ALD AUTOMOTIVE LIMITED

Registered Number: 987418

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 December 2020

ALD AUTOMOTIVE LIMITED

Contents

ALD AUTOMOTIVE LIMITED

DIRECTORS

T Laver
D A Yates

SECRETARY

A Woodward

AUDITORS

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

BANKERS

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

SOLICITORS

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

REGISTERED OFFICE

Oakwood Drive
Emersons Green
Bristol
BS16 7LB

The directors present the audited financial statements of ALD Automotive Limited ("the Company" or "ALD") for the year ended 31 December 2020. The Company is a limited liability company domiciled and incorporated in the United Kingdom.

Business review and principal activities

Our principal activity during the year continued to be the arrangement of vehicle financing and provision of fleet management services to external customers, including the sale of used motor vehicles. In 2020, the COVID-19 pandemic and associated government lockdown measures caused a contraction in the market for new vehicles, both on the supply side as manufacturers suspended production due to disrupted component supply chains and the need to implement employee distancing measures in factories, and on the demand side as customers sought to reduce expenditure in a challenging economic environment.

However, the market is expected to be resilient as most customers will still require vehicles for business or personal reasons and therefore would prioritise this expenditure over outgoings perceived as less essential. There are also factors arising from the response to the COVID-19 pandemic that have contributed positively to demand – for instance, increased reluctance to use public transport and the rapid growth of home deliveries. In addition to that, the demand for used vehicles has increased significantly and this is expected to continue over the short term.

In 2020, our fleet decreased to 150,534 (2019: 158,487). As at 31 December 2020 the order bank was 4,119 (2019: 6,283).

The overall profit for the year after taxation amounted to £40,349k (2019: £37,204k). At the balance sheet date total assets were £2,132,236k (2019: £2,213,548k), net assets being £118,931k (2019: £115,786k).

During the year a dividend of £37,204k (£379,633 per share) was paid (2019: £46,698k and £476,510 per share). No dividend has been proposed subsequent to the balance sheet date in relation to the year ended 31 December 2020.

In November 2020, an ambitious five year group strategic plan was launched, Move 2025. This strategy positions our parent company 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. Our UK strategy is equally aligned to Move 2025 and our 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.

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP, LIBOR and other interbank offered rates ("IBORs") has become a priority for global regulators. The IBORs are set to be replaced by new 'official' benchmark rates, known as alternative Risk Free Rebates ("RFRs"). This will be done in two phases and the effective date of the Phase 1 Amendments is for annual periods beginning on or after 1 January 2020. The Company has not applied any amendments made to IFRS 9 Financial Instruments as a result of IBOR reform as they primarily relate to hedge accounting which is not applied in these financial statements.

Business environment

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 our business proposition. This is being achieved through:

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

Key Performance Indicators

	2020	2019 (Restated)	Definition and analysis
Gross margin (%)	16.1%	15.6%	Gross margin is the ratio of gross profit to revenue expressed as a percentage.
Return on shareholders' funds (%)	33.9%	32.1%	Return on shareholders' funds is the ratio of retained profit for the year to total shareholders' funds at the balance sheet date expressed as a percentage.
Fleet size (units)	150,534	158,487	Total fleet size is the total number of vehicles managed and/or funded. Fleet size decreased by 5.0% during the year due to impact of COVID 19.
Productivity	246.0	256.8	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 significant 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:

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

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 maintaining efficiency. As customers become increasingly accustomed to doing business online, we also continue to enhance our 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 our customers from internal combustion engine (ICE) vehicles to electrification and integrating new mobility solutions. To this end and in collaboration with the wider ALD Group, we have entered into strategic partnerships with both Polestar and Tesla to offer leases on their vehicles through fully digital platforms.

Our proactive approach in the field of electrification, and our market leading investment in digital online platforms, has been key to developing strategic partnerships with a number of leading car manufacturers in recent years.

In October, we launched a new digital sales channel in conjunction with Polestar and ALD Automotive were chosen as Tesla's preferred partner in Europe to develop a fully digital car leasing offer. We also continued our work in collaboration with Ford in building a new EV digital platform. This is due for completion in time for the launch of the new Mustang Mach E in 2021.

In July, Ford and ALD Automotive announced the creation of an integrated leasing and fleet management solution across the UK and Europe, Ford Fleet Management ("FFM"). This further strengthens a 10 year partnership with Ford in the UK in operating our FordLease sales channel.

These partnerships, and others that we are looking to develop over the next five years, reflect an exciting and shared vision in the future of electric vehicles and digital platforms. They support our growth strategy as a key player in energy transition and underline our commitment to providing innovative mobility solutions.

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

The directors are dedicated to promoting employee engagement within the Company.

Employee comment is encouraged via a continuous employee feedback loop including one to ones, structured surveys, exit interviews, probation reviews and post training feedback. We also operate bi-annual surveys at parent company level (Société Générale) and annual surveys at ALD Group level. Combined with our own local surveys this collective flow of information acts as a constant barometer of employee satisfaction, with verbatim comment providing valuable feedback on which we can act where appropriate.

We have an ambitious goal to achieve an employee net promoter score (eNPS) of +50 by 2025 and we continue to make strong progress in meeting this objective.

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

ALD transitioned to a remote-working operating model at the start of the first national lockdown in 2020 in line with government guidance on social distancing as at that time. Consultations are currently under way to determine the plan for office working once all social restrictions have been eased by the government. The option for flexible working is likely to be available to most employees.

The ALD learning and development program is designed not only to ensure that all employees have the skills and knowledge to perform their roles competently but to enable employees to continually develop throughout their time at ALD.

We have a dedicated Learning and Development team with three internal trainers, each of whom help to develop e-learning modules and deliver courses. Whilst training is mostly geared towards business line skills, soft skills, compliance and regulatory learning are equally valued.

Specific attention has been paid to the continued implementation of the Senior Managers & Certification Regime ("SMCR"), with all employees engaged with the Conduct Rules. To support our managers and employees in understanding the changes that SMCR introduced, we designed and launched a bespoke in-house training programme, Doing the Right Thing. It is a continuous programme which re-enforces our need to meet our regulatory responsibilities as well as making sure we maintain the right culture and ensure our customers' interests remain at the heart of our strategy.

We introduced a new development plan in January 2020 aimed at providing a holistic approach to our employees' personal development. My Plan focuses on a number of areas including Results, Behaviours, Competency and Development, ensuring employees are assessed and supported throughout their time at ALD Automotive. At the same time we introduced a new Behavioural Framework, setting out behavioural expectations for all job role levels to promote the right culture and ensure greater accountability.

My Plan has enabled managers to have wider performance conversations, not only focusing on deliverables, but also behaviour, development of competencies and future aspirations. At the same time we formalised the roll out of Continuous Professional Development hours across the business, allowing employees at all levels time to enhance their self-development.

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

We therefore take diversity and inclusion extremely seriously and have policies in place to ensure there is equality of opportunity for every employee irrespective of gender, age, disability, race, religion and sexual orientation. By having an inclusive environment, where everyone feels free and able to participate, we can achieve our full potential. All of this contributes to employee well-being and engagement.

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

There is need for continuing work in this area and whilst we have made good progress to date we will continue to build on our strong foundation.

