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# **CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2018**

UNAUDITED FIGURES

## **SUMMARY**

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## CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

### Consolidated income statement

(In EUR million)	Notes	Year ended December 31,	
		2018	2017
Leasing contract revenues	7a,7d	4,170.6	3,910.3
Leasing contract costs - depreciation	7a	(3,332.0)	(3,094.9)
Leasing contract costs - financing	7a	(234.1)	(229.6)
Unrealised gains/losses on financial instruments	7a	19.4	(11.2)
<b>Leasing contract margin</b>		<b>623.8</b>	<b>574.5</b>
Services revenues	7b,7d	1,987.2	1,807.1
Cost of services revenues	7b	(1,370.6)	(1,214.1)
<b>Services margin</b>		<b>616.7</b>	<b>593.0</b>
Proceeds of cars sold	7c,7d	2,814.3	2,549.0
Cost of cars sold	7c	(2,711.9)	(2,383.8)
<b>Car sales result</b>		<b>102.5</b>	<b>165.3</b>
<b>GROSS OPERATING INCOME</b>		<b>1,343.0</b>	<b>1,332.8</b>
Staff expenses	9	(397.2)	(379.0)
General and administrative expenses	10	(189.2)	(193.8)
Depreciation and amortisation	11	(31.2)	(25.2)
<b>Total operating expenses</b>		<b>(617.6)</b>	<b>(598.0)</b>
Impairment charges on receivables	8	(37.8)	(22.4)
Non-recurring income (expenses)		(0.0)	(0.0)
<b>OPERATING RESULT</b>		<b>687.6</b>	<b>712.4</b>
Share of profit of associates and jointly controlled entities		1.5	1.2
<b>Profit before tax</b>		<b>689.1</b>	<b>713.6</b>
Income tax expense	12	(126.8)	(140.4)
<b>Net income</b>		<b>562.2</b>	<b>573.2</b>
<b>Net income attributable to:</b>			
<b>Owners of the Company</b>		<b>555.6</b>	<b>567.6</b>
Non-controlling interests		6.6	5.6
<b>Earnings per share for net income attributable to the owners of the parent:</b>			
Basic earnings per share (in cents)	31	<b>1.38</b>	<b>1.40</b>
Diluted earnings per share (in cents)	31	<b>1.37</b>	<b>1.40</b>

## Consolidated statement of comprehensive income

<b>(in EUR million)</b>	<b>Notes</b>	<b>Year ended December 31,</b>	
		<b>2018</b>	<b>2017</b>
<b>Net income</b>		<b>562.2</b>	<b>573.2</b>
<b>Items that will not be reclassified subsequently to profit or loss</b>		<b>0.3</b>	<b>0.7</b>
Changes in actuarial gain/(Loss) on retirement benefit, before tax		0.7	1.0
Deferred tax on actuarial gain/(Loss) on retirement benefit		(0.4)	(0.3)
<b>Items that may be reclassified subsequently to profit or loss</b>		<b>(43.6)</b>	<b>(27.2)</b>
Changes in cash flow hedges, before tax	<b>17</b>	(17.7)	(1.4)
Deferred tax on cash flow hedges		4.2	0.7
Currency translation differences		(30.1)	(26.5)
<b>Other comprehensive income for the year, net of tax</b>		<b>(43.3)</b>	<b>(26.6)</b>
<b>Total comprehensive income for the period</b>		<b>518.9</b>	<b>546.7</b>
<b>Attributable to</b>			
Owners of the Company		512.5	541.8
Non-controlling interests		6.4	4.9
Total comprehensive income attributable to owners of the parent arises from:			
- Continuing operations		512.5	541.8

## CONSOLIDATED BALANCE SHEET

(in EUR million)	Notes	Year ended December 31,	
		2018	2017
<b>ASSETS</b>			
Rental fleet	13	18,423.9	16,336.1
Other property and equipment	14	106.5	94.4
Goodwill	15	532.4	528.8
Other intangible assets	14	42.2	34.4
Investments in associates and jointly controlled entities	16	7.6	6.8
Derivative financial instruments	17	14.5	17.8
Deferred tax assets	12	171.3	142.4
Other non-current financial assets	18	601.5	830.5
<b>Non-current assets</b>		<b>19,899.9</b>	<b>17,991.2</b>
Inventories	19	264.3	254.8
Receivables from clients and financial institutions	20	1,584.2	1,438.0
Current income tax receivable		104.3	111.2
Other receivables and prepayments	21	872.9	904.6
Derivative financial instruments	17	26.3	11.0
Other current financial assets	18	343.6	316.8
Cash and cash equivalents	22	158.9	194.6
<b>Current assets</b>		<b>3,354.3</b>	<b>3,230.9</b>
<b>Total assets</b>		<b>23,254.3</b>	<b>21,222.2</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital		606.2	606.2
Share premium		367.0	375.1
Other equity		(5.8)	-
Retained earnings and other reserves		2,110.6	1,815.6
Net income		555.6	567.6
<b>Equity attributable to owners of the parent</b>		<b>3,633.7</b>	<b>3,364.5</b>
Non-controlling interests		34.2	33.8
<b>Total equity</b>	<b>24</b>	<b>3,667.9</b>	<b>3,398.2</b>
Borrowings from financial institutions	26	7,955.8	7,660.9
Bonds and notes issued	26	4,462.4	2,282.4
Derivative financial instruments	17	17.4	16.6
Deferred tax liabilities	12	293.5	242.2
Retirement benefit obligations and long term benefits	27	19.7	19.1
Provisions	28	105.9	96.5
<b>Non-current liabilities</b>		<b>12,854.6</b>	<b>10,317.7</b>
Borrowings from financial institutions	26	3,961.2	4,188.6
Bonds and notes issued	26	451.9	997.9
Trade and other payables	29	2,088.1	2,061.2
Derivative financial instruments	17	8.9	9.8
Current income tax liabilities		70.1	90.1
Provisions	28	151.5	158.7
<b>Current liabilities</b>		<b>6,731.7</b>	<b>7,506.3</b>
<b>Total liabilities</b>		<b>19,586.4</b>	<b>17,823.9</b>
<b>Total equity and liabilities</b>		<b>23,254.3</b>	<b>21,222.2</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in EUR million)	Attributable to equity holders of the company											Non-controlling interests	Total equity
	Share capital	Share premium	Other equity	Translation reserves	Hedging reserve	Actuarial gain/(loss) reserve	Other reserves	Retained earnings	Net income	Equity attributable to the owners of the parent	-		
<b>Balance As at January 1, 2017</b>	<b>606.1</b>	<b>375.1</b>		<b>(85.3)</b>	<b>(11.8)</b>	<b>(4.4)</b>	<b>7.2</b>	<b>1,579.0</b>	<b>511.7</b>	<b>2,977.7</b>	<b>34.8</b>	<b>3,012.4</b>	
Changes in cash flow hedges	-	-	-	-	(0.7)	-	-	-	-	(0.7)	-	(0.7)	
Actuarial gain/(loss) on post employment benefit obligations	-	-	-	-	-	0.7	-	-	-	0.7	-	0.7	
Currency translation differences	0.0	-	-	(25.8)	-	-	-	-	-	(25.8)	(0.7)	(26.5)	
<b>Other comprehensive income</b>	<b>0.0</b>	-	-	<b>(25.8)</b>	<b>(0.7)</b>	<b>0.7</b>	-	-	-	<b>(25.8)</b>	<b>(0.7)</b>	<b>(26.5)</b>	
Net income	-	-	-	-	-	-	-	567.6	-	567.6	5.6	573.2	
<b>Total comprehensive income for the period</b>	<b>0.0</b>	-	-	<b>(25.8)</b>	<b>(0.7)</b>	<b>0.7</b>	-	<b>567.6</b>	<b>567.6</b>	<b>541.8</b>	<b>4.9</b>	<b>546.7</b>	
Proceeds from shares issued	-	-	-	-	-	-	-	-	-	-	-	-	
Share-Based payments	-	-	-	-	-	-	0.5	-	-	0.5	-	0.5	
Dividends	-	-	-	-	-	-	-	(155.6)	-	(155.6)	(5.8)	(161.4)	
Scope changes	-	-	-	-	-	-	-	(0.0)	-	(0.0)	-	(0.0)	
Appropriation of net income	-	-	-	-	-	-	-	511.7	(511.7)	-	-	-	
Other	0.0	-	-	-	-	-	-	-	-	0.0	-	0.0	
<b>Balance As at December 31, 2017 as originally presented</b>	<b>606.2</b>	<b>375.1</b>	-	<b>(111.1)</b>	<b>(12.5)</b>	<b>(3.7)</b>	<b>7.7</b>	<b>1,935.2</b>	<b>567.6</b>	<b>3,364.5</b>	<b>33.8</b>	<b>3,398.2</b>	
<b>Change in Accounting Policy*</b>								<b>(17.1)</b>		<b>(17.1)</b>	<b>(0.2)</b>	<b>(17.3)</b>	
<b>Balance As at January 1, 2018 restated</b>	<b>606.2</b>	<b>375.1</b>	-	<b>(111.1)</b>	<b>(12.5)</b>	<b>(3.7)</b>	<b>7.7</b>	<b>1,918.1</b>	<b>567.6</b>	<b>3,347.4</b>	<b>33.6</b>	<b>3,381.0</b>	
Changes in cash flow hedges	-	-	-	-	(13.5)	-	-	-	-	(13.5)	-	(13.5)	
Actuarial gain/(loss) on post employment benefit obligations	-	-	-	-	-	0.3	-	-	-	0.3	-	0.3	
Currency translation differences	-	-	-	(29.9)	-	-	-	-	-	(29.9)	(0.2)	(30.1)	
<b>Other comprehensive income</b>	-	-	-	<b>(29.9)</b>	<b>(13.5)</b>	<b>0.3</b>	-	-	-	<b>(43.1)</b>	<b>(0.2)</b>	<b>(43.3)</b>	
Net income	-	-	-	-	-	-	-	555.6	-	555.6	6.6	562.2	
<b>Total comprehensive income for the period</b>	-	-	-	<b>(29.9)</b>	<b>(13.5)</b>	<b>0.3</b>	-	<b>555.6</b>	<b>555.6</b>	<b>512.5</b>	<b>6.4</b>	<b>518.9</b>	
Proceeds from shares issued	-	-	-	-	-	-	-	-	-	-	-	-	
Acquisition of treasury shares	-	-	(5.8)	-	-	-	-	-	-	(5.8)	-	(5.8)	
Share-Based payments	-	-	-	-	-	-	1.7	-	-	1.7	-	1.7	
Issue of treasury shares to employees	-	-	-	-	-	-	-	(214.2)	-	(222.3)	(4.6)	(226.9)	
Dividends	-	(8.1)	-	-	-	-	-	0.1	-	0.1	(1.1)	(1.0)	
Scope changes	-	-	-	-	-	-	-	567.6	(567.6)	-	-	-	
Appropriation of net income	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Balance As at December 31, 2018</b>	<b>606.2</b>	<b>367.0</b>	<b>(5.8)</b>	<b>(141.0)</b>	<b>(26.0)</b>	<b>(3.4)</b>	<b>9.4</b>	<b>2,271.6</b>	<b>555.6</b>	<b>3,633.7</b>	<b>34.3</b>	<b>3,667.9</b>	

\* The Impacts presented in this line arose solely from the IFRS 9 provisions related to credit risk

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31,

(in EUR million)	Notes	2018	2017 *
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax excluding discontinued operations		689.1	713.6
<b>Adjustments for:</b>			
Rental Fleet	13	3,430.1	3,181.2
Other property and equipment	14	21.4	17.7
Intangible assets	14	9.7	7.3
Financial assets		-	0.0
Regulated prov., contingency and expenses provisions		3.7	11.8
<b>Depreciation and provision</b>		<b>3,464.9</b>	<b>3,217.9</b>
Fair value of derivative financial instruments		(6.2)	18.6
Interest Charges	7a	234.1	229.6
Interest Income		(824.0)	(793.4)
<b>Net interest income</b>	<b>7a</b>	<b>(589.9)</b>	<b>(563.8)</b>
Other (**)		0.7	(0.6)
Amounts received for disposal of rental fleet	13	2,583.7	2,513.9
Amounts paid for acquisition of rental fleet	13	(8,233.3)	(7,698.3)
Change in working capital		(44.2)	(374.2)
Interest Paid		(284.7)	(251.3)
Interest Received		853.7	821.6
<b>Net interest received</b>		<b>569.0</b>	<b>570.4</b>
Income taxes paid		(104.4)	(148.0)
<b>Cash generated from operations (continuing activities)</b>		<b>(1,670.5)</b>	<b>(1,750.4)</b>
<b>Net cash inflow/(outflow) from operating activities</b>		<b>(1,670.5)</b>	<b>(1,750.4)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of other property and equipment		-	-
Disposal of other property and equipment	14	17.8	13.7
Acquisition of other property and equipment	14	(51.8)	(50.2)
Divestments of intangible assets		-	-
Disposal of intangible assets	14	0.0	1.2
Acquisition of intangible assets	14	(17.7)	(14.3)
Proceeds from sale of financial assets		-	-
Acquisition of financial assets (non consolidated securities)		(0.0)	-
Effect of change in group structure		(9.2)	(125.1)
Dividends received		(0.0)	0.0
Long term investment		227.9	152.0
Loans and receivables from related parties		(64.8)	1.6
Other financial investment		(28.6)	(30.1)
<b>Cash flows from investing activities (continuing activities)</b>		<b>73.7</b>	<b>(51.3)</b>
Cash flows from investing activities (discontinued operations)		-	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>73.7</b>	<b>(51.3)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds of borrowings from financial institutions		10,152.0	8,637.7
Repayment of borrowings from financial institutions		(10,011.3)	(7,020.7)
Proceeds from issued bonds		2,726.0	1,400.1
Repayment of issued bonds		(1,086.2)	(1,020.1)
Dividends paid to company's shareholders	30	(222.3)	(155.6)
Dividends paid to minority interest		(4.6)	(5.8)
Increase/decrease in shareholders capital		-	-
Increase/decrease in treasury shares		(5.8)	-
Other		-	-
<b>Cash flows from financing activities (continuing activities)</b>		<b>1,547.9</b>	<b>1,835.5</b>
Cash flows from financing activities (discontinued operations)		-	-
<b>Net cash inflow/(outflow) from financing activities</b>		<b>1,547.9</b>	<b>1,835.5</b>
<b>Exchange gains/(losses) on cash and cash equivalents</b>		<b>(8.7)</b>	<b>(2.3)</b>
<b>Effect of change in accounting policies</b>		<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(57.6)</b>	<b>31.5</b>
<b>Cash &amp; cash equivalents at the beginning of the period</b>	<b>22</b>	<b>6.7</b>	<b>(24.8)</b>
<b>Cash &amp; cash equivalents at the end of the period</b>	<b>22</b>	<b>(50.9)</b>	<b>6.7</b>

(\* ) The format of our consolidated statement of cash flows ended December, 2017 has been changed to the new format to improve the understanding of the Group's operating and investing activities. This new format has been adopted for the first time in the Consolidated financial statements for the year ended 31 December, 2018 and the comparative period of year ended 31 December, 2017 has been restated accordingly to reflect the change in presentation.

(\*\*) Including mainly the unrealised foreign exchange gains or losses (note 7.b)



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. GENERAL INFORMATION

ALD (“the Company”) and its subsidiaries (together “the Group”) is a service leasing and vehicle fleet management group with a fleet of more than 1,663,000 vehicles. The Group provides financing and management services in 43 countries in the world including the following businesses:

- Full service leasing : Under a full-service lease, the client pays the leasing company a regular monthly lease payment to cover financing, depreciation of the vehicle and the cost of various services provided in relation to the use of the vehicle (such as maintenance, replacement car, tyre management, fuel cards and insurance).
- Fleet management: Fleet management services include the provision of outsourcing contracts to clients under which the vehicle is not owned by the Group but is managed by the Group and for which the client pays fees for the various fleet management services provided. These services are generally identical to those listed under the full-service leasing above, with the exception of the financing service, as the vehicle is owned by the client.

