analysis files and obtains approval from specialist credit departments within the Société Générale group.

Credit risk may be amplified by concentration risk, which arises from a large exposure to one or a few counterparties. Concentration is monitored monthly by the Credit Risk Committee.

Impairment of financial assets

Lease receivables are subject to the expected credit loss model as outlined in note 1. The Company applies the IFRS 9 simplified approach to measuring expected credit losses. On that basis, the loss allowance as at 31 December 2022 was determined as follows:

	31 December 2022 £'000	31 December 2021 £'000
Expected loss rate	1.9%	2.7%
Gross carrying amount – lease receivables	442,381	469,366
Loss allowance	8,599	12,646

ALD AUTOMOTIVE LIMITED**Notes to the Financial Statements for the year ended 31 December 2022****23. RISK MANAGEMENT (continued)**

The gross carrying amount of lease receivables has increased significantly due to high growth in finance lease receivables during the year, which have a greater balance sheet impact at inception than operating lease receivables.

The closing loss allowances for lease receivables as at 31 December 2022 reconciles to the opening loss allowances as follows:

	2022 £'000
Loss allowance at 1 January	16,324
Charge recognised in profit or loss in year	2,573
Receivables written off in year	(8,691)
Loss allowance at 31 December	<u>10,206</u>

Lease receivables are written off when it is management belief that there is no reasonable expectation of recovery.

Impairment losses on lease receivables are presented as net impairment losses in the statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited against the same line item.

Trade receivables

	Neither past due nor			Past due but not impaired			
	Total	impaired	<30 days	30-60 days	61-90 days	91-120 days	>120 days
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2022	62,851	12,021	24,572	12,370	218	2,433	11,237
2021	57,380	23,476	12,179	2,849	1,098	1,087	16,691
						2022 £'000	2021 £'000
Receivables from customers individually impaired						14,657	13,688

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

23. RISK MANAGEMENT (continued)

23(b) Residual Value Risk

The residual value, defined as the value of the vehicle at the end of the lease as estimated by the Company at inception of the lease, may differ from the future market value of the vehicle at the end of the contract. This difference is part of the risk on used car sales and is managed by the Company through robust internal procedures applied in order to set, control and re-evaluate the residual values on the running fleet. The residual value setting procedure defines the processes involved in the definition of residual values that will be used in the quotation of future contracts. Calculation is based on market segmentation and on statistical models using used car sales track records, as well as Trade Guides.

The Residual Value Committee actively monitors market forces and meets quarterly to oversee and make decisions on residual value risk. It also provides regular and formal oversight of ALD's Residual Value Policy

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 16 shows the residual value exposure, classified by the year of expiry, faced by the Company.

23(c) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its financial commitments as they fall due, or can secure them only at an excessive cost. Vehicle finance provided to customers is on a fixed term, fixed interest basis. The Company hedges exposure to interest rate movements by obtaining and matching fixed term, fixed interest finance from its ultimate parent undertaking or from its external funding partners. A quarterly assessment is performed to ensure that funding is matched in both amount and maturity date.

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

	2022 £'000	2021 £'000
Less than 1 year	-	-
Within 2 to 5 years	414,000	414,000
Over 5 years	-	-
	<u>414,000</u>	<u>414,000</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 Committee is chaired by the director of legal and compliance and includes amongst its members various heads of departments and internal directors. Meetings are held monthly and it is the responsibility of the chair to report to the Board any matter which is flagged as requiring escalation to the Board.

ALD AUTOMOTIVE LIMITED**Notes to the Financial Statements for the year ended 31 December 2022****23. RISK MANAGEMENT (continued)**

The comparison of the Company's financial assets and financial liabilities maturity is shown below. The fact that operating leases do not qualify as financial assets under IFRS contributes to the difference between financial assets and financial liabilities.

As at 31 December 2022:

	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	-	-	-	-	62,851	62,851
Finance lease receivables	100,801	89,145	192,129	-	-	382,075
Amounts due from group undertakings	4,971	14,547	43,410	-	-	62,928
Derivative assets	-	-	14,283	-	-	14,283
Cash and cash equivalents	568	-	-	-	-	568
	<u>106,340</u>	<u>103,692</u>	<u>249,822</u>	<u>-</u>	<u>62,851</u>	<u>522,705</u>
Financial liabilities:						
Trade payables	-	-	-	-	46,147	46,147
Amounts due to group undertakings	191,834	490,806	1,160,628	-	12,212	1,855,480
Securitisation	-	-	411,442	-	-	411,442
External funding	5,188	15,685	25,098	-	-	45,971
Bank overdraft	17,194	-	-	-	-	17,194
Derivative liabilities	-	14,283	-	-	-	14,283
Lease liabilities	-	1,174	4,696	2,938	-	8,808
	<u>214,216</u>	<u>521,948</u>	<u>1,601,864</u>	<u>2,938</u>	<u>58,359</u>	<u>2,399,325</u>
Net financial assets/ (liabilities)	<u>(107,876)</u>	<u>(418,256)</u>	<u>(1,352,042)</u>	<u>(2,938)</u>	<u>4,492</u>	<u>(1,876,620)</u>

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2022

23. RISK MANAGEMENT (continued)

As at 31 December 2021:

	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	-	-	-	-	57,380	57,380
Finance lease receivables	47,390	107,715	256,866	16	-	411,986
Amounts due from group undertakings	529	3,600	19,460	-	-	23,589
Derivative assets	-	-	700	-	-	700
Cash and cash equivalents	1,644	-	-	-	-	1,644
	<u>49,564</u>	<u>111,315</u>	<u>277,025</u>	<u>16</u>	<u>57,380</u>	<u>495,299</u>
Financial liabilities:						
Trade payables	-	-	-	-	41,187	41,187
Amounts due to group undertakings	118,542	464,308	1,021,542	-	12,212	1,616,603
Securitisation	-	-	411,379	-	-	411,379
External funding	5,627	18,289	40,258	-	-	64,173
Bank overdraft	50,537	-	-	-	-	50,537
Derivative liabilities	-	913	-	-	-	913
Lease liabilities	-	1,406	3,096	3,676	-	8,178
	<u>174,706</u>	<u>484,916</u>	<u>1,476,274</u>	<u>3,676</u>	<u>53,398</u>	<u>2,192,970</u>
Net financial assets/ (liabilities)	<u>(125,142)</u>	<u>(373,601)</u>	<u>(1,199,249)</u>	<u>(3,660)</u>	<u>3,981</u>	<u>(1,697,671)</u>

ALD AUTOMOTIVE LIMITED**Notes to the Financial Statements for the year ended 31 December 2022****23. RISK MANAGEMENT (continued)**

The following tables indicate the timing of the contractual cash flows arising from the Company's financial liabilities, as required by IFRS 7 'Financial Instruments: Disclosures'. All contractual cash payments are expected to be settled within 5 years.

As at 31 December 2022

	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	46,147	-	42,872	1,236	2,039	-
Due to group undertakings:						
- Capital	1,855,479	12,212	87,491	104,343	490,806	1,160,627
- Interest	-	-	3,470	7,220	35,248	69,550
Due to Red & Black Auto Lease 1 PLC:						
- Capital	411,516	-	-	-	-	411,516
- Interest	-	-	511	1,022	4,599	6,206
Instalments due on loans:						
- Capital	45,970	-	1,678	3,509	15,685	25,098
- Interest	-	-	89	169	595	558
Bank overdraft	17,194	17,194	-	-	-	-
Derivative liabilities	14,283	-	-	-	-	14,283

As at 31 December 2021:

	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	41,187	-	40,156	696	335	-
Due to group undertakings:						
- Capital	1,616,603	12,212	31,932	86,610	464,308	1,021,542
- Interest	-	-	1,219	3,309	13,462	16,705
Due to Red & Black Auto Lease 1 PLC:						
- Capital	411,516	-	-	-	-	411,516
- Interest	-	-	511	1,022	4,599	6,390
Instalments due on loans:						
- Capital	64,173	-	1,866	3,760	18,289	40,258
- Interest	-	-	119	227	830	991
Bank overdraft	50,537	50,537	-	-	-	-
Derivative liabilities	913	-	-	-	-	913

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2021

23. RISK MANAGEMENT (continued)

Capital Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, which includes borrowings disclosed in notes 11 and 13, 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(d) Interest Rate Risk

Interest rate risk is the risk that profitability of the Company is affected by movements in interest rates. There is a risk that interest margins on existing contracts could decrease due to movements on interest rates. Exposure to interest rate risk is a key feature of the Company's products - each lease contains, sometimes exclusively, a financing dimension and interest rates are set individually at the inception of each funded lease.

The matching of maturities, amounts and re-pricing dates of interest bearing assets and liabilities for interest rate purposes is fundamental to the management of the Company. This is an important factor in the predictability of interest margins as a major income stream and in assessing the Company's exposure to changes in interest rates.

It is Company policy to, as far as possible, match the interest rate risk profile of the contract portfolio of leases held by the Company with a corresponding profile in the funding to minimise the interest rate risks. This matching principle is monitored through the Risk & Transfer Report, which is reported on a quarterly basis to the Treasury Committee. The Company has interest bearing assets (mainly lease contracts) which are funded through interest bearing liabilities (loans) and non-interest bearing funding (net working capital and equity). In connection with the securitisation transaction, derivative financial instruments have been used as an important and effective instrument in managing and controlling interest rate risk exposure.

Interest Rate Swap Contracts

Under interest rate swap contracts, the Company agrees to pay or receive the difference between variable and fixed interest rates calculated on an agreed notional principal amount. Such contracts allow the Company to mitigate the risk of changing interest rates on the cash flows of issued variable debt held. The fair value of interest rate swaps at the end of the year has been determined based on external valuations.

ALD AUTOMOTIVE LIMITED

Notes to the Financial Statements for the year ended 31 December 2021

23. RISK MANAGEMENT (continued)

At year end the swaps held related to the securitisation transaction implemented through Red & Black Auto Lease 1 PLC. The notional amount of the swaps was £414m which is the face value of the externally issued loan notes. Interest rate swaps settle on a monthly basis and are indexed on the Sterling Overnight Index Average ("SONIA").

23(e) Operational Risk

Operational risk is the risk of a loss occurring from a breakdown in internal controls, operations or procedures. An Operational Risk Committee has been established and meets quarterly. The Committee reviews operational loss incident reports assessing whether root causes have been identified and confirming that measures to prevent re-occurrence have been established. In addition the Committee is responsible for the assessment of operational risk on proposed new products and services.

24. SUBSEQUENT EVENTS

In May 2023, ALD, the France-headquartered parent company of ALD Automotive group acquired 100% of the share capital and voting rights of LP Group B.V., the holding company of LeasePlan Corporation N.V ("LeasePlan"). The combination of ALD and LeasePlan is expected to create a leading global mobility player, strongly positioned to lead the digital transformation of the industry and capture mobility sector growth across geographies, including the UK.