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

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

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

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

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

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

- Shaping the future of sustainable mobility
- Being a committed and responsible employer
- Implementing a responsible business culture and practices
- Reducing our internal environmental footprint

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

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

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

Whilst helping enable this transition to cleaner, greener vehicles is key to ALD's strategy, equally important is the support ALD offer in promoting the benefits of smarter driving behaviour. This is just one of the key benefits provided by ALD's telematics solution, ProFleet.

ALD is aware of its role within the community and four core values across the Société Générale Group underpin our business strategy and the quality of our relationships with our employees, our customers and our business.

- Innovation
- Team Spirit
- Responsibility
- Commitment

Following the launch of Move 2025, four additional values across the ALD Automotive Group have now been integrated. These values are seen as key to helping us achieve our ambition of becoming the global leader in sustainable mobility:

- Customer obsession
- Diversity
- Simplicity
- Empowerment

Our aim is to make ALD Automotive a great place to work. We want to create a company where we can nurture the development of all our employees and offer a positive, engaging and learning environment for everyone.

To improve motivation, performance, productivity and reduce stress we, therefore, support and encourage our colleagues to achieve a better balance between work commitments and other priorities such as caring responsibilities, leisure activities, further learning and personal interests.

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

To co- ordinate all of our activities we have a dedicated CSR Manager. He chairs a CSR committee comprising of 25 CSR ambassadors and reports directly into the UK Board. This committee also forms part of a global CSR community co-ordinated by our Group CSR Director based in Paris.

In 2020, the Board announced plans to set up a CSR Management Committee to further enhance the governance of CSR activity and ensure the continued influence of CSR across all areas of our business. The new committee will embrace specialists in mobility, electric vehicles, compliance, mental health, IT security, customer excellence and other key areas fundamental to our wider CSR effort.

The ROSCA (Recognition of Outstanding Service and Contribution to ALD) Awards, is one of the highlights of the year for ALD employees. There are nine ROSCA award categories in total and they reflect the importance we place on CSR. As well as a dedicated CSR Award we have awards ranging from delighting customers to encouraging new ideas, from developing brilliance to acting responsibly.

We also have an Unsung Hero award, an all-employee vote to recognise those colleagues who bring an undefinable extra quality to the company in a role that wouldn't ordinarily receive public recognition and who personify the team spirit of ALD Automotive.

Across the ALD Automotive Group our ethical and environmental standards are benchmarked annually by EcoVadis, the leading solution for monitoring sustainability in global supply chains. Their Sustainability Ratings are adopted by Global 500 companies to assess and improve CSR performance.

After achieving Gold certification in 2018 and 2019 - the highest level of accreditation at the time – we were awarded the newly created Platinum certification in 2020. This places ALD Automotive UK in the top 1% of companies rated by EcoVadis in our sector, in the top 1% for environmental issues, the top 2% for labour and human rights, the top 3% for ethics and the top 7% for sustainable procurement. Based on the 2020 EcoVadis assessment scores ALD Automotive UK won a Sustainability Leadership Award for organisations employing 100 to 999 employees in the category 'Wholesale, Services, Professionals' at the global EcoVadis awards in March 2021.

Whilst ALD promote the value of sustainable mobility and the general decarbonising of business externally we recognise we have a responsibility to ensure our own internal carbon footprint is managed equally effectively. The company are, therefore, continually looking at ways in which we can improve, from encouraging alternative commuting options and reducing business travel, to energy efficiency and responsible recycling.

We encourage employees to cycle, walk or jog to the office and many of our employees participate in our cycle to work scheme which we promote twice a year. To complement this we offer 92 covered cycling bays, 15 dedicated motorcycle bays and have showers, drying room and locker facilities at both our Bristol offices.

Prior to the pandemic, to reduce single occupancy travel to and from work, we were active in promoting car sharing. To comply with social distancing guidelines, however, our car sharing scheme was suspended in March 2020. Our 'park and ride' shuttle bus service between our Customer Excellence Centre ("CEC") and Innovation and Development Centre ("IDC") was also suspended. Given similar concerns about the use of public transport our 34 designated car sharing bays were therefore, opened up to all keyworkers whose work could not be carried out effectively from home.

For employees who commute to the office by car, we currently have 24 EV charging points available to use free of charge at all of our Bristol and Milton Keynes sites.

In November we launched a new electric vehicle company car policy and we are now in the process of transitioning over 150 company cars from petrol and diesel models to electric vehicles. We anticipate this will result in 95% of our internal fleet being electric by June 2021, with 75% being pure-electric. This will reduce the average CO2 emission from our internal fleet from 126g/km to 15g/km.

In March Cisco Webex licences were deployed to every employee to ensure we were able to maintain effective communication across the business throughout the COVID pandemic. As remote-working became embedded, Webex communications increased steadily and resulted in over 11,500 meetings being conducted remotely during the year, of which 74% included collaborative screen sharing of essential files and documents. Video conferencing technology proved vital in the smooth running of ALD throughout 2020 and it is now firmly integrated into our daily work routines.

Even as more employees return to the office and travel restrictions are lifted it is likely, therefore, we will see a fundamental re-evaluation of business travel and the necessity for as many physical meetings in the future.

In conjunction with our new EV car policy, therefore, we anticipate we will see a significant and sustained reduction in carbon emissions from our UK and international business travel over the next five years. Whilst 12% of our employees were officially classified as home-workers prior to the outbreak of COVID 19, following a smooth transition to remote working for many of our employees in 2020, we anticipate growing interest in more flexible working patterns in the future. This too will result in a reduction of commuter traffic in the coming years.

Beyond supporting our employees and our customers during the COVID-19 pandemic our UK team played a leading role in the ALD COVID-relief initiative, #ALDSolidarityPlan. Our help and assistance ranged from financial donations to logistical support and from community volunteering to food donations. Employees from across the business stepped up to help the most vulnerable in our communities and support the heroic work of key-workers on the front- line of the coronavirus.

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

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

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

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

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

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

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

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

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

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

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

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

Securitisation

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

There was a revolving period of 1 year from December 2018 during which terminated contracts in the portfolio were replaced by additional contracts sold in. This revolving period has been extended by another 2 years from December 2019. Following this period the Class A Notes will be redeemed in line with the amortisation profile of the underlying portfolio.

COVID-19

The UK has been affected by the global COVID-19 pandemic which has significantly impacted trading conditions since March 2020. As a result of the various lockdowns throughout 2020 and 2021, intermediaries such as dealerships were unable to trade at 'normal' capacity and new vehicle registrations plummeted. Against this backdrop of a sharp contraction in new vehicle registrations, fleet additions have tracked significantly below budget. Terminations have also decreased as many customers have chosen to keep their current vehicles and to extend contracts due to terminate. However the fleet is relatively robust to shocks due to the multi-year operational cycle. Fleet additions have started to recover, whilst many contracts have been extended in order to maintain existing business.

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

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

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

These payment deferrals and related forbearance measures, along with a potential increase in customer defaults, have negatively impacted our cash inflows. Since March 2020, 7,425 customers were in receipt of a COVID payment deferral, representing £22.8m of outstanding receivables. This was primarily driven by SME businesses who were adversely impacted by the various UK lockdowns. As the economy has opened back up over 50% of original outstanding amounts have been repaid. In line with our Forbearance policy, many consumers have been given flexibility to minimise the risk of customer detriment. We expect a gradual recovery of consumer receivables over the next 18-24 months.