The company is a French « Société Anonyme » incorporated in Société Générale group. Its registered office is located at 1-3 Rue Eugène et Armand Peugeot, Le Corosa, 92500 Rueil-Malmaison, France.

The company is a subsidiary of the Société Générale group (80% ownership).

The consolidated financial statements are presented in millions of Euros, which is the Group’s presentation currency and values are rounded to the nearest million, unless otherwise indicated. In certain cases, rounding may cause non-material discrepancies in the lines and columns showing totals.

These consolidated financial statements were authorised for issue by ALD S.A.’s Board of directors on February 6, 2019.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. All valuation methods are defined in the Notes describing the relevant categories. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.1. PRESENTATION FORMAT OF FINANCIAL STATEMENTS

The presentation of the consolidated statement of cash flows has been changed to the new format which is used to improve the understanding of the Group's operating and investing activities. Acquisitions and disposals of other property and equipment and intangible assets both form part of the Group’s continuing investing activities and therefore should be presented alongside each other in

the section cash flows from investing activities. This new format has been adopted for the first time in the consolidated financial statements for the year ended 31 December, 2018 and the comparative period of year ended 31 December 2017 has been restated accordingly to reflect the change in presentation.

## 2.2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The standards comprise IFRS 1 to 13 and International Accounting Standards (IAS) 1 to 41, as well as the interpretations of these standards adopted by the European Union as at December 31, 2018.

## 2.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

### 2.3.1. New and amended standards and Interpretations applicable as from January 1, 2018

The Group has adopted the following new standards, amendments and interpretations to published standards for the first time for the financial year beginning January 1, 2018:

Accounting standards, amendments or Interpretations	Note	Adoption dates by The European Union
IFRS 15 Revenue from Contracts with Customers	2.3.2	January 01, 2018
IFRS 9 Financial Instruments	2.3.3	January 01, 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advanced Considerations	2.3.4	January 01, 2018
Amendments to IAS40 Transfer of Investment Property	2.3.5	January 01, 2018
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	2.3.6	January 01, 2018
Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	2.3.7	January 01, 2018
Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice	2.3.8	January 01, 2018

The impact of the adoption of the standard IFRS 9 and the new accounting policies are disclosed in section 2.3.3.

The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

### **2.3.2. Summary of IFRS 15 Accounting Policy Change**

IFRS 15 "Revenue from contracts with customers" is applicable to reporting periods beginning on or after January 1, 2018.

This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

It sets out the requirements for recognising revenue that apply to all contracts with customers. To recognise revenue, the following five steps would be applied: identification of the contract with the customer, identification of the performance obligations in the contract, determination of the transaction price, allocation of the transaction price to each performance obligation and revenue recognition when a performance obligation is satisfied.

The Group has evaluated the impacts of this standard and assessed that the adoption of IFRS 15 does not impact its consolidated financial statements as revenue accounting was already in line with IFRS 15 before its application. Therefore the retrospective transition method will not require a restatement of the consolidated financial statements. Further details are explained in Note 7 Revenues and Cost of Revenues.

### **2.3.3. Summary of IFRS 9 Accounting Policy Change**

The IASB has issued IFRS 9 to replace IAS 39 in its entirety. IFRS 9 includes the recognition, classification and measurement of financial assets and financial liabilities, the derecognition of financial assets and liabilities, the impairment of financial assets and general hedge accounting.

The adoption of IFRS 9 Financial instruments from 1 January, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are disclosed below as well as in Note 2.10 and 2.19.

#### **Classification and Measurement (Standard Phase 1)**

Financial assets are required to be classified into three categories according to measurement methods to be applied (amortised cost, fair value through profit or loss and fair value through other comprehensive income). Classification will depend on the contractual cash flow characteristics of the instruments and the entity's business model for managing its financial instruments.

By default, derivative financial instruments will be classified as subsequently measured at fair value through profit or loss.

Debt instruments (loans, receivables and bonds) will be measured at amortised cost only if the objective of the entity (business model) is to collect the contractual cash-flows and if these cash flows consist solely of payments of principal and interest. Debt instruments will be measured at fair value through other comprehensive income (with cumulative gain or loss reclassified in profit or loss when the instruments are derecognised) if the objective of the entity (business model) is to collect the contractual cash-flows or to sell the instruments and if these contractual cash-flows consist solely of payments of principal and interest.

Equity instruments will be measured at fair value through profit or loss except in case of irrevocable election made at initial recognition for measurement at fair value through other comprehensive income (provided these financial assets are not held for trading purposes and not classified as such in financial assets measured at fair value through profit or loss) without subsequent reclassification in income.

Embedded derivatives will no longer be recognised separately when their host contracts are financial assets and the hybrid instrument in its entirety in most cases will then be measured at fair value through profit or loss.

Requirements for the classification and measurement of financial liabilities contained in IAS 39 have been incorporated into IFRS 9 without major modifications. Modification regarding financial liabilities designated at fair value through profit or loss (using fair value option) has been made where the amount of change in their fair value attributable to changes in credit risk will be recognised in other comprehensive income without subsequent reclassification into income.

Additionally, in accordance with the recommendations issued by the market authorities (ESMA and AMF), the Group elected to early apply, at 1 January 2018, the amendment to IFRS 9 “Prepayment features with negative compensation”, published by the IASB on 12 October 2017 and adopted by the European Union on 22 March 2018.

According to this amendment, financial assets, having a clause of prepayment with negative compensation, can now be classified as SPPI and measured at amortised cost if the business model is hold to collect.

At December 31, 2018 ALD Group holds long-term deposits at Société Générale in amount of EUR 710.5 million (2017: EUR 939 million) that according to the above amendment are classified as SPPI and measured at amortised cost instead of fair value.

IFRS 9 also lays down the principles for recognising renegotiations of financial liabilities that do not result in derecognition.

ALD has performed a business analysis on all relevant categories of financial assets and the conclusion is that there is no material impact of IFRS 9.

The majority of financial assets held by ALD are classified in the “Loans and receivables” category under IAS 39 (e.g. long-term investments, receivables under finance lease contracts, receivables from credit institutions, trade receivables and short-term deposits). These assets will be almost entirely reclassified in the IFRS 9 category of “Financial assets measured at amortised cost”, in accordance with the

business model under which they are held. Any exposures that do not pass the SPPI test will be an exception to the above rule, and will necessarily be reclassified in the portfolio of “Financial assets that must be measured at fair value through profit or loss”.

The following table presents reconciliation from the carrying amount of financial assets and liabilities under IAS 39 to the carrying amount under IFRS 9 on 1 January, 2018.

(in EUR million)	IAS 39 Carrying amount December 31, 2017	Reclassification	Remeasurement	IFRS 9 Carrying amount January 01, 2018
Receivables from clients and financial institutions	1,438.0	-	(22.5)	1,415.4
Other financial assets	-	-	-	-
<b>Total Financial Assets Measured at Amortised Cost</b>	<b>1,438.0</b>	<b>-</b>	<b>(22.5)</b>	<b>1,415.4</b>
Derivative financial instruments	28.8	-	-	28.8
Other financial assets	1,147.3	-	-	1,147.3
Cash and cash equivalents	194.6	-	-	194.6
<b>Total Financial Assets Measured at Fair Value Through Profit or Loss</b>	<b>1,370.6</b>	<b>-</b>	<b>-</b>	<b>1,370.6</b>
Bank borrowings	11,849.4	-	-	11,849.4
Bonds issued	3,280.3	-	-	3,280.3
Trade Payables	738.3	-	-	738.3
<b>Total Financial Liabilities Measured at Amortised cost</b>	<b>15,868.1</b>	<b>-</b>	<b>-</b>	<b>15,868.1</b>
Derivative financial instruments	26.4	-	-	26.4
<b>Total Financial Liabilities Measured at Fair Value Through Profit</b>	<b>26.4</b>	<b>-</b>	<b>-</b>	<b>26.4</b>

ALD RE DAC – Ireland, the Group’s insurance subsidiary, is excluded from this analysis following the decision to postpone IFRS 9 application for insurance companies until 2021. This decision taken by SG Group is in line with European Commission regulation stipulating that “The amendments to IFRS 4 permit entities that predominantly undertake insurance activities the option to defer the effective date of IFRS 9 until 1 January 2021. The effect of such a deferral is that the entities concerned may continue to report under the existing standard, International Accounting Standard (IAS) 39, Financial Instruments. The amendments to IFRS 4 also permit entities that implement IFRS 9 to remove from profit or loss some of the additional accounting mismatches and temporary volatility that could occur before IFRS 17 is implemented.”

### Credit risk (Standard Phase 2)

All debt instruments classified as financial assets measured at amortised cost or at fair value through other comprehensive income, as well as trade receivables, contract assets, lease receivables, loan commitments and issued financial guarantee contracts, are systematically subject to impairment or provision for expected credit losses (ECL) upon initial recognition of the financial asset or commitment, without waiting for objective evidence of impairment to occur.

The IFRS 9 general approach to recognising impairment is based on a three-stage process which is intended to reflect the deterioration in credit quality of a financial instrument.

There are two exceptions to the general approach:

- A simplified approach for trade receivables and lease receivables

- A simplified approach for purchased or originated credit-impaired financial assets

For trade receivables or lease receivables without a significant financing component the standard allows a simplified approach, where lifetime expected credit losses are recognised. If there is a significant financing component then there is an accounting policy choice for which model to use.

IFRS 9 does not prescribe how an entity should estimate lifetime expected credit losses when applying the simplified model, and permits the use of measures such as a 'provision matrix'.

For not in default trade receivables and finance lease receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables, and is measured based on a provision matrix for receivables associated with Sound customers. The Group continues to apply the Basel II regulations for customer in default. Full disclosure of the methodology for default customer provisions can be found in note 3.1.1.

ALD has chosen to apply the simplified methodology, and uses lifetime expected credit loss measurement based on a provision matrix. The provision matrix is based on observed default rates over the life of the receivables (the average contract length in each entity). This process results in Probability of Default (PD), or provision, rates for each category of aged receivables. The PD rates are applied to the aged receivables each reporting period to arrive at a total provision. The provision matrix can be found in Note 3.1.1

The final provision is also adjusted to consider Loss Given Default (LGD) specific to the entity, and types of customer which have different risk profiles

For the newly set-up or acquired subsidiaries, by definition, limited statistics are available, and the weight of the exposure of these new countries is not material. Therefore, PD rates of similar/neighbouring entities shall be applied.

ALD considers some specific receivable types, which have zero or almost no history of credit risk, as out of scope from the IFRS 9 calculation. These include receivables on used car sales and insurance receivables, which have been reviewed for credit losses and found to be of a different risk nature to the Group's main lease receivables. For this reason, trade receivables will not match the scope of receivables analysed in the IFRS 9 disclosures. These gaps will be identified where they exist. Analysis of receivables as defined by the simplified approach can be found in Note 3.1.1

Note 3.1.1 provides a reconciliation between IAS 39 and IFRS 9 and post transition disclosure notes.

### **Hedge accounting (Standard Phase 3)**

Phase 3 of the new IFRS 9 standard will align hedge accounting more closely with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. The standard extends the scope of non-derivative financial instruments that could be considered as hedging instruments. Similarly, the scope of items that could be considered as hedged items is increased to include components of non-financial items. The standard also amends the approach for assessing hedge effectiveness. Additional disclosures are required to explain both the effect that hedge accounting has had on the financial statements and the entity's risk management strategy.

The publication of IFRS 9 was accompanied with an update of IFRS 7 (financial instrument disclosures). Disclosures relating to hedging were significantly enriched.

The application of IFRS 9, Phases 1 and 2 are mandatory from 1st January 2018 and Phase 3 application is optional. ALD has elected not to apply hedge accounting in accordance with IFRS 9 Phase 3. Instead, it will continue to apply IAS 39 hedge accounting principles.

Further details are provided in Note 17 Derivative Financial Instruments.

### Impact of IFRS 9 adoption

IFRS 9 is effective from 1 January 2018. This has not been applied to previous periods and ALD will not restate comparative figures for prior periods. Consequently, as far as financial instruments are concerned, comparative figures for 2017 that will be provided with figures related to 2018 in consolidated financial statements will remain as determined according to IAS 39. Any change in asset or liability value due to the first-time application of IFRS 9 at 1 January 2018 is recognised directly in equity on that date.

IFRS9 provisions with respect to the changes in fair value of financial liabilities designated at fair value through profit or loss were not early adopted.

The market authorities (ESMA and AMF), issued recommendations to early apply, at 1 January 2018, the amendment to IFRS 9 “Prepayment features with negative compensation”, published by the IASB on 12 October 2017 and adopted by the European Union on 22 March 2018. According to this amendment, financial assets, having a clause of prepayment with negative compensation, can now be classified as SPPI and measured at amortised cost if the business model is hold to collect.

At December 31, 2018 ALD Group holds long-term deposits at Société Générale in amount of EUR 710.5 million (2017: EUR 939 million) that according to the above amendment are classified as SPPI and measured at amortised cost instead of fair value.

### 2.3.3.a. Impact of IFRS 9 on the Balance Sheet as at 1 January 2018

The following information presents the Consolidated Balance Sheet impacts as at January 1, 2018. The impacts presented in this table arose solely from the IFRS 9 provisions related to credit risk. Please note, there have been changes to the amounts communicated as at June 30, 2018. The adjustments relate to additional provisioning on the remaining capital balances within finance lease receivables.

(in EUR million)	December 31, 2017	Note	IFRS 9 First Time Application	January,1 2018
<b>ASSETS</b>				
Rental fleet	16,336.1		-	16,336.1
Other property and equipment	94.4		-	94.4
Goodwill	528.8		-	528.8
Other intangible assets	34.4		-	34.4
Investments in associates and jointly controlled entities	6.8		(0.6) <sup>1</sup>	6.1
Derivative financial instruments	17.8		-	17.8
Deferred tax assets	142.4		5.5 <sup>2</sup>	147.9
Other non-current financial assets	830.5		-	830.5
<b>Non-current assets</b>	<b>17,991.2</b>		<b>4.9</b>	<b>17,996.1</b>
Inventories	254.8		-	254.8
Receivables from clients and financial institutions	1,438	3.1.1, 20	(22.5) <sup>3</sup>	1,415.5

Current income tax receivable	111.2	-	111.2
Other receivables and prepayments	904.6	-	904.6
Derivative financial instruments	11.0	-	11.0
Other current financial assets	316.8	-	316.8
Cash and cash equivalents	194.6	-	194.6
<b>Current assets</b>	<b>3,230.9</b>	<b>(22.5)</b>	<b>3,208.4</b>
<b>Total assets</b>	<b>21,222.2</b>	<b>(17.6)</b>	<b>21,204.6</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	606.2	-	606.2
Share premium	375.1	-	375.1
Retained earnings and other reserves	1,815.6	(17.1) <sup>4</sup>	1,798.5
Net income	567.6	-	567.6
<b>Equity attributable to owners of the parent</b>	<b>3,364.5</b>	<b>(17.1)</b>	<b>3,347.4</b>
Non-controlling interests	33.8	(0.2) <sup>5</sup>	33.6
<b>Total equity</b>	<b>3,398.2</b>	<b>(17.3)</b>	<b>3,381.0</b>
Borrowings from financial institutions	7,660.9	-	7,660.9
Bonds and notes issued	2,282.4	-	2,282.4
Derivative financial instruments	16.6	-	16.6
Deferred tax liabilities	242.2	(0.3) <sup>6</sup>	241.9
Retirement benefit obligations and long term benefits	19.1	-	19.1
Provisions	96.5	-	96.5
<b>Non-current liabilities</b>	<b>10,317.7</b>	<b>(0.3)</b>	<b>10,317.4</b>
Borrowings from financial institutions	4,188.6	-	4,188.6
Bonds and notes issued	997.9	-	997.9
Funds entrusted	-	-	-
Trade and other payables	2,061.2	-	2,061.2
Derivative financial instruments	9.8	-	9.8
Current income tax liabilities	90.1	-	90.1
Provisions	158.7	-	158.7
<b>Current liabilities</b>	<b>7,506.3</b>	<b>-</b>	<b>7,506.3</b>
<b>Total liabilities</b>	<b>17,823.9</b>	<b>(0.3)</b>	<b>17,823.6</b>
<b>Total equity and liabilities</b>	<b>21,222.2</b>	<b>(17.6)</b>	<b>21,204.6</b>

<sup>1</sup> Investments in associates and jointly controlled entities – the implementation of the impairment provision in line with IFRS 9 in the financial statements of the associates results in a reduction in investment in associates.