It is also the case that cash outflows have been significantly reduced due to lower fleet additions. Furthermore, strong remarketing results have mitigated the negative impact of the above. Based on cash flow forecasts across a range of potential scenarios for the period to 30 June 2022 and comfortable headroom in our loan facilities with ultimate parent Société Générale, we do not expect the liquidity or solvency of the Company to be compromised as a result of COVID-19. Refer to note 1 of the financial statements entitled "Basis of preparation" for more detailed considerations on going concern assumption.

Energy and Carbon Report

The following figures make up the baseline reporting for ALD Automotive Limited, as 2020 is the first year that the ALD Automotive Limited has been required to report this information. 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	2020 UK Consumption (kWh)
Grid-Supplied Electricity (Scope 2)	1,326,798
Gaseous and other fuels (Scope 1)	69,021
Transportation (Scope 1)	288,730
Total	1,684,549

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

Utility and Scope	2020 UK Consumption (tCO2e)
Grid-Supplied Electricity (Scope 2)	309.33
Gaseous and other fuels (Scope 1)	12.69
Transportation (Scope 1)	68.39
Total	390.41

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	2020 UK Intensity Metric
tCO2e/m2	0.0573

Energy Efficiency Improvements

ALD Automotive Limited are committed to year-on-year improvements in their operational energy efficiency. As such, a register of energy efficiency measures available to ALD Automotive Limited has been compiled, with a view to implementing these measures in the next 5 years.

Measures ongoing and undertaken through 2020:

- Reduction in office building consumption due to increased numbers of staff working from home.
- Reduction in transport usage due to an increase in virtual meetings. Staff are encouraged not to travel unless it is essential.

- Limitations: ALD Automotive Limited are tenants, and as such are limited in the extent to which efficiency measures can be implemented in our demises. All buildings are modern with LED lighting, and all BMS controls have been reviewed and optimised for efficiency.

Measures prioritised for implementation in 2021:

ALD Automotive Limited will continue to monitor building consumption and transport policies in 2021. We will continue to implement any potential improvement measures where landlord agreements allow.

Reporting Methodology

Scope 1 and 2 consumption and CO2e emission data has been calculated in line with the 2019 UK Government environmental reporting guidance. The following Emission Factor Databases consistent with the 2019 UK Government environmental reporting guidance relevant for reporting year 01/01/2020 – 31/12/2020:

Database 2020, Version 1.01.

All consumption data for ALD Automotive Limited was complete for the reporting year, and as such no estimations were required.
Intensity metrics have been calculated utilising the 2020 reportable figures for the following metrics, and tCO2e for both individual sources and total emissions were then divided by this figure to determine the tCO2e per metric:

Gross internal area (m2)	**6,813**

Brexit

The Brexit transition period between the UK and EU officially ended on 31 December 2020. It has been replaced by a trade deal between the two parties. We continue to monitor the latest government guidance, however, no significant impact on our business model and operating procedures is expected in the short term.

Going concern

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

The business environment in which we operate has been significantly impacted by the COVID-19 pandemic. However, our business model operates on a multi-year cycle and is as a result resilient to short term external shocks. We expect to continue to generate positive operating cash flows on our own account for the period to 30 June 2022. In addition we benefit from access to funding via the ultimate parent undertaking Société Générale.

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

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

Disclosure of information to the 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.

Directors

The directors of the Company in office during the year and to date of approval of these financial statements are as listed on page 1.

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

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

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 2020, 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 David Yates 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.

Director 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 the 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 22.

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 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, exit interviews, probation reviews and post training feedback. Employee surveys are conducted regularly and the information obtained acts as a constant barometer of employee satisfaction.

Events after reporting period

No subsequent events have taken place after the reporting period which will have an impact on these financial statements.

Auditor

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

On behalf of the Board

Timothy Laver

T Laver
Director

30 June 2021

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

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

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

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

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

Trade memberships
We are focused on delivering the highest standard of service delivery. We play an active role within and embrace the guidelines and codes of practice adopted by many trade bodies and associations in the sector including the British Vehicle Rental and Leasing Association (“BVRLA”) and the Finance and Leasing Association (“FLA”).

Vision

Our 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.

Values

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

Following the launch of Move 2025, four additional values across the ALD Automotive Group have now been integrated. These values are seen as key to helping us achieve our ambition of becoming the global leader in sustainable mobility.

- Customer obsession
- Diversity
- Simplicity
- Empowerment

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. Our UK strategy is equally aligned to Move 2025 and our 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 our Move 2025 strategy in the UK:

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 our market
- Developing customised products and services which will meet the changing needs of our 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 our direct corporate sales channel
- Strengthening our partnerships and increasing collaboration to grow market share in the SME segment
- Optimising our presence within the retail market through adaptable digital platforms

Move for Good: to shape the future of sustainable mobility

- Positioning ourselves at the forefront of an emerging mobility revolution
- Being a responsible employer; enabling employees to shape our 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 our internal carbon footprint

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

- Driving investment in our digital capabilities to support our growth and mobility ambitions
- Enhancing our 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

Our 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 targeting SME & consumer markets
- Banking partners: partnerships with Lombard and RBS Group, targeting large corporate, SME & consumer markets
- Dealer partners: selected dealership groups targeting SME & consumer markets
- Broker partners: approved broker network principally targeting the SME & consumer markets
- Mobility solutions: accommodating new mobility products such as ALD Flex, targeted at corporate businesses

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

Product development

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

IT solutions

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

Future outlook

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

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

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

Over the next three years, we remain cautiously optimistic as the economy recovers from COVID-19, however significant growth in both non-regulated and regulated markets is unlikely.

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

This continued growth, building on extensive additional recruitment throughout 2020, will be as a result of listening to, understanding and meeting the needs of our customers, our shareholders, our employees and our regulators.

Key performance indicators

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

Principal risks and uncertainties

The management of the business and the execution of our strategy are subject to a number of risks. Our financial risk management objectives and policies and the exposure to credit, residual value, liquidity (including interest rate) and operational risk are set out in note 22.

As a result of COVID-19, there was a short term impact on our key partners as dealerships were closed at various stages during the different lockdowns, however, they have since resumed normal service from early April. The unprecedented impact of the virus and the lockdowns may also cause uncertainties over the residual value market, however that is managed by the Company through robust internal procedures applied in order to set, control and re-evaluate the residual values on the running fleet. Further details are set out in note 22 (b). More generally we expect pressure on margins to remain significant with the delivery of efficiency gains from our IT strategy essential to maintain profitability.

Timothy Laver

T Laver
Director

30 June 2021

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Opinion

We have audited the financial statements of ALD Automotive Limited (the 'company') for the year ended 31 December 2020 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 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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 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 2022. 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 cashflows;
- We evaluated the factors and assumptions included in each scenario within the cashflow and profitability forecast, including testing the impact of Covid-19 on each of the forecasted scenarios. These included performance of the used car market, direct debits from lease receivables and renewal of securitisation funding. We considered the appropriateness of the assumptions used to calculate the cashflow forecasts and determined through inspection 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 the mitigating factors included in the cashflow forecasts that management are able to control. This includes cash flows related to purchase of vehicles over 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 operational resilience through alternative ways of working which include transitioning of employees to remote working environment, online trading of suppliers and intermediaries and payment deferral support to the customer; and
- We evaluated the adequacy of the directors' disclosure in relation to going concern in the directors' report and notes to the financial statements and considered they were appropriate and in conformity with the reporting standards.

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 2022.

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 there is 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.

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 21, 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 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 (International accounting standard and the Companies Act 2006), the relevant direct and indirect tax compliance regulation in the United Kingdom, the Consumer Credit Act

1974 and the license 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 and gained an understanding of the company's governance framework.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering risk of management override and by assuming revenue, specifically topside adjustment and cut-off of the sale of terminated lease assets, to be subject to fraud risk. We considered the controls established to address risks identified to prevent or detect fraud, including in a remote-working environment; and how management monitors these controls. Our audit procedures included testing a sample of manual journals to verify the transactions were appropriate and supported by 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 non-compliance with such laws and regulations. Our procedures involved making enquiries of management, those charged with governance and those responsible for legal and compliance matters and inspecting significant correspondence with the FCA. We obtained a representation that the management and those charge with governance are not aware of any material non-compliance with laws and regulations affecting the financial statements, nor are we aware of any fines or penalties imposed by any 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 the risks identified by the entity and to prevent or detect fraud, including in a remote-working environment; and how management monitors these controls. We identified a higher risk of material fraud related to management override of controls in manual top-side journals posted to revenue. We tested the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals posted to revenue and evaluated the business rationale for significant and/or unusual transactions. We verified that the journals selected are supported by appropriate source documentation and noted no exceptions from the work we performed.
- The company is regulated in respect of consumer credit under the supervision of the FCA. As such, the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Use of our report

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

Ernst & Young LLP

Richard Page (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Statutory Auditor
Bristol
1 July 2021

ALD AUTOMOTIVE LIMITED

Statement of Comprehensive Income for the year ended 31 December 2020

	Notes	2020 £'000	2019 Restated £'000
Continuing operations			
Interest revenue	2	22,191	20,262
Other revenue	2	772,200	777,416
Cost of sales		(659,033)	(667,664)
Net impairment losses on receivables		(7,499)	(5,516)
GROSS PROFIT		127,859	124,498
Administrative expenses		(51,543)	(47,053)
OPERATING PROFIT	3	76,316	77,445
Finance income	5(a)	8,829	6,482
Finance costs	5(b)	(37,318)	(37,213)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		47,827	46,714
Taxation	6	(7,478)	(9,510)
PROFIT FOR THE FINANCIAL YEAR		40,349	37,204
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		40,349	37,204
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT		40,349	37,204

The notes on pages 31 to 68 are an integral part of these financial statements.

ALD AUTOMOTIVE LIMITED
Statement of Financial Position for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
NON-CURRENT ASSETS			
Intangible assets	7(a)	7,300	8,191
Property, plant and equipment	7(b)	1,540,275	1,613,177
Trade and other receivables	8	286,688	319,856
Deferred tax asset	6(c)	28,061	13,976
Derivative assets	9	4,076	572
		1,866,400	1,955,772
CURRENT ASSETS			
Income tax assets		372	-
Inventory	10	34,619	27,343
Trade and other receivables	8	230,732	229,209
Cash and cash equivalents		113	1,224
		265,836	257,776
TOTAL ASSETS		**2,132,236**	**2,213,548**
NON-CURRENT LIABILITIES			
Long term borrowings	11	1,251,332	1,369,836
Long term provisions	12	1,141	1,128
Derivative liabilities	9	4,060	1,893
		1,256,533	1,372,857
CURRENT LIABILITIES			
Short term borrowings	13	606,767	556,291
Income tax liabilities	13	3	7,834
Trade and other payables	13	51,761	35,458
Accruals and deferred income	13	98,241	125,322
		756,772	724,905
TOTAL LIABILITIES		**2,013,305**	**2,097,762**
CAPITAL AND RESERVES			
Called up share capital	14	-	-
Capital contributions reserve		2,254	2,254
Retained earnings		116,677	113,532
TOTAL EQUITY		**118,931**	**115,786**
TOTAL EQUITY AND LIABILITIES		**2,132,236**	**2,213,548**

Registered number 987418.
The notes on pages 31 to 68 are integral part of these financial statements.

Timothy Laver

T Laver
Director
30 June 2021

ALD AUTOMOTIVE LIMITED

Statement of Changes in Equity for the year ended 31 December 2020

	Share Capital £'000	Retained Earnings £'000	Capital Contribution £'000	Total £'000
Balance as of 31 December 2018	-	123,026	2,254	125,280
Dividend paid	-	(46,698)	-	(46,698)
Profit for the year and total comprehensive income	-	37,204	-	37,204
Balance as of 31 December 2019	-	113,532	2,254	115,786
Dividend paid	-	(37,204)	-	(37,204)
Profit for the year and total comprehensive income	-	40,349	-	40,349
Balance as of 31 December 2020	-	116,677	2,254	118,931

ALD AUTOMOTIVE LIMITED

Statement of Cash Flows for the year ended 31 December 2020

	2020	2019
	£'000	£'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	47,827	46,714
Adjustments for:		
- Depreciation	301,366	293,796
- Amortisation	1,158	5,161
- Finance costs	33,397	33,464
- Finance income	(3,385)	(3,567)
- Derivatives	(1,338)	1,042
- Gain on disposal of property, plan and equipment	(43,978)	(23,003)
- Movement in provisions	13	(2,206)
Changes in operating assets and liabilities:		
- Increase in receivables and prepayments	31,672	(120,413)
- Movement in inventory	3,366	2,753
- Increase in payables and accruals	(11,791)	(2,749)
Other	34	21
	358,341	231,013
Interest received	3,326	3,456
Income tax paid	(29,767)	(16,215)
NET CASH FROM OPERATING ACTIVITIES	331,900	218,254
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	348,543	346,751
Purchase of property, plant and equipment	(543,676)	(802,596)
Purchase of intangible assets	(267)	(4,804)
NET CASH ABSORBED BY INVESTING ACTIVITIES	(195,400)	(460,649)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	856,960	1,206,083
Repayment of borrowings	(950,778)	(886,313)
Interest paid	(32,382)	(33,432)
Dividend paid	(37,204)	(46,698)
Payment of lease liabilities	(1,254)	(1,534)
NET CASH ABSORBED BY FINANCING ACTIVITIES	(164,658)	238,106
(DECREASE) IN CASH AND CASH EQUIVALENTS	(28,158)	(4,289)
Cash and cash equivalents at the beginning of the year	(5,502)	(1,213)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	(33,660)	(5,502)

Net cash and cash equivalents at the end of the year comprises cash and cash equivalents as per the statement of financial position offset by the closing overdraft balance as per note 13.