<sup>2</sup> Deferred tax assets – the implementation of the impairment provision in line with IFRS 9 generates an additional deferred tax asset.

<sup>3</sup> Receivables from clients and financial institutions – Impairment provision recognised in line with IFRS 9 for the first time application which adjusts the carrying amount of the receivables.

<sup>4</sup> Retained earnings and other reserves – Share of the net impact of the impairment provision and associated deferred tax attributed to the owners of the parent is recognised in the retained earnings for the first time application (as presented in the Interim Condensed Consolidated Statement of Changes in Equity).

<sup>5</sup> Non-controlling interests – Share of the net impact of the impairment provision and associated deferred tax attributed to the non-controlling interests (as presented in the Interim Condensed Consolidated Statement of Changes in Equity).

<sup>6</sup> Deferred tax liabilities – See footnote 2 above. In entities where there was no existing tax asset at December 31, 2017 the deferred tax liability is reduced for the first time application.

### 2.3.3.b. Reconciliation of the allowances for credit losses amounts established in accordance with IAS 39 as at December 31, 2017 with those established in accordance with IFRS 9 as at January 1, 2018.



(in EUR million)	IAS 39 Carrying amount December 31, 2017	Remeasurement	IFRS 9 Carrying amount January 01, 2018
Receivables from clients and financial institutions and held to maturity under IAS 39 / Financial assets at amortised cost under IFRS 9	1,438.0	(22.5)	1,415.4
<b>Total</b>	<b>1,438.0</b>	<b>(22.5)</b>	<b>1,415.4</b>

Note 3.1.1 provides more details on the reconciliation between IAS 39 and IFRS 9 and post transition disclosure notes.

#### **2.3.4. IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations**

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The impact of the Interpretation is immaterial for the Group.

#### **2.3.5. Amendments to IAS 40 Transfers of Investment Property**

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not apply for the Group.

#### **2.3.6. Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions**

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. These amendments do not apply for the Group.

#### **2.3.7. Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The impact of the amendments is immaterial for the Group.

### **2.3.8. Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice**

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The impact of the amendments is immaterial for the Group.

### **2.3.9. Standards and Interpretations adopted by the IASB but not yet applicable at December 31, 2018**

A number of new standards and amendments to standards and interpretations are non-effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

#### **IFRS 16 “Leases”, Applicable to annual reporting periods beginning on or after 1 January 2019**

IFRS 16 was issued in January 2016. It specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor IAS 17.

The accounting for lessors will not significantly change.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group is assessing the impact of first time application of IFRS 16 as a lessee: this will only be limited to rentals of premises and currently no material changes to its consolidated balance sheet are expected.

The Group does not anticipate any significant accounting changes as a lessor.

#### **IFRIC 23 – Uncertainty over Income Tax Treatments**

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular it discusses:

- How to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty.
- It should be assumed that a tax authority will examine the uncertain tax treatments and have full knowledge of all related information.
- Effect of the uncertainty in income tax accounting should be reflected when it is not probable that the tax authority will accept the treatment.
- The uncertainty should be measured using either the most likely amount or the expected value method, depending which method better predicts the resolution of the uncertainty.
- The judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The Group is not required to make any new disclosures and will continue providing information about judgements and estimates in preparing the financial statements.

## **2.4. CONSOLIDATION**

All Group entities are included within the scope, as described in Note 36 Scope of consolidation. Changes to the scope are presented in Note 6 Change in the scope of consolidation in the year ended December 31, 2018.

### **2.4.1. Subsidiaries**

Subsidiaries are all entities over which the Group has a controlling interest. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the company acquired and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date in accordance with IFRS 3. The Group recognises any non-controlling interest in the company acquired on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognised directly in equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

#### **2.4.2. Associates**

Associates are all entities over which the company has significant influence, but not control. The company accounts for its investment in associates using the equity method. The company's share of profits or losses of associates is recognised in the consolidated statement of income and its share of other comprehensive income (loss) of associates is included in other comprehensive income.

Unrealised gains on transactions between the company and an associate are eliminated to the extent of the company's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognised in the consolidated statement of income.

Further details are provided in Note 16 Investments in associates.

#### **2.4.3. Joint arrangements**

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures are modified where necessary to ensure consistency with the policies adopted by the Group.

#### **2.4.4. Special purpose companies**

The asset-backed securitisation programme (described in Note 3 - Financial Risk Management) involved the sale of future lease receivables and related residual value receivables to special purpose companies. Special purpose companies are companies created to accomplish a narrow and well-defined objective, such as the securitisation of leased assets.

The financial statements of special purpose companies are included in the Group's consolidated financial statements where the substance of the relationship is that the Group continues to be exposed to risks and rewards from the securitised leased assets. The Group uses various legal entities, which have been incorporated specifically for the Group's securitisation transactions, and these companies are therefore regarded as subsidiaries and included in the consolidated financial statements of the Group.

### **2.5. FOREIGN CURRENCY TRANSLATION**

#### **2.5.1. Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in millions of Euros, which is the Group's presentation currency and it has been rounded to the nearest million, unless otherwise indicated. In certain cases, rounding may cause non-material discrepancies in the lines and columns showing totals.

#### **2.5.2. Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "Interest income or charges". All other foreign exchange gains and losses are presented in the income statement within "Leasing contract margin".

#### **2.5.3. Group companies**

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at weighted-average annual exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) All resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in comprehensive income.

The main exchange rates used in the consolidated financial statements for the years ended December 31, 2018 and December 31, 2017 are based on Paris stock exchange rates and are as follows:

	December 31,2018		December 31,2017	
	Period-end Rate	Average Rate	Period-end Rate	Average Rate
EUR / UK Pound:	0.8945	0.8847	0.8872	0.8761
EUR / Danish Krone:	7.4673	7.4532	7.4449	7.4387
EUR / Swedish Krona:	10.2548	10.2569	9.8438	9.6369

## 2.6. LEASE OPERATIONS

### 2.6.1. Operating lease portfolio

Operating lease portfolio comprises cars leased under operating lease contracts. A lease is classified as an operating lease if the Group retains substantially all the risks and rewards incidental to ownership of the underlying asset.

The cost of the operating lease cars comprise their purchase price and any incremental and directly attributable costs of bringing the assets held for use in operating leases to working condition for its intended use. Import duties and non-refundable purchase taxes are included in the purchase price and any trade discounts are deducted when calculating the purchase price. Furthermore, lease incentives and volume bonuses are also taken into account and depreciated over the expected lease term. The carrying amount of the Operating lease portfolio is presented in the category 'Rental Fleet' on the balance sheet. The depreciation policy relating to these assets is detailed in section 2.7.2 - Property and equipment under operating lease and rental fleet.

The operating lease instalments are fully recognised on a straight-line basis over the lease term, normally 3 to 4 years duration, with the exception of that portion considered to be service income. The instalments are classified and presented in the following categories in the income statement: (i) Leasing contract revenues; and (ii) Services revenues. Further details are provided in Note 2.7.2 Property and equipment under operating lease and rental fleet.

### **2.6.2. Finance lease portfolio**

Car leases where substantially all the risks and rewards incident to ownership of an asset are transferred by the Group to the lessee are classified as finance lease receivables. These contracts are recognised as financial assets at an amount equal to the present value of the minimum lease payments (including guaranteed residual value) and the unguaranteed residual value accruing to the Group, after deduction of provisions deemed necessary in respect of bad and doubtful debts and any accumulated impairment losses. Initial direct costs are included in the initial measurement of the finance lease receivables. The assets are presented within the category 'Receivables from clients and financial institutions' on the balance sheet.

The finance lease instalments can comprise various components each having its own revenue recognition. The instalments are classified and presented in the following categories in the income statement: (i) interest income from finance lease (the difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest method); and (ii) revenues (to the extent that services are included in the lease).

### **2.6.3. Fleet management services**

These services include arranging for vehicle delivery and administration of the title and registration process, as well as tax and insurance requirements, ensuring maintenance of the vehicle, pursuing warranty claims, providing fleet policy analysis and recommendations, benchmarking, and providing vehicle recommendations. Vehicles classified under this category are featured within the Off-Balance Sheet fleet and their related revenue is recognised within the Services revenue line.

## **2.7. PROPERTY AND EQUIPMENT**

### **2.7.1. Other property and equipment**

Other property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Property: 30 - 50 years
- Furniture and fixtures: 3 - 12 years
- Hardware: 3 - 5 years
- Company cars: 3 - 4 years

The company allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. The carrying amount of a

replaced part is derecognised when replaced. Residual values, method of amortisation and useful lives of the assets are reviewed annually and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

### **2.7.2. Property and equipment under operating lease and rental fleet**

This asset category includes mainly vehicles leased to third parties, but also include other properties owned by the Group (although not significant).

Property and equipment under operating lease and rental fleet are measured at cost less accumulated depreciation and impairment losses. Vehicles are capitalised based on (i) the acquisition price, (ii) all expenditures for items owned by the company and considered a permanent addition to the vehicle (e.g. radios, anti-theft devices, etc.) at the time of contract commencement, (iii) initial external direct costs including commissions and legal fees and (iv) delivery cost where material.

The assets subject to operating leases are presented in the balance sheet according to the nature of the asset. The leased assets are depreciated on a straight-line basis over its contract period to its residual value. The contract period ranges on average between 3 to 5 years.

The assets' residual values are reviewed and adjusted, if appropriate, at each balance sheet date.

Upon termination of the lease or rental contract the relevant assets are reclassified to the caption "Inventories" at their carrying amount, as per IAS 16 paragraph 68A recommendations. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

## **2.8. INTANGIBLE ASSETS**

### **2.8.1. Goodwill**

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquirer. Goodwill is measured at cost less any accumulated impairment losses. When the excess is negative (negative goodwill), it is recognised immediately in the statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, which is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored as follows:

- at a subsidiary level for all significant and independent countries; In these countries, the activity of the subsidiary is driven independently, either because the market is specific or because the organization has been built in order to drive the business on a standalone basis, helped with the technical support of the central functions of the headquarter; this is the case for most of the large subsidiaries in Europe (such as France, UK and Germany) and some medium and small subsidiaries in Asia;



- at an aggregated level (“hubs”) when internal management reporting is organised to measure performance (and prepare business plans) at a higher level (group of CGUs). The Group identified the 7 following hubs:
  - Benelux Hub: Belgium, Luxembourg, Netherlands
  - Nordics Hub: Denmark, Finland, Norway, Sweden
  - Central Europe Hub: Austria, Croatia, Czech Republic, Hungary, Serbia, Slovenia, Slovakia, Switzerland
  - North Eastern Europe Hub: Estonia, Latvia, Lithuania, Poland, Russia, Ukraine
  - South Eastern Europe Hub: Bulgaria, Greece, Romania, Turkey,
  - Mediterranean Hub: Algeria, Morocco, Portugal
  - South America, Africa and Asia: Brazil, Mexico, Chile, Peru, Colombia

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Further details are provided in Note 4.1 Estimated impairment of Goodwill.

### **2.8.2. Other intangible assets**

Internal software development costs are capitalised during the application development stage. The costs capitalised relate to external direct costs of materials and services and employee costs related to the time spent on the project during the capitalisation period. Capitalised software is evaluated for impairment annually or when changing circumstances indicate that amounts capitalised may be impaired. Impaired items are written down to their estimated fair values at the date of evaluation. Internally developed software is normally depreciated over its useful life, generally 3 to 5 years; however in some instances this can be longer.

## **2.9. IMPAIRMENT OF NON-FINANCIAL ASSETS**

Assets that have an indefinite useful life – for example, goodwill or intangible assets – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill, that suffered impairment, are reviewed for possible reversal of the impairment at each reporting date.

Further details are presented in Note 13 Rental fleet.

### **2.10. NON –CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE**

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

The Group does not own any non-current assets held for sale for the year ended December 31, 2018.

## **2.11. FINANCIAL ASSETS**

### **2.11.1. Accounting policies applied from 1 January, 2018**

#### **Classification**

From 1 January 2018, the Group classifies its financial assets in the following measuring categories

- (a) Those to be measured subsequently at fair value through profit or loss
- (b) Those to be measured subsequently at fair value through other comprehensive income, and
- (c) Those to be measured at amortised cost

By default, derivative financial instruments will be classified as subsequently measured at fair value through profit or loss.

#### **Recognition and measurement**

From 1 January, 2018 regular way purchases and sales of financial assets are recognised on a trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Debt instruments (loans, receivables and bonds) will be measured at amortised cost only if the objective of the entity (business model) is to collect the contractual cash-flows and if these cash flows consist solely of payments of principal and interest. Debt instruments will be measured at fair value through other comprehensive income (with cumulative gain or loss reclassified in profit or loss when the instruments are derecognised) if the objective of the entity (business model) is to collect the contractual cash-flows or to sell the instruments and if these contractual cash-flows consist solely of payments of principal and interest (SPPI).

Equity instruments will be measured at fair value through profit or loss except in case of irrevocable election made at initial recognition for measurement at fair value through other comprehensive income (provided these financial assets are not held for trading purposes and not classified as such in financial assets measured at fair value through profit or loss) without subsequent reclassification in income.

Embedded derivatives will no longer be recognised separately when their host contracts are financial assets and the hybrid instrument in its entirety in most cases will then be measured at fair value through profit or loss.

Additionally, in accordance with the recommendations issued by the market authorities (ESMA and AMF), the Group elected to early apply, at 1 January 2018, the amendment to IFRS 9 “Prepayment features with negative compensation”, published by the IASB on 12 October 2017 and adopted by the European Union on 22 March 2018. According to this amendment, financial assets, having a clause of prepayment with negative compensation, can now be classified as SPPI and measured at amortised cost if the business model is hold to collect.

### **Impairment of financial assets**

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. For trade and finance lease receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1.1 for further details.

The Group has chosen to apply IFRS 9 under the modified retrospective method and comparative information will not be restated. As a result, the comparative information provided continues to be accounted for in accordance with the Group’s previous accounting policy.

### **Accounting policies applied until 31 December, 2017**

#### **Classification**

Until 31 December 2017, the Group classified its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

#### **(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss were financial assets held for trading. A financial asset were classified in this category if acquired principally for the purpose of selling in the short term. Derivatives were also categorised as held for trading unless they were designated as hedges. Assets in this category were classified as current assets if expected to be settled within 12 months; otherwise, they were classified as non-current.

#### **(b) Loans and receivables**

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were included in current assets, except for maturities greater than 12 months after the end of the reporting period. These were classified as non-current assets. The Group’s loans and receivables comprise “receivables from financial institutions”, “receivables from clients” and “cash and cash equivalents” in the balance sheet

#### **(c) Available-for-sale financial assets**

Available-for-sale financial assets were non-derivative financial assets that were either designated in this category or not classified in any of the other categories. They were included in non-current assets

unless the investment matured or management intended to dispose of it within 12 months of the end of the reporting period.

### **Recognition and measurement**

Regular purchases and sales of financial assets were recognised on the trade-date – the date on which the Group committed to purchase or sell the asset. Investments were initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses were initially recognised at fair value, and transaction costs were expensed in the income statement. Financial assets were derecognised when the rights to receive cash flows from the investments had expired or had been transferred and the Group had transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss were subsequently carried at fair value. Loans and receivables were subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category were presented in the income statement within “unrealised gains/losses on financial instruments” in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available for sale were recognised in other comprehensive income.