1. ACCOUNTING POLICIES

Fundamental accounting concept

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

Basis of preparation

The financial statements are prepared in accordance with International 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 Accounting Standard ("IAS") 27 'Consolidated and Separate Financial Statements' from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

Going concern

The business environment in which we operate has been significantly impacted by the COVID-19 pandemic. However, our business model operates on a multi-year cycle and is as a result resilient to short term external shocks. We expect to continue to generate positive operating cash flows on our own account for the period to 30 June 2022. In addition we benefit 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 0.46% and cumulative default rate at 0.56% as at 31 December 2020.

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.

The UK has been affected by the global COVID-19 pandemic which has significantly impacted trading conditions since March 2020. As a result of the various lockdowns throughout 2020 and 2021, intermediaries such as dealerships were unable to trade at 'normal' capacity and new vehicle registrations plummeted. Against this backdrop of a sharp contraction in new vehicle registrations, fleet additions have tracked significantly below budget. Terminations have also decreased as many customers have chosen to keep their current vehicles and to extend contracts due to terminate. However the fleet is relatively robust to shocks due to the multi-year operational cycle. Fleet additions have started to recover, whilst many contracts have been extended in order to maintain existing business.

1. ACCOUNTING POLICIES (continued)

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

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

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

Clearly these payment deferrals and related forbearance measures, along with a potential increase in customer defaults, have negatively impacted our cash inflows. However it is also the case that cash outflows have been significantly reduced due to lower fleet additions. Based on cash flow forecasts across a range of potential scenarios for the period to 30 June 2022 and comfortable headroom in our loan facilities with ultimate parent Société Générale, we do not expect the liquidity or solvency of the Company to be compromised as a result of COVID-19.

Functional and presentation currency

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

Reclassification

During the preparation of the 2020 accounts, one prior period adjustment was identified around the classification of certain expenses within cost of sales. As part of an internal accounting review, it was determined that certain costs relating to finance leases, originally recognised within cost of sales, should instead be offset against interest revenue so as to record income on EIR basis. This has no impact on the result nor the net assets as previously reported. The 2019 comparative figures have been restated accordingly as shown below.

	31 December 2019 Original	Adjustment Re-Class	31 December 2019 Restated
	£’000	£’000	£’000
Interest Revenue	100,348	(80,086)	20,262
Cost of Sales	(747,750)	80,086	(667,664)

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.

1. ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Property, plant and equipment

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

Leasehold Fit-out	-	Over length of lease
Plant & equipment	-	Over 5 to 10 years
Computer equipment	-	Over 3 to 5 years

1. ACCOUNTING POLICIES (continued)

Computer software	-	Over 3 to 5 years
Motor vehicles	-	Over the life of the individual hire contract

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

Accounting for leases

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

<u>Measurement and recognition of leases as a lessee</u>

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

1. ACCOUNTING POLICIES (continued)

expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

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

The Company as a lessor

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

Securitisation

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:

	2020 £'000
Carrying amount of transferred assets	414,000
Carrying amount of associated liabilities	411,334
Net position	2,666

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 £2,484k provided to the SPV and deferred transaction costs. The fair value of the above assets and liabilities is not considered to be materially different to the carrying amount at year end.

Inventory

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

Cash and cash equivalents

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

Financial assets and liabilities

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

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

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

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

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

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

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

1. ACCOUNTING POLICIES (continued)

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. COVID-19 related payment deferrals is one such prevailing risk factor which has been analysed based on forecasts of potential recovery performance. The expected impact has been quantified and applied as a post model adjustment.

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. Particular focus has been made to COVID impacted customers and expected credit losses adjusted accordingly.

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. Both CPI and unemployment are shown to have a relationship with arrears and a

1. ACCOUNTING POLICIES (continued)

forward looking macroeconomic overlay has been applied to the provision for the year ended 31 December 2020. 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 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.

1. ACCOUNTING POLICIES (continued)

Current tax

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

Deferred tax

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

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

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

Pensions

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

Critical accounting estimates and judgements

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

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 unemployment rate and CPI as at the reporting date.

- A 10% reduction in unemployment and CPI would lead to a £232k reduction in the provision.
- A 10% increase in unemployment and CPI would lead to a £1,078k 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

1. ACCOUNTING POLICIES (continued)

in use. The value in use is determined at the present value of the future cash flows expected to be derived from the asset.

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

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

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

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

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 £5,139k change in the provision.
- A 3% decrease in market values would lead to a £5,355k 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. 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.

	2020	2019 Restated
Analysis of revenue:	£'000	£'000
Vehicle management services		
Operating lease agreements' rentals	413,722	421,481
Operating lease agreements' disposal proceeds	348,543	346,751
Finance lease agreements' rentals - interest	22,191	20,262
Finance lease agreements' rentals - other	4,664	3,957
Other	5,271	5,227
	794,391	797,678

3. OPERATING PROFIT

This is stated after charging / (crediting):

	2020	2019
	£'000	£'000
Depreciation of property, plant and equipment	300,282	292,494
Depreciation of right-of-use assets	1,084	1,302
Amortisation of intangible assets	1,158	5,161
Operating lease rentals – land and buildings	-	45
Profit on disposal of property, plant and equipment	(43,978)	(23,003)
Auditors' remuneration – audit services	367	330

4. STAFF COSTS

	2020	2019
	£'000	£'000
Wages and salaries	22,284	20,762
Social security costs	2,244	2,163
Pension costs	1,813	1,476
Other	1,785	1,479
	28,126	25,880

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

4. STAFF COSTS (continued)

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

	2020	2019
Operations	264	229
Sales and marketing	106	104
Finance, IT and administration	258	256
	628	589

5. FINANCE INCOME AND COSTS

(a) Finance Income

	2020 £'000	2019 £'000
Interest receivable from Red & Black Auto Lease 1 PLC	2,848	2,877
Interest receivable from group undertakings	537	673
Fair value gain on financial instruments at fair value through profit or loss	5,444	2,915
Other	-	17
	8,829	6,482

(b) Finance Costs

	2020 £'000	2019 £'000
Interest payable to Red & Black Auto Lease 1 PLC	7,715	9,643
Interest payable to group undertakings	23,365	21,320
Interest payable to external funders	1,651	1,784
Fair value loss on financial instruments at fair value through profit or loss	4,107	3,957
Other	480	509
	37,318	37,213

6. INCOME TAXES

(a) Analysis of the tax charge in the period

	2020	2019
	£'000	£'000
UK corporation tax:		
Current tax	21,575	18,016
Adjustments in respect of prior periods	(12)	(31)
	21,563	17,985
Origination and reversal of temporary differences:		
Current year deferred tax movement at 19% (2019: 19%)	(12,442)	(9,295)
Adjustments in respect of prior periods	-	(161)
Effect of change in tax rate	(1,643)	981
Total deferred tax	(14,085)	(8,475)
Tax on profit on ordinary activities	7,478	9,510

(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% (2019: 19%). The differences are reconciled below.

	2020	2019
	£'000	£'000
Profit on ordinary activities before tax	47,827	46,714
Profit on ordinary activities multiplied by standard rate UK corporation tax of 19% (2019: 19%)	9,087	8,876
Expenses not deductible for tax purposes	79	74
Non-taxable credits	-	-
Transfer pricing	211	15
R&D expenditure credits	(243)	(244)
Effect of change in tax rate	(1,645)	981
Adjustments in respect of prior periods	(11)	(192)
	7,478	9,510

Legislation was introduced and substantively enacted in the Finance Act 2020, to increase the main rate of corporation tax for the Financial Year 2020 from the 17% previously announced to 19% with effect from 1 April 2020. The increase is taken into account in calculating the deferred tax asset disclosed in the accounts to 31 December 2020. Legislation was also introduced and substantively enacted in the Finance Act 2021 to increase the rate of corporation tax to 25% with effect from 1 April 2023. The effect of the change would be to increase the deferred tax asset by £8,723k.

6. INCOME TAXES (continued)

(c) Deferred taxation

The deferred tax asset can be analysed as follows:

	2020	2019
	£'000	£'000
Balance brought forward	13,976	5,501
Deferred tax credit to profit and loss account	14,085	8,475
Balance carried forward	28,061	13,976
Decelerated capital allowances	27,252	13,476
Temporary differences	1,415	1,106
Intangible assets	(606)	(606)
Deferred tax asset	28,061	13,976

7. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS

(a) INTANGIBLE ASSETS

2020	Work in Progress	Internally Developed Software	Total
	£'000	£'000	£'000
Cost:			
At 1 January 2020	5,935	9,839	15,774
Additions	267	-	267
Project completion	(3,036)	3,036	-
At 31 December 2020	3,166	12,875	16,041
Amortisation:			
At 1 January 2020	-	7,583	7,583
Charge for the year	-	1,158	1,158
At 31 December 2020	-	8,741	8,741
Net book values:			
At 31 December 2020	3,166	4,134	7,300

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

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

7. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS
(b) PROPERTY, PLANT AND EQUIPMENT

2020	Land & Buildings £'000	Leasehold Fit-out £'000	Plant and computer equipment £'000	Motor Vehicles £'000	Total £'000
Cost:					
At 1 January 2020	9,731	4,817	5,551	2,107,563	2,127,662
Additions	-	81	269	543,326	543,676
Disposals	-	-	(642)	(582,779)	(583,421)
At 31 December 2020	9,731	4,898	5,178	2,068,110	2,087,917
Depreciation:					
At 1 January 2020	1,302	1,634	2,910	508,639	514,485
Charge for the year	1,084	735	945	298,602	301,366
Disposals	-	-	(642)	(267,567)	(268,209)
At 31 December 2020	2,386	2,369	3,213	539,674	547,642
Net book values:					
At 31 December 2020	7,345	2,529	1,965	1,528,436	1,540,275

7. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS
(b) PROPERTY, PLANT AND EQUIPMENT (continued)

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

8. RECEIVABLES

	2020	2019
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	61,038	35,973
Finance lease receivables	133,387	150,108
Amounts due from group undertakings	4,495	4,373
Prepayments and accrued income	29,320	31,467
Other taxes	2,492	7,288
	230,732	229,209
Amounts falling due after more than one year:		
Finance lease receivables	267,313	292,852
Prepayments and accrued income	12,174	16,204
Amounts due from group undertakings	7,201	10,800
	286,688	319,856
	517,420	549,065

The cost of vehicles acquired for the purpose of leasing under finance lease agreements for the year ended 31 December 2020 was £192,655k (2019: £347,955k).

Movements on provisions for impairment of trade receivables are:

	2020	2019
	£'000	£'000
At 1 January	12,271	10,973
Charge for year	7,499	5,516
Utilised in the year	(2,773)	(4,218)
	16,997	12,271

9. DERIVATIVE FINANCIAL INSTRUMENTS

	Fair Value Assets	Fair Value Liabilities
	£'000	£'000
Interest rate swaps	4,076	4,060
Total derivatives as at 31 December 2020	4,076	4,060
Total derivatives as at 31 December 2019	572	1,893

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

	2020	2019
	£'000	£'000
Vehicles	34,619	27,343

Inventory is stated net of a £705k provision (2019: £342k) representing the difference between net book value and estimated net realisable value for vehicle models expected to sell at a loss.

11. PAYABLES: amounts falling due after one year

	2020	2019
	£'000	£'000
Long term borrowings payable:		
in 1 to 2 years	922,999	789,200
in 2 to 5 years	324,718	576,361
in 5+ years	3,615	4,275
	1,251,332	1,369,836

Of the loans analysed above, £793,587k (2019: £913,444k) are from Société Générale, the ultimate parent company. These loans are not secured and interest rates are fixed at the point of inception.

12. PROVISIONS FOR LIABILITIES

	Provision for onerous lease	Provision for property dilapidation	Provision for Consumer Credit Act	Provision for re-structuring	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2019	49	1,317	1,846	122	3,334
Provided in the year	-	(128)	(1,796)	-	(1,924)
Utilisation in the year	(49)	(124)	-	(122)	(295)
Unwinding of discount rate	-	13	-	-	13
At 1 January 2020	-	1,078	50	-	1,128
Long term provisions	-	1,078	50	-	1,128
Utilisation in the year	-	-	(35)	-	(35)
Unwinding of discount rate	-	48	-	-	48
At 31 December 2020	-	1,126	15	-	1,141
Long term provisions	-	1,126	15	-	1,141
	-	1,126	15	-	1,141

Provision for property dilapidations

A provision is in place for dilapidation of premises in Bristol, Northampton and Milton Keynes. The provision for each property is recognised at lease inception at the present value of the expected dilapidation charge at lease end. This amount is released straight line to profit or loss over the lease term. An interest charge to unwind the discounting is charged to profit or loss each period.

Provision for Consumer Credit Act

The Company has undertaken a review of compliance with the fixed-sum unsecured credit agreement requirements of the UK Consumer Credit Act (“CCA”). The provision was recognised for possible repayment to customers where potential non-compliance with CCA was identified.

13. PAYABLES: amounts falling due within one year

	2020	2019
	£'000	£'000
Short term borrowings:		
Bank overdraft	33,773	6,726
Amount due to group undertakings	547,686	523,156
Current instalments due on loans	24,018	25,149
Current portion of lease liabilities	1,290	1,260
	606,767	556,291
Trade and other payables:		
Trade payables	50,677	33,865
Other taxes and social security	1,084	1,593
	51,761	35,458
Income tax liabilities	3	7,834
Accruals and deferred income	98,241	125,322
	756,772	724,905

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

14. SHARE CAPITAL

	2020	2019
Authorised:		
£1 ordinary shares	100	100
Allotted, called up and fully paid:		
£1 ordinary shares	98	98

15. RESIDUAL VALUE EXPOSURE

Year in which residual value will be recovered:

	Residual Value Operating Leases £'000	Residual Value Finance Leases £'000	Total £'000
Within one year	430,866	51,036	481,902
In one to two years	364,406	57,260	421,666
In two to five years	304,936	102,948	407,884
Total Exposure	1,100,208	211,244	1,311,452