### **Impairment of financial assets**

#### a) Assets carried at amortised cost

Until 31 December, 2017 the Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or Group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

For loans and receivables category (including lease receivables), the amount of the loss was measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in the income statement and was separately disclosed as part of net operating and finance income.

#### b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognised in the statement of income. This amount represents the loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortised cost and available-for-sale financial instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised. Impairment losses on available-for-sale equity instruments are not reversed.

## 2.12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Additional details are provided in Note 17 Derivative financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 23. Movements on the hedging reserve in other comprehensive income are shown in consolidated statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The Group designates certain derivatives as either:

(a) Fair value hedge: hedges of the fair value of recognised assets or liabilities or a firm commitment.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to fair value hedges is recognised in the income statement within “unrealised gains/losses on financial instruments”.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

No fair value hedge instruments have been recorded by the Group for the year ended December 31, 2018.

(b) Cash flow hedge: hedges of a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective

portion is recognised immediately in the income statement within “unrealised gains/losses on financial instruments”.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Derivatives: Changes in the fair value of derivatives that are not designated as a hedging instrument are recognised immediately in the income statement in the caption “Unrealised gains/ (losses) on financial instruments”.

### **2.13. INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. Upon termination of the lease or rental contract the relevant assets are reclassified from the caption “Rental fleet” to the caption “Inventories” at their carrying amount. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### **2.14. RECEIVABLES FROM CLIENTS AND FINANCIAL INSTITUTIONS**

This caption includes:

- lease instalments receivable from the finance and operating lease portfolio, from the rental portfolio and receivables arising from other business activities;
- amounts receivable from French and foreign credit institutions with fixed or determinable payments.

These receivable balances are shown after any accumulated impairment losses and are initially measured at fair value and subsequently at amortised cost using the effective interest method.

### **2.15. OTHER RECEIVABLES AND PREPAYMENTS**

Other receivables and prepayments include prepayments in respect of expenses attributable to a subsequent period plus amounts still to be received.

### **2.16. CASH AND CASH EQUIVALENTS**

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The short-term characteristic of a cash equivalent is generally taken as a term of three months or less from the date of acquisition.

## **2.17. EMPLOYEE BENEFITS**

The group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

### **2.17.1. Pension obligations**

Group companies operate various pension' schemes. The Group has both defined benefit plans and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income statement.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Further details are provided in Note 27 Retirement benefit obligations and long term benefits.

### **2.17.2. Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### **2.17.3. Profit-sharing and bonus plans**

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## **2.18. PROVISIONS**

Provisions for restructuring costs and legal claims are recognised when: the Group 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 has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### **Damage risk provision**

The Group provides customers with an own damage and repair cover in exchange of the payment of a monthly premium. Own damage revenues are recorded in the caption "Revenues". Further details are provided in Note 7 Revenues and cost of revenues.

In parallel, the Group calculates the own damage reserve based on two elements:

- (i) Open claims reserve: this reserve corresponds to the amount required to meet the costs of future claims, net of recoverable amounts, which have already occurred and been reported. This reserve is determined as follows: an average cost is calculated on the basis of the incident type and past experience.



- (ii) Allowance for losses incurred but not yet reported (IBNR): the IBNR is determined based on the average delay between an incident occurring and the claim being reported, average claim frequency and the average cost per claim for the 12 previous months.

At the end of each month, the Group performs an adequacy test in respect of the level of the own damage reserve. In the event that the level of the reserve falls below the amount of open claims reserve plus IBNR, as determined above, then an immediate adjustment is made to adjust the reserve at this level. Open claims remain open so long as it is reasonably considered that the claim will be payable.

Where there is a stop-loss policy in place, limiting the risk of losses above a set level, open claims plus IBNR are booked only up to the level of the stop-loss. Beyond that level, all claims are debited to the reinsurance provider of the stop-loss cover. Any stop-loss cover on individual incidents is also taken into account in evaluation of claims plus IBNR. Gross claim costs are reduced to the level of cap per incident. Even where stop-loss cover is in place, if total claims are anticipated to be below the level of premium and stop-loss cover, then profit is booked in the normal way.

## **2.19. TRADE AND OTHER PAYABLES**

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## **2.20. BORROWINGS, BONDS AND NOTES ISSUED**

Interest-bearing loans and borrowings are the Group's sources of debt funding and relate to borrowings from financial institutions, funds entrusted and bonds issued. Interest-bearing loans and borrowings are recognised initially at fair value plus any transaction costs attributable to these loans. Subsequent to initial recognition, interest-bearing loans and borrowings are measured at their amortised cost using the effective interest method. Any difference between cost and redemption value is recognised in the income statement over the term of the loans and borrowings.

Requirements for the classification and measurement of financial liabilities contained in IAS 39 have been incorporated into IFRS 9 without major modifications. Modification regarding financial liabilities designated at fair value through profit or loss (using fair value option) has been made where the amount of change in their fair value attributable to changes in credit risk will be recognised in other comprehensive income without subsequent reclassification into income.

## **2.21. CURRENT INCOME AND DEFERRED TAX**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## **2.22. REVENUE RECOGNITION**

As part of the implementation of IFRS 15, the group revisited their accounting principles and valuation methods and concluded that the group is compliant with the new standard requirements. The 5 steps process required by the standard may be summarized as follows:

### Step 1: Identify the contract with customers

Each contract between the Group and the lessee is clearly identified.

### Step 2: Identify the performance obligations in the contract

Revenues include the various components of the lease instalment, such as repair, maintenance and tyres, damage risk retention and depreciation. The interest portion of the lease instalment is classified under the caption “Leasing contract revenues”, using the effective interest method.

The different services offered by the Group are considered as distinct as they are sold separately and they are separately disclosed in the contract. Each service is priced separately and each contract is built with a basic service and additional options which could be elected by the customer.

#### Step 3: Determination of transaction price

Transaction price is easily determined as there the Group has no variable consideration at closing of the contract.

#### Step 4: Allocation of transaction price

The Group allocates transaction prices by estimating standalone selling prices of each performance obligation as each service rendered to the customer has a separate price.

#### Step 5: Recognise revenue when (or as) a performance obligation is satisfied

All services provided by the Group are considered as performance obligations satisfied over time as customers simultaneously receive and consume all of the benefits provided by the company. The Group measures its progress toward completion as follows:

##### **(a) Operating leases**

Regarding operating leases, lease rental revenue is recognised on a straight-line basis over the lease term, based on the total of the contractual payments divided by the number of months of the lease term.

##### **(b) Finance leases**

Regarding finance leases, the earnings are allocated between the capital amount and finance income. The capital amount is used to reduce the receivable balance and the income is recognised in the profit and loss in each period so as to give a constant periodic rate of return on the net investment in the lease. The Group uses the net investment method to allocate gross earnings, which excludes the effect of cash flows arising from taxes and financing relating to a lease transaction. In addition:

- (i) The amount due from the lessee under a finance lease is recognised in the balance sheet as a receivable at an amount equal to the net investment in the lease. Over the lease term, rentals are apportioned between a reduction in the net investment in the lease and finance income. The net investment in a lease is equivalent to the gross investment discounted at the interest rate implicit in the lease.
- (ii) At any point in time during the lease term, the net investment is represented by the remaining minimum lease payments, less that part of the minimum lease payments that is attributable to interest.

**(c) Other operating revenue for services**

- (i) *Proceeds of cars sold*: Revenues also include the proceeds of the sale of vehicles from terminated lease contracts and rental revenues from end of contract billing such as repair costs recharged to the customer. The proceeds from the sale of vehicles are recognised when the vehicles are sold.
- (ii) *Intermediation fees*: In some instances of service provision, an entity of the Group may be acting as an intermediary between a customer and a third party. Examples of such services include the provision of fuel cards, road taxes, the re-bill of maintenance charges to customers who have chosen not to include maintenance in their leasing contracts, etc. Since no value is added by the Group, they are therefore not presented as revenues.
- (iii) *Informal extensions*: where a customer retains the car for a period beyond the normal return date (informal extension), the rent continues to be charged to the customer and the related contractual depreciation will continue to be recognised.
- (iv) *Up Front payments*: Regarding operating leases, where significant up front (“balloon”) payments (greater than 10% of list price of vehicle) are made by customers at the beginning of the lease agreement, the related revenues are recognised in the balance sheet and amortised on a straight-line basis over the period of the lease agreement. Regarding finance leases, upfront payments and initial direct costs are taken into consideration in calculating the implicit interest rate in the lease and recognised evenly over the life of the lease as an adjustment of yield.
- (v) *Lease incentives*: where incentives are provided to the lessee when negotiating a new or renewed lease (e.g. upfront cash payments to the lessee, reimbursement or absorption of costs by the lessor or free or reduced rents given at the beginning of the lease term), such incentives are recognised as a reduction of rental income over the lease term on a straight line basis.
- (vi) *Interest on Late Payment*: Where interest on late payment is billed to customers, the related revenue is only recognised when settlements are made by customers.
- (vii) *Lease Deposits*: Lease payment advances received in the form of deposits are held on the Balance Sheet and released in accordance with the relevant contractual agreements.
- (viii) *Maintenance*: *In order to recognize revenue in a pattern that reflects the transfer of control of the services provided, maintenance and tyre income is recognised in line with the normal maintenance cost profile; the resulting ‘cost curves’ are reviewed periodically in order to match local actual historical maintenance expenditures with the expected cost profiles. As a result of application of this policy, the deferred maintenance revenue is recognised in a maintenance income reserve during the early part of the contract, and released from this reserve during the latter part. Maintenance profit or loss on the*

*contract will be recognised during the life of the contract. The monthly profit and loss result will be the difference between the profiled revenue and actual costs.*

### **2.23. COST OF SERVICES REVENUES**

Cost of revenues comprises the cost associated with providing the above-mentioned service components of the lease instalment (including: vehicle maintenance, replacement and winter tyres, insurance premiums, accident repair and the provision of short term replacement vehicles).

### **2.24. INTEREST INCOME AND INTEREST CHARGES**

Interest income, interest charges and similar charges for all interest-bearing assets and liabilities are recognised in the income statement on an accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

The interest income component in operating lease instalments, which is charged on a straight-line basis to the client, is recognised in the “Leasing contract revenue – operating lease” based on the effective interest method in interest income using the interest rate included in the lease contract and based on the net investment value of the leased asset.

Interest income on finance lease contracts is recognised in the income statement on the basis of accruing interest income on the net investment (using the effective interest method). The receipts under the lease are allocated by the lessor between reducing the net investment and recognising interest income, so as to produce a constant rate of return on the net investment.

### **2.25. GENERAL AND ADMINISTRATIVE EXPENSES**

This item includes office overheads, automation costs, advertising costs, professional fees and other general expenses.

### **2.26. SHARE-BASED PAYMENTS**

Share-based compensation benefits are provided to employees via the ALD long-term incentive plans, employee share schemes. Information relating to these schemes is set out in Note 25.

The fair value of shares granted under the ALD long-term incentive plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the shares granted. The total expense is recognised over the vesting period, which is the period when all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of shares that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

## **NOTE 3. FINANCIAL RISK MANAGEMENT**

### **3.1 FINANCIAL RISK FACTORS**

#### **3.1.1 Credit risk**

The credit risk is the risk of losses arising from the inability of the Group's customers to meet their financial commitments. Credit risk includes the counterparty risk. In addition, credit risk may be further amplified by concentration risk, which arises from a large exposure to a given risk, to one or a few counterparties.

#### **Credit risk management policy**

Credit risk is the risk that a customer is not able to fulfil its financial obligations towards ALD. All ALD entities have to comply with risk procedures issued centrally which define the way credit requests have to be studied and validated, as well as the roles and responsibilities of all staff involved in the credit vetting process. Each subsidiary has a specific credit authority approved by ALD General Management and the Risk Department of Société Générale Group, and determined according to the size of the fleet, the maturity of the subsidiary and the type of customer concerned (corporate, retail, financial institution etc.). Within its credit limit, each subsidiary can decide directly on its counterparty risk. Above this threshold, credit acceptance is made at central level jointly with the Risk Department of Société Générale.

Regular risk committees are held by ALD in order to review all potential risk issues and to ensure the credit risk procedures are properly applied. All standard risk indicators (arrears / default / cost of risk) are also monitored centrally. All ALD entities are applying the same process locally.

The primary responsibility for debt collection remains under the direct responsibility of ALD's subsidiaries with dedicated teams in charge of recovering unpaid invoices in compliance with local regulations and market practices. Local processes need, however, to be compliant with the corporate instructions and guidelines distributed to the whole network. Central monitoring of all ageing balances is performed on a monthly basis as part of the regular risk reviews, and actions plans are set up whenever necessary under the supervision of the Country Manager.

Impairment charges on receivables (cost of risk) has historically remained very low due to the nature of the products proposed by ALD, a strict control of the risk assessment process and a very diversified customer portfolio.

#### **Credit risk measurement**

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and lease receivables.

The below table presents analysis of receivables which are in and out of scope of the simplified approach of IFRS 9 for sound customers.

in EUR (million)	December 31, 2018			January 1, 2018		
	In scope	Out of scope	Total	In scope	Out of scope	Total
Amounts receivable under finance lease contracts	679.9 (*)	7.4 (**)	687.3	592.9 (*)	7.6 (**)	600.4
Provision for impairment of receivables under finance lease contracts	(3.8)	(6.0)	(9.8)	(2.1)	(6.6)	(8.7)
Amounts receivable from credit institutions	-	89.0	89.0	-	28.0	28.0
Trade receivables	649.9	285.9 (**)	935.8	647.9	257.7 (**)	905.6
Provision for impairment of trade receivables	(18.9)	(99.2)	(118.1)	(20.4)	(89.5)	(109.9)
<b>Total receivables</b>	<b>1,307.2</b>	<b>277.1</b>	<b>1,584.2</b>	<b>1,218.3</b>	<b>197.1</b>	<b>1,415.5 (***)</b>

(\*) Including remaining capital

(\*\*) These amounts represent doubtful and non-lease receivables

(\*\*\*) Total receivables from clients and financial institutions as per Note 2.3.3.a

For not in default trade receivables and finance lease receivables, the Group recognises expected lifetime losses from initial recognition of the receivables. These losses are measured based on a provision matrix for receivables associated with sound customers, as described below. Probability of Default (PD) rates are based on observed default rates over the life of the receivables (the average contract length in each entity). Specific PD rates are calculated for each entity and each customer type. This process results in Probability of Default (PD) rates for each age of past-due receivables. The PD rates are applied to the aged receivables of the reporting period to arrive at a total provision. The final impairment allowance is also adjusted to consider Loss Given Default (LGD) specific to the entity.