16. FINANCIAL ASSETS AND LIABILITIES

	2020	2019
	£'000	£'000
Trade and other receivables	473,434	494,105
Derivative assets	4,076	572
Cash and cash equivalents	113	1,224
Total financial assets	477,623	495,901
Intangible assets	7,300	8,191
Property, plant and equipment	1,540,275	1,613,177
Deferred tax assets	28,061	13,976
Income tax assets	372	-
Other assets	78,605	82,303
Total non-financial assets	1,654,613	1,717,647
TOTAL ASSETS	2,132,236	2,213,548
Borrowings	1,858,099	1,926,126
Trade payables	50,677	33,865
Derivative liabilities	4,060	1,893
Total financial liabilities	1,912,836	1,961,884
Other liabilities	100,469	135,878
Total non-financial liabilities	100,469	135,878
TOTAL LIABILITIES	2,013,305	2,097,762

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 £377,272k (2019: £413,018k). 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

16. FINANCIAL ASSETS AND LIABILITIES (continued)

At 31 December, the Company held the following financial instruments carried at fair value on the statement of financial position:

	2020	Level 1	Level 2
	£'000	£'000	£'000
Financial assets at fair value through profit or loss:			
Derivative assets	4,076	-	4,076

	2020	Level 1	Level 2
	£'000	£'000	£'000
Financial assets at fair value through profit or loss:			
Derivative liabilities	4,060	-	4,060

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

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

17. CAPITAL COMMITMENTS

At the balance sheet date the Company had placed orders for motor vehicles to the value of £58.2m (2019: £41.9m) in respect of new lease rental agreements commencing in 2021. At 31 December 2020, other capital commitments amounted to £nil (2019: £nil).

18. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme, the ALD Pension Scheme, for its directors and employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge for the year to 31 December 2020 totalled £1,813k (2019: £1,476k) representing contributions due to the scheme in the period. There were no unpaid contributions outstanding at the end of the year (2019: £nil).

19. LEASES

The Company has leases for the multiple office buildings and related facilities. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The company 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 2020	8,429
Depreciation charge for the year	(1,084)
Balance at 31 December 2020	7,345

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

Lease Liabilities

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

	£'000
Current	1,290
Non-Current	6,485
	7,775

19. LEASES (continued)

Amounts recognised in profit or loss

2020 – Leases under IFRS 16

	£'000
Interest on lease liabilities	185
Expense related to short-term leases	-

2019 – Leases under IFRS 16

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

Amounts recognised in statement of cash flows

	£'000
Total cash outflow for leases at 31 December 2020	1,439
Total cash outflow for leases at 31 December 2019	1,743

Maturity Analysis Lease Liability

As at 31 December 2020:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
Future minimum lease payments	1,439	966	871	749	737	3,868	8,630
Interest	(149)	(132)	(122)	(107)	(92)	(253)	(855)
Present Value	1,290	834	749	642	645	3,615	7,775

19. LEASES (continued)

As at 31 December 2019:

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

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

Leases as Lessor

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

Finance Lease

For the year ended 31 December 2020, the finance receivables increased due the increase in contracts consistent with our continued business growth. The following table sets out a maturity analysis of finance lease (“FL”) receivables, showing the undiscounted lease payments to be received after the reporting date.

19. LEASES (continued)

As at 31 December 2020

FL Receivables comprise:	£'000
Within 1 year	90,346
1-2 years	68,430
2-3 years	38,176
3-4 years	12,691
4-5 years	2,540
Over 5 years	92
	212,275
Unguaranteed residual values	216,019
Gross investment	428,294
Unearned finance income	(27,594)
Total	400,700

As at 31 December 2019

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

19. LEASES (continued)

Operating Lease

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

As at 31 December 2020:

	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	292,107	169,220	71,792	13,981	467	-	547,567

As at 31 December 2019:

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

20. 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)**	
	2020	2019	2020	2019
Ultimate parent undertaking				
Loans owed to Société Générale	-	-	(1,341,273)	(1,436,601)
Loans due from Société Générale	-	-	11,696	15,173
Bank overdraft	-	-	(33,773)	(6,726)
Capital repayments	534,728	470,970	-	-
Loan drawdowns	(439,400)	(794,300)	-	-
Interest payable	(23,365)	(21,320)	(4,611)	(5,467)
Interest receivable	537	673	149	194
Bank charges	(115)	(258)	-	-
ALD S.A.				
Amount payable – central rebill	5,599	(3,997)	-	-
Amount receivable – central rebate	1,345	1,268	-	-
Amount receivable – IT recharge	(1,621)	2,570	-	-
Amount receivable - Expense recharges	98	106	134	140

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

Ford Fleet Management UK Limited				
Amount receivable - Expense recharges	2	-	1	-
ALD Group Limited				
Amount payable - Dividend	37,204	46,698	-	-
Red & Black Auto Lease 1 PLC				
Loans repayable	-	-	(414,000)	(414,000)
Amounts due	-	-	2,484	2,484
Loan repayments	-	-	-	-
Loan drawdowns	-	-	-	-
Interest receivable	2,848	2,877	-	-
Interest payable	(7,715)	(9,643)	-	-

Transactions between the Company and key management personnel

Remuneration of the Company directors was as follows:

	2020	2019
	£'000	£'000
Aggregate emoluments	471	586
Company contributions to defined contribution schemes	30	18
	501	604

The emoluments, excluding pension contributions, of the highest paid director were £267,748 (2019: £289,998), in addition, pension contributions of £29,750 were paid (2019: £nil). Retirement benefits are accruing for one director under a defined contribution scheme (2019: one director). As stated in note 18, the Company operates a defined contribution scheme only.

During the year the Company entered into transactions, at normal market prices, with key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The members of the Operating Board (comprising at year end the two registered executive directors and in addition the directors of Sales, Finance, Customer Service, IT, Legal and HR) are considered to be key management personnel. Transactions entered into, including the settlement of outstanding vehicle finance and the balance outstanding at the balance sheet date, are set out below:

	2020	2019
	£'000	£'000
Transaction value	251	307
Balance outstanding	-	1

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

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 2020 is £188,484k which comprises the balance of the Class B Notes together with the subordinated loan.

The Company is exempt by virtue of IAS 27 'Consolidated and Separate Financial Statements' from the requirement to prepare group financial statements. These financial statements therefore do not consolidate the results of the SPV.

21. ULTIMATE PARENT UNDERTAKING AND RELATED PARTIES

The Company's immediate parent undertaking is ALD Automotive Group Limited, a company registered in the UK which does not prepare group financial statements. The immediate parent of ALD Automotive Group Limited is ALD International GmbH, 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.

22. RISK MANAGEMENT

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

22(a) Credit Risk

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

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

	2020	2019
	£'000	£'000
Within one year	530,936	454,655
In one to three years	1,120,597	1,199,019
Greater than three years	246,683	361,757
Balance at 31 December 2020	1,898,216	2,015,431

22. RISK MANAGEMENT (continued)

Credit risk is managed in accordance with the guidelines, principles and authorisation levels set out by the Company's ultimate parent undertaking Société Générale. Regular credit assessments are performed on all corporate and personal customers. This assessment uses group approved rating tools to score customers and assess the probability of default. Outside of limits delegated by the ultimate parent undertaking and for customers that are common to the Société Générale group, the Company prepares detailed credit analysis files and obtains approval from specialist credit departments within the Société Générale group.