On that basis, the loss allowance as at 31 December and 1 January 2018 (on adoption of IFRS 9) was determined as follows for both trade and finance lease receivables:

#### December 31, 2018

(in EUR million)	Not past due	0 - 30 days past due	31 - 60 days past due	61 - 90 days past due	> 90 days past due	Total
Probability of Default (PD) rate	1%	4%	5%	8%	12%	
Gross carrying amount of receivables in IFRS 9 scope	1,112.3	105.5	41.5	19.3	51.4	1,329.9
Loss Allowance	9.0	4.0	2.0	1.6	6.1	22.7

#### January 1, 2018

(in EUR million)	Not past due	0 - 30 days past due	31 - 60 days past due	61 - 90 days past due	> 90 days past due	Total
Probability of Default (PD) rate	1%	3%	6%	7%	10%	
Gross carrying amount of receivables in IFRS 9 scope	992.6	108.4	41.4	23.7	74.7	1,240.8
Loss Allowance	7.7	3.3	2.4	1.6	7.6	22.5

The closing loss allowances for trade and finance lease receivables as at 31 December, 2018 reconcile to the opening loss allowances as follows:

(In EUR million)	Provision for impairment of trade receivables (credit impaired)	Lifetime ECL* credit impaired	Lifetime ECL* not credit impaired	Provision for impairment of trade receivables
<b>Balances as at January 1, 2017 under IAS 39</b>	91.3			91.3
Net remeasurement of loss allowance	5.5			
Foreign exchange and other movements	(0.7)			
<b>Balances as at December 31, 2017 under IAS 39</b>	<b>96.1</b>			
<b>Balances as at January 1, 2018 under IFRS 9</b>		<b>96.1</b>	<b>22.5</b>	<b>118.6</b>
Net remeasurement of loss allowance		-	-	-
Credit impairment		88.9	6.6	95.6
Reversal of credit impairment		(54.7)	(6.4)	(61.1)
Write off		(25.6)	-	(25.6)
Foreign exchange and other movements		0.5	(0.1)	0.5
<b>Balances as at December 31, 2018 under IFRS 9</b>		<b>105.3</b>	<b>22.7</b>	<b>128.0</b>

\* *Expected Credit Losses*

The increase in loss allowance on credit-impaired receivables during 2017 is in line with IAS 39, and this continues in 2018 under IFRS 9 as there is no change in the definition or policy for provisions on doubtful exposure under IFRS 9. The changes associated with IFRS 9 are represented by the credit impairment due to the recognition of expected, rather than incurred, loss on receivables which are not credit-impaired. ALD has chosen the lifetime ECL measurement as cost of risk is historically low and stable since 2008, and the simplified methodology uses observed customer behaviours to determine a probability of default which does not consider 12 months expected losses but lifetime expected losses.

Due to the application of the simplified method in ALD, there is a link between specific impairment and provisions under IAS 39 and stage 3 impairment and provisions under IFRS 9. The definition of default exposure remains unchanged between the two standards.

The Group considers that a customer is in default as soon as one of the three following conditions applies:

- Legal proceedings (or a similar event in accordance to local legislation) are in progress which has resulted in the customer being placed either in bankruptcy or legal liquidation or receivership;
- One or several overdue invoices for more than 90 days (270 days in the case of public or sovereign counterparties) have been recorded and a settlement procedure has been initiated;
- A significant degradation of the customer's financial situation has taken place, making it likely that the customer will be unable to fulfil its overall commitments and there is therefore a high probability of losses.

When a credit risk emerges, the following processes take place:

- Reclassification of the sound outstanding as a doubtful debt
- Impairment made for probable credit loss



Where the customer is in default, the whole of the customer balance is classified as doubtful as a result of the “contagion principle”. The application of this principle leads to the classification as doubtful of all outstanding amounts relating to a customer that is deemed to be in default regardless of the age of the invoice (i.e. a customer is either solvent or not).

If the customer belongs to a group of companies, or in cases where the parent company has been classified as being in default, a case-by-case study is undertaken to establish whether it is necessary to apply the same treatment to all the legal entities included in that group. This “contagion principle” does not apply, however, in the following cases:

- Receivables subject to a risk of non-recovery which are affected by isolated legal disputes not related to the solvency of the counterparty
- Credit risk dependent on the solvency of a third party and not the counterparty

Impairment is only made in respect of customer receivables where the customer is considered to be in default (receivable is impaired). The impairment made for risk of default is consistent with the credit rating of each customer. The impairment must be sufficient to cover the entire probable loss in total or partial non-recovery of the loan.

The impairment is based upon the full amount outstanding for the customer in default.

Generally, ALD remains the owner of the vehicle and impairment is made against the recorded receivables relating to issued invoices. In addition, where it is considered likely that the vehicles will be returned, a further provision is required for the amount of the likely shortfall from the sale of the asset.

Where there are guarantees from the customer providing the right of offset in the event of a default, these amounts are taken into account in assessing the impairment on a customer by customer basis.

### **Information on past due and impaired receivables**

Information on past due (split in past due up to 90 days, past due between 90 to 180 days and past due over 180 days) or impaired receivables are provided in note 20 “Receivables from clients and financial institutions” below.

The amounts presented in the tables below include loans and finance receivables by Basel II portfolio that are not past due and that are past due but not individually impaired.

**Year ended December 31, 2018**  
**Loans and receivables to customers**

(in EUR million)	Banks	Corporates	Small and medium enterprises	Specialised lending	Credit to individuals	Very small companies	Total
Amounts not past due	5.8	81.3	162.5		58.8	316.3	624.6
Amounts including past due between 1 to 30 days	0.0	5.8	9.1		1.1	19.4	35.4
Amounts including past due between 31 to 60 days	0.0	3.4	1.6		0.1	1.2	6.3
Amounts including past due between 61 to 90 days	0.0	0.1	0.7		0.2	0.7	1.7
Amounts including past due between 91 to 180 days		0.2	1.9		0.2	8.9	11.2
Amounts including past due between 181 days to 1 year		0.5	0.1		-	0.1	0.7
Amounts including past due over 1 year		0.0	0.0		(0.0)	0.1	0.1
<b>Total</b>	<b>5.9</b>	<b>91.1</b>	<b>176.0</b>	<b>-</b>	<b>60.3</b>	<b>346.7</b>	<b>679.9</b>

**Year ended December 31, 2017**  
**Loans and receivables to customers**

(in EUR million)	Banks	Corporates	Small and medium enterprises	Specialised lending	Credit to individuals	Very small companies	Total
Amounts not past due	10.6	60.6	209.9	-	49.7	202.6	533.4
Amounts including past due between 1 to 30 days	-	3.1	22.4	-	0.4	2.4	28.3
Amounts including past due between 31 to 60 days	0.1	-	3.8	-	0.2	0.7	4.8
Amounts including past due between 61 to 90 days	0.1	-	2.1	-	-	0.2	2.4
Amounts including past due between 91 to 180 days	-	-	10.6	-	0.1	0.3	11.0
Amounts including past due between 181 days to 1 year	-	-	9.9	-	0.1	0.1	10.1
Amounts including past due over 1 year	-	0.1	0.1	-	2.6	0.1	2.9
<b>Total</b>	<b>10.8</b>	<b>63.8</b>	<b>258.8</b>	<b>-</b>	<b>53.1</b>	<b>206.4</b>	<b>592.9</b>

The increase in amounts not past due is related to fleet growth.

## Derivative financial instruments

In addition to its natural exposure to credit risk in the leasing of vehicles, the Group is also exposed to credit risk because of its use of derivative financial instruments and because of excess cash being deposited with banks. The Group controls this risk by requiring minimum external rating grades that such external counterparties are assigned.

### 3.1.2 Treasury risk

Treasury risk entails 3 types of risks: Liquidity risk, interest rate risk and foreign exchange risk.

- Interest rate risk is the risk that the profitability of the Group is affected by movements in interest rates.
- Foreign exchange risk is the risk that the profitability is affected by currency fluctuations.
- Liquidity risk is the risk that the Group is not able to meet its cash flow obligations when they fall due, because of a mismatch between the financing of its assets and liabilities.

Group Treasury risk management policy consists in matching assets and liabilities in terms of maturities, currencies, and interest rate exposure. Group procedures defining the sensitivity measurement of such risks and tolerance levels are applied across the group to allow a close monitoring of the treasury risk. These risks are monitored on a group level by the Group's central Treasury, which reports on a quarterly basis to the management team of ALD during a dedicated committee. This committee is informed about all relevant developments with regard to the Group's treasury risk profile and decides any action to mitigate the risks when necessary.

### Interest rate risk

ALD policy consists in financing the underlying assets with fixed rate loans as lease contracts are mostly priced at fixed rates, in order to avoid any mismatch between assets and liabilities. Structural interest rate risk arises from the residual gap (surplus or deficit) in each entity's fixed-rate forecast position. To this end, any residual interest rate risk exposure must comply with the sensitivity limits set for each entity. The sensitivity is defined as the variation in the net present value of the future residual fixed-rate positions (surplus or deficit) for a non-stressed shocks of +10 bps and -10 bps in the yield curve.

The ALD Group Central Treasury monitors the Group's interest rate risk exposure and advises subsidiaries to implement adequate hedging operations. A monthly report measuring interest risk exposure is produced by each entity to be reviewed and consolidated by the ALD Group Central Treasury department.

Each entity and the Group as a whole are subject to sensitivity thresholds and limits validated by the ALM committee (ALCO). The Group structural risk is discussed on a quarterly basis during ALCO meetings.

Thanks to this close follow up of the interest rate risk exposure by subsidiaries and the supervision of asset and liability monitoring performed at central level, ALD Group interest rate sensitivity has always remained limited.

### Measurement of the Group sensitivity to an interest rate shift

Range Movement	Income Statement Impact (in EUR million)
+10 bps	6
-10 bps	(6)

### Foreign exchange risk

ALD Group is present in 25 countries outside the Euro zone and is therefore exposed to foreign exchange risks related to inflows and outflows of cash from daily business activities as well as participations in subsidiaries outside the Euro zone.

Currency risks related to the current business activities are very limited as there are no cross border leasing activities. ALD Group policy consists of financing the underlying asset in the same currency as the corresponding lease contract.

The residual foreign exchange risk is managed in order to minimise the impact to the Group due to fluctuations in the currencies it operates.

To achieve this goal, ALD quantifies its exposure to structural exchange rate risks for each subsidiary by analysing all assets and liabilities arising from commercial operations and proprietary transactions. The risk sensitivity is measured by quantifying the impact of a variation of 10% of the exchange rate (hard currencies against local currency) and a threshold is defined for each subsidiary. ALD Group Treasury department is responsible for monitoring structural exchange rate positions and manages the impact on profitability due to exchange rate fluctuations.

Currency risks related to equity invested in foreign currencies are not hedged at a group level, as the risk exposure has not been considered to be significant.

### Liquidity risk

ALD Group is exposed to liquidity risk which is the risk of not being able to meet cash flow requirements when they fall due and at a reasonable price. A structural liquidity position is defined as resulting from the maturities of all balance sheet or off balance sheet outstanding positions according to their liquidity profile.

ALD Group's exposure to liquidity risks is limited as the group policy consists in financing the underlying asset over the same duration as the corresponding lease contract. A residual liquidity gap is measured on a monthly basis, under the supervision of ALD Group Treasury department, by assessing the matching of the run off of the existing leased assets with the remaining liabilities.

The liquidity position measured is then reviewed and consolidated at a group level. Any deviation from the sensitivity threshold is corrected under the supervision of the Group central Treasury.

The ALD Group was mainly funded through Société Générale group (94% of the funding) until December 31, 2012, and started to raise external funds in 2013 through asset-backed securitisation programmes and the EMTN bonds programme described below.

Most of the funding provided by SG Group is granted through Société Générale Bank and Trust (SGBT) based in Luxembourg. SGBT funds ALD Group Central Treasury which then grants loans in different currencies to 20 ALD subsidiaries as well as to the holding companies. The total amount of loans granted by SGBT amounted to EUR 8,227 million as of December 31, 2018 for an average maturity of 1.9 years.

The remaining SG funding is provided either from local SG branches or SG Group Central Treasury in Paris, representing EUR 3,170 million as of December 31, 2018.

32.3% of fiscal year 2018 funding is provided from local external banks or third parties, representing EUR 5,434 million as of December 31, 2018.

The following funding arrangements concluded by the Group in the past three years impacted the assessment of liquidity risk:

### **Securitisation**

During 2013, the Group has entered into asset-backed securitisation programmes in three European countries.

These transactions involved the sale of future lease receivables and related residual value receivables to special purpose companies. Debt securities were issued by those special purpose companies and sold to external investors for a total amount of GBP 300 million in the UK in March 2013 for a two-year revolving period, EUR 400 million in Germany in May 2013 for a one-year revolving period and EUR 200 million in the Netherlands in December 2013 for a one-year revolving period. The special purpose companies are responsible for making interest and principal payments to the note-holders. The note-holders do not have recourse on the Company or other Group companies in case of non-performance or default by the special purpose companies. The Group has deposited cash collateral (reserves) for these securitisation transactions for a total amount of EUR 21.8 million as at December 31, 2018.

These funds were raised either with a fixed rate (Germany) or a floating-to-fixed rate hedge (UK and Netherlands). Existing loans that have been repaid had a fixed rate and a similar amortisation profile to the issued notes, accordingly there is no additional exposure to interest rate or liquidity risks.

In 2014 two programmes were renewed. The UK programme (300m GBP) was renewed for one additional year (from 2015 to 2016) and for two more years after that (from 2016-2018), and the Netherlands programme (200m EUR) was renewed for two additional years (from 2014 to 2016).

In 2015 new securitisation deal took place in Belgium for EUR 300 million. The deal has been renewed and increased by EUR 60 million in 2018.

A securitisation deal took place in Germany in December 2016 for EUR 500 million. Also, the Netherlands deal has been renewed for EUR 236 million for two additional years.

A new securitisation deal took place in the UK in December 2018 for GBP 414 million for the revolving period of 1 year.

The following debt securities are currently issued:

Programme	Originator	Country	Special purpose company	Currency	Transaction value (*)
ALD Funding Limited	ALD	UK	ALD Funding Limited	GBP	414 million
Red and Black auto lease Germany	ALD	Germany	Red and Black auto lease Germany	EUR	500 million
Axus Finance NL B	ALD	Netherlands	Axus Finance NL B	EUR	236 million
Axus Finance SPRL	ALD	Belgium	Axus Finance SPRL	EUR	360 million

(\*) Transaction value at issue date

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

(in EUR million)	December 31,2018	December 31,2017
Less than 1 year	251.9	491.9
1-5 years	1058.1	882.4
Over 5 years	0.0	0.0
<b>Total securitisation programme</b>	<b>1,310.1</b>	<b>1,374.3</b>

For further details on the transactions reference is made to notes 13 and 26.

### Corporate bond

The Group is also engaged in a Euro Medium Term Notes (EMTN) programme. The EMTN programme limit is set at EUR 6 billion for the aggregate nominal amount of notes outstanding at any one time. An application has been filed with the Luxembourg Stock Exchange in order for the notes issued under the programme to be listed on the official list and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange. The programme is rated BBB by Standard & Poor's ratings services.

Within this programme, the group has the following bonds in issue:

- A bond in July 2017 for an amount of EUR 600 million maturing in 5 years at a fixed rate of 0.875% and in November 2017 another bond for an amount of EUR 600 million maturing in 3 years at a floating rate of Euribor 3M + 43 bps.
- a bond in February 2018 for an amount of EUR 800 million maturing in 3 years at floating rate of Euribor 3M + 34 bps
- a bond in July 2018 for an amount of EUR 500 million maturing in 3 years at floating rate of Euribor 3M + 62 bps

## Green bond

ALD SA also successfully issued an inaugural Positive Impact Bond, a EUR 500m 4-years senior note at a fixed rate of 1.250%, demonstrating its commitment to finding innovative financial solutions to fund clean transportation and promote the transition to a low carbon future. The proceeds of the bond will be exclusively used to finance or refinance eligible vehicles. Priority will be given to vehicles with the greatest net positive contribution to climate change (Greenhouse Gas (GHG) emissions – commonly referred to as CO<sub>2</sub>) and the environment (reduction in nitrogen oxide (NO<sub>x</sub>) emissions, in particular). ALD has therefore selected an initial portfolio of 14,348 eligible vehicles to finance, composed of 24% Electric vehicles (EV) and 76% hybrid electric vehicle (HEV) and plug-in hybrids vehicles (PHEV), across 13 countries in Europe.

## Private bond

The Group issued a private bond in July 2017 for EUR 200 million and another one in June 2018 for EUR 400 million.

The presentation of financial borrowings by maturity is provided in note 26.

## Capital Management

ALD is a commercial company and as such does not have any regulatory capital requirement.

The Group's objectives when managing capital are to

- safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to minimise the cost of capital.

To achieve these objectives the Group carefully monitors its leverage ratio, defined as the ratio of Total Equity to Total Assets, for which it has set a target range in its public communications to investors and rating agencies. The target is currently set at 15% - 17% although this can evolve in future periods.

The ratio as at December 31, 2017 and December 31, 2018 is as follows:

(in EUR million)	As at December 31,	
	2018	2017
Total Equity	3,667.9	3,398.2
Total Assets	23,254.3	21,222.2
<b>Leverage ratio</b>	<b>15.8%</b>	<b>16.0%</b>

In the management of capital and in its definition the instruments at the Group's disposal are:

- annual dividend pay-out policy
- exceptional dividend returning capital to shareholders
- new share issuance
- new debt issuance, including to replace existing debt with difference characteristics.

In addition the Group can effect changes to its asset growth rate in order to modify the denominator of this ratio.

### **3.1.3 Asset risk**

The Group is exposed to asset risk, which can be split into two main underlying risk components: the residual value risk and the risk related to service maintenance.

#### **Residual value risk**

The residual value, defined as the value of the vehicle at the end of the lease as estimated by ALD at inception of the lease, may differ from the future market value of the car at the end of the contract. This difference is a part of the global risk on used car sales and is managed in ALD Group through robust internal procedures applied to all ALD subsidiaries in order to set, control and reevaluate the residual values on the running fleet. The residual value setting procedure defines the processes, roles and responsibilities involved in the definition of residual values that will be used for the quotation of future contracts. Residual value setting is performed locally as the expertise in used car market is local and controlled and approved centrally. Calculation is based on refined market segmentation and on a statistical model using internal used car sales data for each market segment as well as Trade Guides references and country specific factors (inflation, market sector adjustments, life cycle etc.). As part of this process, current external issues are analysed in order to apply a stress factor to the valuation of the current fleet. Residual value setting is reviewed by local general management during a local pricing committee held at least twice a year (quarterly for larger subsidiaries), and then controlled and validated at an ALD Group level.

Residual values of the current running fleet are reviewed at least yearly (twice a year for the entities with more than 5,000 vehicles). It is performed at a local level through a revaluation process which is reviewed and approved at ALD level. The current residual value embedded in the contract is compared with the expected market value on a car by car basis.

Revaluation adjustments are accounted for on a portfolio basis whenever necessary, in order to match the expected market value at contract ending and mitigate any market risk.



In accordance with IAS 8, a residual value is treated as an accounting estimate; as such, all potential car sales losses are recognised on a straight line basis between the date of the revaluation and the end of the contract; where the revaluation in a country produces an overall profit, no adjustment is made. The residual value of the total lease portfolio at December 31, 2018 amounts to EUR 12,359 million.

### **Risk related to services maintenance and tyres**

The maintenance risk is the risk that the actual costs of maintenance incurred during the contract life are greater than the costs forecasted and included in the quotation at the beginning of the contract. Maintenance pricing setting is done locally using local historical statistics, under the supervision of ALD Group. A global review of the maintenance margins is done for each country on a regular basis in order to back test the pricing assumptions in terms of costs and frequencies.

#### **3.1.4 Insurance risk**

The Group is exposed to the risk of damage to vehicles within its fleet and also to liability to third parties arising from accidents involving vehicles in its fleet. This risk can take the form of third party liability (TPL), legal defence, material damage or passenger indemnity. Where the Group decides not to retain this risk or is legally obliged to buy insurance, this risk is placed through local insurance companies. However, for some local ALD entities, the Group has selectively decided that the entity should retain the material damage risk to its own vehicles, where it is justified by the fleet size, the fleet risk profile and local market conditions. The entity managing this material damage risk must comply with strict internal procedures in terms of pricing setting, risk selection, and reserve setting. Material own damages reserves are a combination of the estimated amount required to meet the costs of future claims plus an estimation of future claims costs which have been incurred but not reported (IBNR). This IBNR is based on statistical analysis of damage frequency and amounts.

The Group also selectively retains some motor risks (material damages, passenger insurance and TPL risks) within its own reinsurance company, ALD Re DAC (ALD Re). ALD Re is based in Ireland and is regulated by the Central Bank of Ireland. The company reinsures TPL, material damages and passenger insurance coverage for approximately 400,000 cars covering 24 entities within the Group. ALD Re strictly monitors its risk universe, including underwriting, market, credit and operational risk, via a strong corporate governance structure, a clearly defined risk appetite and a developed risk monitoring process. In addition, in order to minimize the financial impact of a single event, ALD Re purchases reinsurance protection for claims above a specified amount. This reinsurance strategy is reviewed at least annually.

In addition, every year, an external independent actuary must opine on whether the level of technical reserves held by ALD Re are considered adequate to meet its future obligations as determined by that independent actuary.

## **3.2 FAIR VALUE ESTIMATION**

The Group analyses financial assets and liabilities by various valuation methods. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair value of financial assets and liabilities is measured at amortised cost, except for receivables for which fair value is deemed to be the nominal amount.

### **Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily cash and cash equivalents and long-term investments (please refer to note 18 "Other non-current and current financial assets")

### **Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Refer to note 23 "Financial assets and liabilities by category".

## **NOTE 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

### **4.1 ESTIMATED IMPAIRMENT OF GOODWILL**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated presented in note 2.7.1 of these consolidated financial statements. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The key assumptions calculating the value in use are those regarding discount rates, growth rates and other expected changes in cash flows. We are using a five-year business plan for each of the CGU or group of CGUs identified.

Based on the assumptions made by the Group, no need for impairment on goodwill has been identified.

Sensitivity tests are carried out to measure the impact on each CGU's recoverable value based on certain assumptions. At 31 December 2018, sensitivities to variations in the cash flows and discount rates were measured.

According to the results in these tests:

- a decrease in operating cash flows by 10% compared to management's estimates would lead to a decrease of 10% in recoverable value and would not generate any additional impairment
- an increase of 50 basis points applied to all discount rates estimated by management would lead to a decrease of 6.3% in recoverable value and would not generate any additional impairment.

Further details are provided in Note 15 Goodwill.

### **4.2 IMPAIRMENT OF RENTAL FLEET**

In the annual assessment of whether there is any indication that an asset may be impaired, the Group considers both external as well as internal sources of information. If such indication for impairment exists, an analysis is performed to assess whether the carrying value of the asset or cash generating unit under an operating lease exceeds the recoverable amount, being the higher of the fair value less costs to sell and the value in use. The value in use is determined at the present value of the future cash flows expected to be derived from the object or cash generating unit. The management closely monitors residual values, which are reviewed internally at least each financial year, in accordance with internal procedures. The original residual values within internal system will be compared to the revised residual values expected at contract termination, following a review. The results of this exercise will be used to assess the level of exposure, reserves held and potential impairment required. To prevent impairment on residual values, each country completes a minimum of one annual review of pricing under the supervision of the Group to ensure that assumptions used in pricing reflect expected future market conditions, thus ensuring residual values are predicted with a reasonable degree of accuracy and on a consistent basis going forward.

At the end of 2018, no provision for impairment on rental fleet was required.

### **4.3 FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS**

The fair value of certain financial instruments is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

### **4.4 PENSION BENEFITS**

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/ (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

If the discount rate used were to differ by +0.5 % from management's estimates, the carrying amount of pension obligations would be an estimated EUR 1.4 million lower.

Further details are provided in Note 27 Retirement benefit obligations and long term benefits.

### **4.5 INCOME TAXES**

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### **4.6 OWN DAMAGE RESERVE**

The own damage reserve is based on assumptions such as technical damage risk principles, policyholder behaviour, inflation and court decisions. The assumptions may differ from the actual data as a result of changes in economic and market conditions.

## NOTE 5. SEGMENT INFORMATION

Geographically, management considers the performance in Western Europe, Central and Eastern Europe, Northern Europe and South America, Africa and Asia.

The central treasury function based in Luxembourg provides funding to the ALD entities located in 20 countries. The total loans in place to these entities amounts to EUR 12.9 billion.

Loans by the central treasury to ALD entities are at arm's length according to OECD guidelines and supported by relevant transfer pricing documentation.

This department is responsible for monitoring the funding requirements and structural risks of the Group. Furthermore, it provides technical advice on financial instruments, including derivatives and on the various securitisations and bond issue program of the Group.

The Group's Management assesses the performance of the operating segments based on a measure of revenue and profit before tax as presented in consolidated financial statements. They also check to ensure that no customer represents more than 10 % of the total revenue.

### Revenue and Profit before tax

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the income statement.

### Revenue and Profit before tax

	Year ended December 31, 2018		Year ended December 31, 2017		
	(in EUR million)	Profit before tax	Revenue from external customers	Profit before tax	Revenue from external customers
Western Europe		498.6	6,835.4	521.8	6,148.2
Nordic		83.7	872.1	86.8	918.3
Continental & Eastern Europe		86.1	889.7	90.0	838.0
LatAm, Africa, Asia & Rest of world		20.6	374.9	15.0	362.0
<b>TOTAL</b>		<b>689.1</b>	<b>8,972.1</b>	<b>713.6</b>	<b>8,266.4</b>

	Year ended December 31, 2018		Year ended December 31, 2017	
	(in EUR million)	Revenue from external customers	Revenue from external customers	Revenue from external customers
Leasing contract revenues		4,170.6		3,910.3
Service revenues		1,987.2		1,807.1
Proceeds of cars sold		2,814.3		2,549.0
<b>TOTAL</b>		<b>8,972.1</b>		<b>8,266.4</b>

### Other disclosures

(in EUR million)	December 31, 2018		
	Rental fleet	Total assets	Net financial debt (*)
Western Europe	14,377.3	18,728.2	14,528.4

Nordic	1,615.8	1,772.7	77.4
Continental & Eastern Europe	1,743.6	1,912.0	1,335.4
LatAm, Africa, Asia & Rest of world	687.2	841.4	731.1
<b>TOTAL</b>	<b>18,423.9</b>	<b>23,254.3</b>	<b>16,672.3</b>

**December 31, 2017**

<b>(in EUR million)</b>	<b>Rental fleet</b>	<b>Total assets</b>	<b>Net financial debt (*)</b>
Western Europe	12,705.9	17,043.2	13,052.5
Nordic	1,451.9	1,654.6	45.4
Continental & Eastern Europe	1,607.0	1,839.5	1,257.6
LatAm, Africa, Asia & Rest of world	571.3	684.9	579.6
<b>TOTAL</b>	<b>16,336.1</b>	<b>21,222.2</b>	<b>14,935.2</b>

*(\*) Net financial debt is defined as the sum of Borrowings from financial institutions (non-current and current) minus cash and cash equivalents, as presented in the Group's consolidated balance sheet*

Revenue from external customers and Rental Fleet by countries with Revenues in excess of €500 million are detailed below:

	<b>Year ended December 31, 2018</b>	<b>Year ended December 31, 2017</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	<b>Revenue from external customers (EUR million)</b>	<b>Revenue from external customers (EUR million)</b>	<b>Rental Fleet (EUR million)</b>	<b>Rental Fleet (EUR million)</b>
France	1,933.1	1,808.8	4,341.3	3,892.6
Italy	1,449.2	1,237.0	2,944.3	2,581.3
UK	901.8	856.3	1,568.9	1,462.8
Spain	669.9	524.6	1,549.7	1,346.9
Germany	623.7	578.5	1,215.4	1,097.0
Belgium	531.6	499.9	1,149.6	1,011.5
Other Countries	2,862.8	2,761.2	5,654.6	4,944.1
	<b>8,972.1</b>	<b>8,266.3</b>	<b>18,423.9</b>	<b>16,336.1</b>

**NOTE 6. CHANGES IN THE SCOPE OF CONSOLIDATION IN THE YEAR ENDED DECEMBER 31, 2018**

At December 31, 2018, all companies are fully consolidated, except 2 companies accounted using the equity method. Changes in the scope of consolidation compared to December 2017 are as follows:

**Increase in ownership interest in Bulgaria**

On 1 August 2018, the Group signed an agreement to acquire remaining 49% of the share capital of the existing subsidiary in Bulgaria from its non-controlling interest. The transaction completed on 17 September 2018.

### Acquisition of Reflex

On 29 June 2018, the Group signed an agreement to acquire Reflex Alquiler Flexible de Vehículos, an independent player on the Spanish flexible renting market with a fleet of c. 2,000 vehicles rented to SMEs. Flexible renting provides mid-term mobility solutions to fleet managers. This acquisition forms part of ALD's development strategy and is an example of ALD's focus on targeted and value accretive bolt-on acquisitions.

## NOTE 7. REVENUES AND COST OF REVENUES

### 7a. Leasing contract margin

(in EUR million)	Year ended December 31,	
	2018	2017
Leasing contract revenue -operating leases	4,060.2	3,782.9
Interest income from finance lease	97.3	77.8
Other interest income	13.1	49.5
<b>Leasing contract revenues</b>	<b>4,170.6</b>	<b>3,910.3</b>
Leasing contract costs - depreciation	(3,332.0)	(3,094.9)
Leasing contract costs - financing:		
Interest charges on loans from financial institutions	(190.7)	(184.5)
Interest charges on issued bonds	(6.9)	(9.9)
Other interest charges	(36.4)	(35.2)
Total interest charges	(234.1)	(229.6)
<b>Leasing contract costs - depreciation and financing</b>	<b>(3,566.1)</b>	<b>(3,324.5)</b>
Trading derivatives	6.4	(18.4)
Imperfectness of derivatives at fair value hedges	-	(0.0)
Imperfectness of derivatives at cash flow hedges	(0.2)	(0.2)
Unrealised gains/losses on derivative financial instruments	6.2	(18.6)
Unrealised Foreign Exchange Gains or Losses	13.2	7.4
Total Unrealised gains/losses on derivative financial instruments	19.4	(11.2)
<b>Leasing contract margin</b>	<b>623.8</b>	<b>574.5</b>

"Other interest income" comprises income received from financial instruments and also income received for cash deposits with third party counterparts.

Leasing contract costs - depreciation includes the movement in the provision for excess depreciation which is booked in each entity following the fleet revaluation process which detailed in section 3.1.3.

## 7b. Service margin (group rental and damage risk retention into leases services)

Revenues and costs are derived from the various service components included within the contractual lease instalments, such as maintenance and tyres, damage risk retention and, replacement vehicles.

(in EUR million)	Year ended December 31,	
	2018	2017
Services revenue	1,987.2	1,807.1
Cost of services revenues	(1,370.6)	(1,214.1)
<b>Services margin</b>	<b>616.7</b>	<b>593.0</b>

## 7c. Car sales result

(in EUR million)	Year ended December 31,	
	2018	2017
Proceeds of cars sold	2,814.3	2,549.0
Cost of cars sold	(2,711.9)	(2,383.8)
<b>Car sales result</b>	<b>102.5</b>	<b>165.3</b>

On a periodic basis, the Group performs fleet revaluations to identify and calculate any impacts of changes in the estimated residual value of the vehicles under operating leases. Any potential risks are provided for prospectively over the remaining estimated useful life and then released upon disposal. The net impact of this provisioning is included within the Depreciation cost. In 2018 this impact was a net release of EUR 10.7 million (2017: EUR 16.4 million net release).

The decrease in Car sales profit per unit has been steady over the last two years and is coming from a normalisation of the Car Sales profit mainly in Western Europe.

The on-going concern around Diesel is continuing to have a negative impact on the Used Car Sales margin.

## 7d. Revenues

Revenues that are included within the margins analysed in 7a, 7b and 7c are shown in the following table. They are analysed into Revenues derived from the Rental activity and Proceeds of Cars sold at the end of the leasing period.