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

Impairment of financial assets

Lease receivables are subject to the expected credit loss model as outlined in note 1. The Company applies the IFRS 9 simplified approach to measuring expected credit losses. On that basis, the loss allowance as at 31 December 2020 was determined as follows:

	31 December 2020	31 December 2019
	£'000	£'000
Expected loss rate	3.2%	2.4%
Gross carrying amount – lease receivables	461,738	478,933
Loss allowance	14,602	11,517

The gross carrying amount of lease receivables has decreased due to the impact of COVID during the year.

The closing loss allowances for lease receivables as at 31 December 2020 reconcile to the opening loss allowances as follows:

	2020
	£'000
Loss allowance at 1 January	12,271
Charge recognised in profit or loss in year	7,499
Receivables written off in year	(2,773)
Loss allowance at 31 December	16,997

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

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

22. RISK MANAGEMENT (continued)

Since March 2020, 7,425 customers were in receipt of a COVID payment deferral, representing £22.8m of outstanding receivables. This was primarily driven by SME businesses who were adversely impacted by the various UK lockdowns, Private Individuals and Large Corporates were also affected but to a lesser degree. Due to this being primarily retail driven, there is strong diversification which helps mitigate the concentration risk. As the economy has opened back up over 50% of original outstanding amounts have been repaid. In line with our Forbearance policy, many consumers have been given flexibility to minimise the risk of customer detriment. We expect a gradual recovery of consumer receivables over the next 18-24 months. Throughout the COVID period, the credit policy has been maintained and additional checks were performed on high risk populations at the on boarding stage to ensure the portfolio maintained its prime quality.

Trade receivables

		Neither past	Past due but not impaired				
		due nor	<30	30-60	61-90	91-120	>120
	Total	impaired	days	days	days	days	days
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2020	61,038	19,853	10,961	3,811	2,485	1,970	21,958
2019	35,973	15,642	9,073	1,693	2,119	354	7,092

	2020	2019
	£'000	£'000
Receivables from customers individually impaired	10,093	6,489

22(b) Residual Value Risk

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

In accordance with IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’, residual value is treated as an accounting estimate and, as such, expected losses are spread between the date of the latest valuation and the end of the contract. The table in note 15 shows the residual value exposure, classified by the year of expiry, faced by the Company.

22(c) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its financial commitments as they fall due, or can secure them only at an excessive cost. Vehicle finance provided to customers is on a fixed term, fixed interest basis. The Company hedges

22. RISK MANAGEMENT (continued)

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:

	2020	2019
	£'000	£'000
Less than 1 year	-	-
Within 2 to 5 years	414,000	414,000
Over 5 years	-	-
	414,000	414,000

In addition to the Company's own internal policies and controls, liquidity risk is also supervised by and reported to the Executive 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.

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.

22. RISK MANAGEMENT (continued)

As at 31 December 2020:

	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	-	-	-	-	61,038	61,038
Finance lease receivables	42,190	91,197	267,229	84	-	400,700
Amounts due from group undertakings	895	3,600	7,201	-	-	11,696
Derivative assets	-	-	4,076	-	-	4,076
Cash and cash equivalents	113	-	-	-	-	113
	43,198	94,797	278,506	84	61,038	477,623
Financial liabilities:						
Trade payables	-	-	-	-	50,677	50,677
Amounts due to group undertakings	103,075	432,399	793,587	-	12,212	1,341,273
Securitisation	-	-	411,334	-	-	411,334
External funding	6,280	17,744	39,920	-	-	63,944
Bank overdraft	33,773	-	-	-	-	33,773
Derivative liabilities	-	4,060	-	-	-	4,060
Lease liabilities	-	1,439	3,323	3,868	-	8,630
	143,128	455,642	1,248,164	3,868	62,889	1,913,691
Net financial assets/ (liabilities)	(99,930)	(360,845)	(969,658)	(3,784)	(1,851)	(1,436,068)

22. RISK MANAGEMENT (continued)

As at 31 December 2019:

	0-3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Non-interest bearing £'000	Total £'000
Financial assets:						
Trade receivables	-	-	-	-	35,973	35,973
Finance lease receivables	71,181	78,927	292,840	11	-	442,959
Amounts due from group undertakings	773	3,600	10,800	-	-	15,173
Derivative assets	-	-	572	-	-	572
Cash and cash equivalents	1,224	-	-	-	-	1,224
	73,178	82,527	304,212	11	35,973	495,901
Financial liabilities:						
Trade payables	-	-	-	-	33,865	33,865
Amounts due to group undertakings	114,373	396,571	913,444	-	12,212	- 1,436,600
Securitisation	-	-	410,799	-	-	410,799
External funding	6,272	18,877	37,822	-	-	62,971
Bank overdraft	6,726	-	-	-	-	6,726
Derivative liabilities	-	-	1,893	-	-	1,893
Lease liabilities	-	1,260	3,495	4,275	-	9,030
	127,371	416,708	1,367,453	4,275	46,077	1,961,884
Net financial assets/ (liabilities)	(54,193)	(334,181)	(1,063,241)	(4,264)	(10,104)	(1,465,983)

22. RISK MANAGEMENT (continued)

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 2020

	Carrying amount	No stated maturity	Less than 1 month	1-3 months	3-12 months	1-5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Trade payables	50,677	-	48,716	284	1,677	-
Due to group undertakings:						
- Capital	1,341,273	12,212	24,644	78,431	432,399	793,587
- Interest	-	-	1,024	3,258	13,178	14,481
Due to Red & Black Auto Lease 1 PLC:						
- Capital	411,516	-	-	-	-	411,516
- Interest	-	-	528	1,056	5,279	6,426
Instalments due on loans:						
- Capital	63,944	-	2,086	4,195	17,744	39,919
- Interest	-	-	125	238	859	1,064
Bank overdraft	33,773	33,773	-	-	-	-
Derivative liabilities	4,060	-	-	-	-	4,060

As at 31 December 2019:

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

22. RISK MANAGEMENT (continued)

Capital Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, which includes borrowings disclosed in notes 10 and 11, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, capital contribution reserve and retained earnings as disclosed in the statement of changes in equity.

The Board of Directors reviews the capital structure on a semi-annual basis. As a part of this review the Board considers the cost of capital and risks associated with each class of capital. The Company will balance its overall capital structure through the payment of dividends to or through capital injection from its parent company.

22(d) Interest Rate Risk

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

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

It is Company policy to, as far as possible, match the interest rate risk profile of the contract portfolio of leases held by the Company with a corresponding profile in the funding to minimise the interest rate risks. This matching principle is monitored through the Risk & Transfer Report, which is reported on a 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.

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

22. RISK MANAGEMENT (continued)

Interest rate swaps:

	2020	2019
	£'000	£'000
Notional amount – GBP LIBOR (monthly)	414,000	414,000
Notional amount – GBP LIBOR (monthly)	207,000	207,000

22(e) Operational Risk

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

23. CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of newly effective accounting standards on these financial statements.

Interest rate benchmark reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP, LIBOR and other interbank offered rates (‘IBORs’) has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes.

Our treasury department is managing the GBP LIBOR transition plan. The greatest change will be amendments to the contractual terms of the GBP LIBOR-referenced floating-rate debt and the associated swaps. However, the changed reference rate may also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

The Company has not applied any amendments made to IFRS 9 Financial Instruments as a result of IBOR reform as they primarily relate to hedge accounting which is not applied in these financial statements.