(in EUR million)	Year ended December 31,	
	2018	2017
<b>Services Revenues</b>	<b>1,987.2</b>	<b>1,807.1</b>
Leasing contract revenue - operating leases	4,060.2	3,782.9
Interest revenue	110.4	127.3
<b>Leasing contract revenues</b>	<b>4,170.6</b>	<b>3,910.3</b>
<b>Sub-Total - Revenues from Rental Activity</b>	<b>6,157.8</b>	<b>5,717.3</b>
Proceeds of Cars Sold	2,814.3	2,549.0
<b>Total Revenues</b>	<b>8,972.1</b>	<b>8,266.3</b>
<b>Total Revenues excluding Interest Income</b>	<b>8,148.1</b>	<b>7,472.9</b>



**NOTE 8. IMPAIRMENT CHARGES ON RECEIVABLES**

(in EUR million)	Note	Year ended December 31,	
		2018	2017
Impairment		(95.0)	(47.6)
Reversal of impairment		57.2	25.3
<b>Impairment charges on receivables</b>	<b>20</b>	<b>(37.8)</b>	<b>(22.4)</b>

**NOTE 9. STAFF EXPENSES**

(in EUR million)	Year ended December 31,	
	2018	2017
Wages and salaries	(299.0)	(289.0)
Social security charges	(63.6)	(60.5)
Defined benefit post-employment costs	(3.0)	(2.2)
Other staff costs	(31.6)	(27.3)
<b>Total</b>	<b>(397.2)</b>	<b>(379.0)</b>

The average number of staff employed (including temporary staff) by the Group during the year was 6,520 (2017: 6,303). At year-end, the full time equivalent number of staff employed by the Group was 6,542 (2017: 6,448).

**NOTE 10. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses mainly include IT costs, property costs, professional fees and advertising. Since 2015 ALD has accelerated the IT investment programme as part of the Group's commitment to be the preferred choice for mobility solutions within the market. There has been a specific focus on digital solutions in order to further enhance customer experience, including fleet manager and driver web portals as well as investment in the development of new flexible products for our customers.

**NOTE 11. DEPRECIATION AND AMORTISATION**

(in EUR million)	Notes	Year ended December 31,	
		2018	2017
Depreciation of other property and equipment	14	(21.4)	(17.7)
Depreciation of intangible assets	14	(9.7)	(7.5)
<b>Total</b>		<b>(31.2)</b>	<b>(25.2)</b>

**NOTE 12. INCOME TAX EXPENSE**

Income tax expense

Year ended December 31,

(in EUR million)	2018	2017
Current tax	(92.2)	(115.9)
Deferred tax	(34.6)	(24.6)
<b>Income tax expense</b>	<b>(126.8)</b>	<b>(140.4)</b>

### Effective tax rate reconciliation

(in € million)	Year ended December 31,	
	2018	2017
<b>Profit before tax</b>	<b>689.1</b>	<b>713.6</b>
<b>Standard tax rate in France</b>	<b>34.43%</b>	<b>34.43%</b>
<b>Tax expense at standard rate</b>	<b>(237.2)</b>	<b>(245.7)</b>
Tax calculated at domestic tax rates applicable to profits in the respective countries	75.1	77.5
Tax effects of:		-
Associates' results reported net of tax	0.5	0.4
Income not subject to tax	(3.9)	2.5
Expenses not deductible for tax purposes	34.1	29.5
Utilisation of previously unrecognised tax losses	0.5	0.1
Tax losses for which no deferred income tax asset was recognised	(0.1)	0.0
Re-measurement of deferred tax	12.5	1.5
Adjustment in respect of prior years	(2.1)	6.2
Other	(6.2)	(12.5)
<b>Total</b>	<b>(126.8)</b>	<b>(140.4)</b>
Effective rate of income tax	18.41%	19.68%

Of the tax calculated at domestic rates applicable to profits in the respective countries in 2018, the major contributors are Luxembourg, UK, Ireland, Italy, Belgium and Spain where effective tax rates are lower than in France (with applicable tax rates of 19.3%, 19%, 12.5%, 24%, 29.6% and 25.0% respectively).

The increase in expenses not deductible for tax purposes is mainly driven by the impact of the Stability Law in Italy which is also the main driver behind the reduction in the effective rate of income tax.

### Net deferred tax variation

The gross movement on the net deferred tax account is as follows:

(in € million)	As at December 31,	
	2018	2017
<b>Net deferred tax liabilities at 1 January</b>	<b>(99.8)</b>	<b>(82.7)</b>
Income statement charge	(34.6)	(24.6)
Tax charged/(credited) directly to equity	3.8	0.4
Exchange differences	1.1	0.2
Scope changes	1.4	4.9
Other	5.9	1.9
<b>Net deferred tax liabilities at 31 December</b>	<b>(122.2)</b>	<b>(99.8)</b>

## Deferred income tax by nature

(in € million)	As at December 31,	
	2018	2017
Accelerated tax depreciation	(363.3)	(326.5)
Provisions	142.4	136.5
Impairment losses	-	-
Tax losses	49.4	31.3
Fair value gains	4.9	5.5
Retirement benefit obligation	4.3	6.2
Other timing differences	39.7	47.3
Other	0.4	(0.2)
<b>Net deferred tax asset/(liability)</b>	<b>(122.2)</b>	<b>(99.8)</b>

The majority of the 2018 tax losses EUR 49.4 million (2017: EUR 31.3 million) are attributable to Italy EUR 33.2 million (2017: EUR 10.8 million) due to the impact of the Stability Law, Norway EUR 7.5 million (2017: EUR 7.5 million) and France EUR 6.3 million (2017: EUR 9.6 million) . No significant unrecognised accumulated tax losses have been incurred over the last two financial years.

## NOTE 13. RENTAL FLEET

(in EUR million)	Rental fleet
<b>At 1 January 2017</b>	
Cost	19,539.7
Accumulated depreciation & impairment	(5,464.8)
<b>Carrying amount As at 1 January 2017</b>	<b>14,075.0</b>
<b>Year ended 31 December 2017</b>	
Opening net book amount	14,075.0
Additions	7,698.4
Disposals	(2,513.9)
Acquisition of a subsidiary	451.3
Depreciation charge	(3,181.2)
Transfer (included transfer to inventories)	1.6
Currency translation differences	(195.1)
<b>Closing net book amount as at December 31, 2017</b>	<b>16,336.1</b>
<b>At 31 December 2017</b>	
Cost	22,393.8
Accumulated depreciation & impairment	(6,057.7)
<b>Carrying amount as at December 31, 2017</b>	<b>16,336.2</b>
<b>Year ended 31 December, 2018</b>	
Opening net book amount	16,336.2
Additions	8,233.3
Disposals	(2,583.7)
Acquisition of a subsidiary	18.6
Depreciation charge	(3,430.1)
Transfer (included transfer to inventories)	-
Currency translation differences	(150.4)
<b>Closing net book amount as at December 31, 2018</b>	<b>18,423.9</b>
<b>At 31 December 2018</b>	
Cost	25,062.9

Accumulated depreciation & impairment	(6,639.1)
<b>Carrying amount as at December 31, 2018</b>	<b>18,423.9</b>

At the December 31, 2018 and December 31, 2017 there were no impairments on the “Rental fleet”.

ALD continues to retain substantially all of the risks and rewards of the lease receivables as in all asset-backed securitisation programmes they subscribed to the first class of notes which will result in ALD bearing any realised losses. Therefore ALD continues to recognise the transferred lease receivables in their entirety for a present value of EUR 1.886 million and a net book value of EUR 1.859 million at December 31, 2018. The transferred lease receivables cannot be sold.

At December 31, 2018, the accounting value of the associated liabilities is GBP 414 million in the UK, EUR 360 million Belgium, EUR 236 million in the Netherlands and EUR 500 million in Germany.

For further details on the transactions reference is made to the Financial Risks Management Section (Liquidity risks) of the Accounting Principles.

#### NOTE 14. OTHER PROPERTY AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

##### Other property and equipment:

(in EUR million)	Note	Land	Property	Equipment	Total
<b>At 1 January 2017</b>					
Cost		7.4	52.2	99.1	158.7
Accumulated depreciation & impairment			(24.3)	(59.1)	(83.4)
<b>Carrying amount As at 1 January 2017</b>		<b>7.4</b>	<b>28.0</b>	<b>39.9</b>	<b>75.3</b>
<b>Year ended 31 December 2017</b>					
Opening net book amount		<b>7.4</b>	<b>28.0</b>	<b>39.9</b>	<b>75.3</b>
Additions		-	13.5	36.7	50.2
<i>Gross amount</i>		(0.5)	(5.7)	(18.5)	(24.7)
<i>Accumulated depreciation &amp; impairment</i>			3.4	7.6	11.0
Disposals		(0.5)	(2.3)	(10.9)	(13.7)
Depreciation charge	<b>11</b>	-	(4.5)	(13.1)	(17.7)
Transfer to assets qualified as held-for-sale		-	-	-	-
Transfer to Rental Fleet				(1.6)	(1.6)
Transfer from intangible assets		(0.0)	(0.0)	(0.0)	(0.0)
Scope changes		-	2.0	0.9	2.9
Currency translation differences		(0.0)	(0.3)	(0.7)	(1.0)
<b>Closing Net book amount As at December 31, 2017</b>		<b>6.9</b>	<b>36.4</b>	<b>51.1</b>	<b>94.4</b>
<b>At 31 December 2017</b>					
Cost		6.9	61.8	117.8	186.5
Accumulated depreciation & impairment			(25.4)	(66.6)	(92.1)
<b>Carrying amount As at December 31, 2017</b>		<b>6.9</b>	<b>36.4</b>	<b>51.1</b>	<b>94.4</b>
Opening net book amount		<b>6.9</b>	<b>36.4</b>	<b>51.1</b>	<b>94.4</b>
Additions		-	16.6	35.1	51.8

Gross amount		(0.1)	(8.6)	(28.4)	(37.1)
Accumulated depreciation & impairment			3.3	15.9	19.3
Disposals		(0.1)	(5.3)	(12.5)	(17.8)
Depreciation charge	11	-	(6.0)	(15.4)	(21.4)
Transfer to assets qualified as held-for-sale		-	-	-	-
Transfer to Rental Fleet				(0.0)	(0.0)
Transfer from intangible assets		-	0.0	(0.0)	(0.0)
Scope changes		-	0.1	0.2	0.3
Currency translation differences		0.0	(0.1)	(0.6)	(0.6)
<b>Closing Net book amount As at December 31, 2018</b>		<b>6.8</b>	<b>41.7</b>	<b>58.0</b>	<b>106.5</b>
<b>At 31 December 2018</b>					
Cost		6.8	70.0	124.4	201.2
Accumulated depreciation & impairment			(28.3)	(66.4)	(94.7)
<b>Carrying amount As at December 31, 2018</b>		<b>6.8</b>	<b>41.7</b>	<b>58.0</b>	<b>106.5</b>

#### Other intangible assets:

(in EUR million)	Note	Software	Other	Total
<b>At 1 January 2017</b>				
Cost		48.2	13.6	61.8
Accumulated amortisation and impairment		(31.8)	(0.9)	(32.7)
<b>Carrying amount As at December 31, 2017</b>		<b>16.4</b>	<b>12.7</b>	<b>29.1</b>
<b>Year ended 31 December 2017</b>				
Opening net book amount		16.4	12.7	29.1
Additions		13.6	0.7	14.3
Divestments		(0.0)	(1.2)	(1.2)
Amortisation	11	(7.4)	0.1	(7.3)
Transfer to other property and equipment		(0.0)	(0.0)	(0.0)
Scope changes		0.3	-	0.3
Currency translation differences		(0.1)	(0.8)	(0.9)
<b>Closing net book amount As at December 31, 2017</b>		<b>22.9</b>	<b>11.5</b>	<b>34.4</b>
<b>At 31 December 2017</b>				
Cost		61.0	12.3	73.2
Accumulated amortisation and impairment		(38.1)	(0.8)	(38.9)
<b>Carrying amount As at December 31, 2017</b>		<b>22.9</b>	<b>11.5</b>	<b>34.4</b>
<b>Year ended 31 December 2017</b>				
Opening net book amount		22.9	11.5	34.4
Additions		14.0	3.7	17.7
Divestments		(0.0)	-	(0.0)
Amortisation	11	(9.3)	(0.4)	(9.7)
Transfer to other property and equipment		(0.0)	-	(0.0)
Scope changes		0.0	-	0.0

Currency translation differences	(0.1)	(0.1)	(0.2)
<b>Closing net book amount As at December 31, 2018</b>	<b>27.6</b>	<b>14.6</b>	<b>42.2</b>
<b>At 31 December 2018</b>			
Cost	70.2	15.6	85.9
Accumulated amortisation and impairment	(42.7)	(1.0)	(43.7)
<b>Carrying amount As at December 31, 2018</b>	<b>27.6</b>	<b>14.6</b>	<b>42.2</b>

**NOTE 15. GOODWILL**

<b>(in EUR million)</b>	<b>Goodwill</b>
<b>At 1 January 2017</b>	
Cost	424.4
Accumulated impairment	-
<b>Carrying amount As at January 1, 2017</b>	<b>424.4</b>
<b>Year ended 31 December 2017</b>	
Opening net book amount	<b>424.4</b>
Additions	-
<i>Gross amount</i>	-
<i>Accumulated depreciation &amp; impairment</i>	-
Divestments	-
Impairment	-
Amortisation	-
Transfer to assets qualified as held-for-sale	-
Transfer to other property and equipment	-
Scope changes	104.4
Currency translation differences	-
<b>Closing net book amount As at December 31, 2017</b>	<b>528.8</b>
<b>At 31 December 2017</b>	
Cost	528.8
Accumulated impairment	-
<b>Carrying amount As at December 31, 2017</b>	<b>528.8</b>
<b>Year ended 31 December 2018</b>	
Opening net book amount	<b>528.8</b>
Additions	-
<i>Gross amount</i>	-
<i>Accumulated depreciation &amp; impairment</i>	-
Divestments	-
Impairment	-
Amortisation	-
Transfer to other property and equipment	-
Scope changes	3.6
Currency translation differences	-
<b>Closing net book amount As at December 31, 2018</b>	<b>532.4</b>
<b>At 31 December 2018</b>	
Cost	532.4
Accumulated impairment	-
<b>Carrying amount As at December 31, 2018</b>	<b>532.4</b>

## Goodwill by cash-generating units:

(in EUR million)	As at January 1, 2018	Addition	Decrease	Divestments	Impairment losses	IFRS5 Impact	As at December 31, 2018
France	212.0	-	-	-	-	-	212.0
Germany D	37.9	-	-	-	-	-	37.9
Italy	50.2	-	-	-	-	-	50.2
Spain	104.9	4.2	-	-	-	-	109.1
UK	22.6	-	-	-	-	-	22.6
Ireland	24.4	-	(0.3)	-	-	-	24.1
Benelux	13.3	-	-	-	-	-	13.3
Mediterranean Hub	2.5	-	-	-	-	-	2.5
Nordics hub	18.6	-	(0.3)	-	-	-	18.3
South Eastern Europe Hub	9.5	-	-	-	-	-	9.5
North Eastern Europe Hub	1.4	-	-	-	-	-	1.4
Central Europe Hub	31.5	-	-	-	-	-	31.5
<b>Total</b>	<b>528.8</b>	<b>4.2</b>	<b>(0.6)</b>				<b>532.4</b>

The additional goodwill in Spain is subject to potential change once finalised.

(in EUR million)	As at January 1, 2017	Addition	Decrease	Divestments	Impairment losses	IFRS5 Impact	As at December 31, 2017
France	212.0	-	-	-	-	-	212.0
Germany D	37.9	-	-	-	-	-	37.9
Italy	50.2	-	-	-	-	-	50.2
Spain	24.9	80.0	-	-	-	-	104.9
UK	22.6	-	-	-	-	-	22.6
Ireland	-	24.4	-	-	-	-	24.4
Benelux	13.3	-	-	-	-	-	13.3
Mediterranean Hub	2.5	-	-	-	-	-	2.5
Nordics Hub	18.6	-	-	-	-	-	18.6
South Eastern Europe Hub	9.5	-	-	-	-	-	9.5
North Eastern Europe Hub	1.4	-	-	-	-	-	1.4
Central Europe Hub	31.5	-	-	-	-	-	31.5
<b>Total</b>	<b>424.4</b>	<b>104.4</b>					<b>528.8</b>

On an annual basis, ALD performs an impairment test for each cash-generating unit (CGU) to which goodwill has been allocated.

An impairment loss is recognised in the income statement if the carrying amount of CGU, including its allocated goodwill, is higher than its recoverable amount. This impairment loss is then allocated first to reduce the carrying amount of goodwill.

The recoverable amount of cash-generating unit is calculated using the most appropriate method, generally the discounted cash flow (DCF). Cash flows were projected on actual financial results and the 5-year business plans, for which Management has assessed and approved the reasonableness of its assumptions by examining the causes of differences between past cash flow projections and actual cash flows.



A discount rate was applied which is built up of a risk-free interest, a market premium multiplied by a market specific beta. There was no impairment recognised in 2018 and 2017.

The key assumptions used for value-in-use calculations in 2018 and 2017 are as follows:

**Assumptions in 2018 and 2017:**

	Discount Factor 2018	Discount Factor 2017	Perpetuity rate (2018 and 2017)
France	9.60%	9.70%	2.00%
Germany D	9.60%	9.70%	2.00%
Italy	9.60%	9.70%	2.00%
Spain	9.60%	9.70%	2.00%
UK	9.60%	9.70%	2.00%
Ireland	9.60%	9.70%	2.00%
Benelux	9.60%	9.70%	2.00%
Mediterranean Hub	9.60%	9.70%	2.00%
Nordics Hub	9.60%	9.70%	2.00%
South Eastern Europe Hub	13.66%	12.14%	2.00%
North Eastern Europe Hub	9.60%	9.70%	2.00%
Central Europe Hub	10.35%	9.70%	2.00%

**NOTE 16. INVESTMENTS IN ASSOCIATES**

(in EUR million)	Year ended December 31,	
	2018	2017
<b>Balance as at 1 January as originally presented</b>	<b>6.8</b>	<b>6.0</b>
Change in accounting policy*	(0.6)	-
Share of results	1.2	1.1
Capital increase	-	-
Currency translation differences	0.3	(0.3)
Scope changes	-	-
<b>Balance as at 31 December,</b>	<b>7.6</b>	<b>6.8</b>

\* The Impacts presented in this line arose solely from the IFRS 9 provisions related to credit risk

Name	Country of incorporation	Assets	Liabilities (*)	Revenues	Profit/ (Loss)	% interest held
<b>As at January 1, 2017</b>						
ALD Automotive SA Morocco	MOROCCO	49.1	44.3	18.1	0.7	35%
Nedderfeld 95 Immobilien Gmbh & Co. KG	GERMANY	1.2	0.0	-	-	35%
<b>Total</b>		<b>50.3</b>	<b>44.3</b>	<b>18.1</b>	<b>0.7</b>	
<b>As at December 31, 2017</b>						
ALD Automotive SA Morocco	MOROCCO	50.6	45.1	19.8	1.2	35%
Nedderfeld 95 Immobilien Gmbh & Co. KG	GERMANY	1.2	0.0	-	(0.0)	35%
<b>Total</b>		<b>51.8</b>	<b>45.1</b>	<b>19.8</b>	<b>1.2</b>	
<b>As at December 31, 2018</b>						
ALD Automotive SA Morocco	MOROCCO	50.7	44.3	20.7	1.5	35%

Nedderfeld 95 Immobilien Gmbh & Co. KG	GERMANY	1.2	0.0	-	-	35%
<b>Total</b>		<b>51.9</b>	<b>44.3</b>	<b>20.7</b>	<b>1.5</b>	

(\*) Excluding net equity

## NOTE 17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are used as part of the overall strategy to manage exposure to market risks primarily associated with fluctuations in interest rates and foreign exchange rates through interest rate and currency swaps respectively. As a matter of policy, derivatives are not used for speculative purposes. Derivative instruments that are measured at fair value on a recurring basis are included in the caption "Derivative financial instruments" in the consolidated balance sheet.

(in EUR million)	December 31,2018		December 31,2017	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps - cash flow hedge	1.2	11.7	2.6	2.0
Interest rate swaps - fair value hedge	0.0	0.0	0.0	0.0
Foreign Exchange swaps	14.7	10.8	1.2	21.8
Trading derivatives	24.9	3.7	25.1	2.7
<b>Total</b>	<b>40.8</b>	<b>26.3</b>	<b>28.8</b>	<b>26.4</b>
<b>Less non-current portion:</b>				
Interest rate swaps - cash flow hedge	1.2	11.7	2.6	2.0
Interest rate swaps - fair value hedge	0.0	0.0	0.0	0.0
Foreign Exchange swaps	6.1	3.7	0.9	12.7
Trading derivatives	7.1	2.0	14.4	1.9
<b>Total non-current portion</b>	<b>14.5</b>	<b>17.4</b>	<b>17.8</b>	<b>16.6</b>
<b>Current portion</b>	<b>26.3</b>	<b>8.9</b>	<b>11.0</b>	<b>9.8</b>

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

### Foreign exchange swaps

Foreign exchange swaps are used as hedging instruments for financial debt.

The notional principal amounts of the foreign exchange swaps contracts at December 31, 2018 were EUR 307 million (2017: EUR 227 million).

The hedged, highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of December 31, 2018 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is generally within 12 months of the end of the reporting period.

### Interest rate swaps

Interest rate swaps are concluded to cover cash-flows or fair value of its main borrowings.

The notional principal amounts of the outstanding interest rate swap contracts at December 31, 2018 were EUR 3,006 million (2017: EUR 1,918 million).

At December 31, 2018, the main floating rates are EURIBOR, NIBOR (Norway) and STIBOR (Sweden). Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of December 31, 2018 will be continuously released to the income statement within finance charges until the repayment of the financial debt.

### NOTE 18. OTHER NON-CURRENT AND CURRENT FINANCIAL ASSETS

(in EUR million)	Year ended December 31,	
	2018	2017
Long-term investments (10 years)	601.2	830.2
Other current financial assets	343.6	316.8
Other	0.3	0.3
<b>Total</b>	<b>945.1</b>	<b>1,147.3</b>

Long-term investments are a resource resulting from the policy of the Group and of its main shareholder, Société Générale, to monitor the Group's interest rate risk through the matching of assets and liabilities by maturity. Available equity is considered as a long term resource which needs to be matched with long-term assets (refer to Interest rate risks management in financial risk management section above). Equity reinvestments are made in long term amortising deposits within Société Générale in order to remain within the interest rate sensitivity limit set for each entity (variation in the net present value of the future residual fixed rate positions, surplus or deficit, for a 1% parallel increase in the yield curve). These deposits will roll-out in approximately 9 years' time and will not be renewed.

### NOTE 19. INVENTORIES

(in EUR million)	As at December 31,	
	2018	2017
Inventories - gross value	282.1	270.0
Valuation allowance	(17.9)	(15.3)
<b>Inventories net</b>	<b>264.3</b>	<b>254.8</b>

Inventories are stated at the lower of cost or net realisable value.

## NOTE 20. RECEIVABLES FROM CLIENTS AND FINANCIAL INSTITUTIONS

This item includes amounts receivable under lease contracts and trade receivables, after deduction of allowances for debtor risks, where necessary.

(in EUR million)	As at December 31,	
	2018	2017
Amounts receivable under finance lease contracts	687.3	600.4
Impairment of Finance lease receivables	(9.8)	(6.6)
Amounts receivable from credit institutions (*)	89.0	28.0
Trade receivables	935.8	905.7
Provision for impairment of trade receivables	(118.2)	(89.5)
<b>Total receivables</b>	<b>1,584.2</b>	<b>1,438.0</b>

(\*) Mainly towards Societe Generale – no impairment provision has been calculated on these receivables due to their inter-group nature and immaterial size.

The fair value of receivables is equivalent to the carrying value.

A full description of the impairment policy is contained in the Credit Risk Measurement section of the Financial Risk Factors.

The movement in impairment of trade receivables is as follows:

(in EUR million)	Note	As at December 31,	
		2018	2017
Balance at January 1		(109.9) *	(85.8)
Net Impairment charges	8	(37.8)	(22.4)
Receivables written off		25.5	19.3
Movement in Finance Lease Provision		1.1	1.1
Other and currency translation differences		2.8	(1.7)
<b>Balance at December 31</b>		<b>(118.2)</b>	<b>(89.5)</b>

\* Balance at January 1, 2018 includes IFRS 9 provision on trade receivables

The maturity analysis is as follows:

(in EUR million)	As at December 31,	
	2018	2017
Trade receivables not overdue	612.0	592.5
Past due up to 90 days	185.6	171.9
Past due between 90 - 180 days	39.4	45.8
Past due over 180 days	98.8	95.4
<b>Total</b>	<b>935.8</b>	<b>905.7*</b>

\*The analysis of maturity by time bucket for December 31, 2017 has been restated without affecting the total of the trade receivables. This occurred due to timing issues around the implementation of new accounting systems within the Group.

## NOTE 21. OTHER RECEIVABLES AND PREPAYMENTS

As at December 31,

<b>(in EUR million)</b>	<b>2018</b>	<b>2017</b>
VAT and other taxes	293.8	401.9
Prepaid motor vehicle tax and insurance premiums	103.5	64.9
Reclaimable damages	12.0	11.7
Prepaid expenses	273.1	280.6
Other	190.5	145.4
<b>Other receivables and prepayments</b>	<b>872.9</b>	<b>904.6</b>

The majority of the other receivables and prepayments have a maturity of less than one year.

The other receivables balance includes EUR 118.9 million (2017: EUR 74.7 million) relating to rebates receivable from dealers and manufacturers.

## **NOTE 22. CASH AND CASH EQUIVALENTS**

<b>(in EUR million)</b>	<b>As at December 31,</b>	
	<b>2018</b>	<b>2017</b>
Cash at bank and on hand	127.6	154.7
Short-term bank deposits	31.3	39.9
<b>Cash and cash equivalents excl. bank overdrafts</b>	<b>158.9</b>	<b>194.6</b>
Bank overdrafts	(209.8)	(187.9)
<b>Cash and cash equivalents, net of bank overdrafts</b>	<b>(50.9)</b>	<b>6.7</b>

As ALD operates its own re-insurance program the cash balance includes funds required for this business.

## NOTE 23. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The company's financial assets and liabilities are categorized as follows:

### Financial assets

As at December 31, 2018 (EUR million)	Financial asset category			Fair value	Level (*)
	Financial assets at amortised cost	Assets at fair value through profit and loss	Total net book value per balance sheet		
Derivative financial instruments		40.8	40.8	40.8	Level 2
Receivables from clients and from financial institutions	1,584.2		1,584.2	1,584.2	Level 2
Other non current and current financial assets		945.1	945.1	945.1	Level 1 and level 2
Cash and cash equivalents		158.9	158.9	158.9	Level 1
<b>Total</b>	<b>1,584.2</b>	<b>1,144.7</b>	<b>2,728.9</b>	<b>2,728.9</b>	

(\*) Refers to valuation method

As at December 31, 2017 (EUR million)	Financial asset category			Fair value	Level (*)
	Loans and receivables (**)	Assets at fair value through profit and loss	Total net book value per balance sheet		
Derivative financial instruments		28.8	28.8	28.8	Level 2
Receivables from clients and from financial institutions	1,438.0		1,438.0	1,438.0	Level 2
Other non current and current financial assets		1,147.3	1,147.3	1,147.3	Level 1 and level 2
Cash and cash equivalents		194.6	194.6	194.6	Level 1
<b>Total</b>	<b>1,438.0</b>	<b>1,370.6</b>	<b>2,808.6</b>	<b>2,808.6</b>	

(\*) Refers to valuation method

(\*\*) As per 2.10 the Group has applied IFRS9 prospectively so comparative descriptions have not been restated.

### Financial liabilities

As at December 31, 2018 (EUR million)	Financial liability category			Fair value	Level
	Financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total net book value per balance sheet		
Bank borrowings	11,917.0		11,917.0	11,917.0	Level 2
Bonds issued	4,914.3		4,914.3	4,872.8	Level 2
Derivative financial instruments		26.2	26.2	26.2	Level 2
Trade payables	710.1		710.1	710.1	Level 2
<b>Total</b>	<b>17,541.3</b>	<b>26.2</b>	<b>17,567.5</b>	<b>17,526.1</b>	

As at December 31, 2017 (EUR million)	Financial liability category				Fair value	Level
	Loans and receivables (*)	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Total net book value per balance sheet		
Bank borrowings	11,849.4			11,849.4	11,849.4	Level 2
Bonds issued	3,280.3			3,280.3	3,286.5	Level 2
Derivative financial instruments		26.4		26.4	26.4	Level 2
Trade payables			738.3	738.3	738.3	Level 2
<b>Total</b>	<b>15,129.8</b>	<b>26.4</b>	<b>738.3</b>	<b>15,894.5</b>	<b>15,900.8</b>	

(\*) As per 2.10 the Group has applied IFRS9 prospectively so comparative descriptions have not been restated.

There were no transfers between levels 1 and 2.

## NOTE 24. SHAREHOLDERS' EQUITY

### Share Capital and Share Premium

At December 31, 2018, the authorised capital amounted to EUR 606.2 million (2017: EUR 606.2 million), divided into 404,103,640 ordinary shares with a nominal value of EUR 1.5 each.

At December 31, 2018, share premium amounted to EUR 367.0 million (2017: EUR 375.1 million). Share premium decreased due to payment of dividend that related to the period ended December 31, 2017.

All shares issued by ALD S.A. were fully paid.

The holders of the shares are entitled to receive dividend as declared at Annual General Meetings and are entitled to vote per share at meetings of the Company.

### Other Equity – Treasury Shares

Following the combined General Meeting held on May 22, 2018, ALD SA was authorised to purchase its own shares for the purposes of attributing, covering and paying off any scheme for the allocation of free shares, employee savings scheme and any other form of allocation to employees and executive directors of the Company or of companies related to it under the conditions set out in applicable legislative and regulatory provisions, in particular in terms of sharing in the benefits of the Company's expansion, the allocation of free shares, all schemes for employee shareholding and to carry out all hedging operations relating to the said employee shareholding schemes.

	Number of shares	EUR million
<b>Opening balance 1 January, 2018</b>		
Acquisition of treasury shares for employee share schemes	302,794	(4.6)
Employee share scheme issue	-	-
Liquidity contracts	86,259	(1.2)
<b>Balance at December 31, 2018</b>	<b>389,053</b>	<b>(5.8)</b>

### Retained earnings and other reserves

Movements in retained earnings and other reserves are presented in the Statement of changes in equity.

## NOTE 25. SHARE-BASED PAYMENTS

On March 29, 2018 three equity-settled share based payment plans were approved by the ALD Board of Directors. The plans are designed to provide long-term incentives for selected employees across the Group to deliver long-term shareholder returns. Under the plans, participants are granted free shares in the parent company ALD SA which will only vest if certain performance and service conditions are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Shares are granted under the plans for

no consideration and carry no dividend or voting rights. Prior to approval of the plans ALD SA did not hold any shares bound to be distributed to own employees, therefore ALD SA can either issue new shares or acquire its own shares on the market between the grant date and vesting date in order to settle the obligation to its employees.

#### Summary of 2018 long-term incentives plans

	Plan 1	Plan 2.A	Plan 2.B
Date of Board meeting	March 29, 2018	March 29, 2018	March 29, 2018
Total number of shares granted	276,980	12,907	12,907
Vesting date	March 31, 2021	March 31, 2020	March 31, 2021
Holding period end date	not specified	September 30, 2020	September 30, 2021
Fair value (in EUR)*	11.31	11.31	11.31
Number of employees in the plan at grant date	195	4	4

*\*The fair value is calculated based on the volume weighted average of share price of 20 days before the Board meeting*

Vesting conditions are based on ALD's profitability, as measured by the average Group Net Income over the 3 or 2 years of the vesting period:

- If the 2018-2020 (2018-2019 for Plan 2.A) average ALD Group Net Income is greater than zero, all performance shares are vested;
- If the 2018-2020 (2018-2019 for Plan 2.A) average ALD Group Net Income is equal to or less than zero, the performance condition is not satisfied and all performance shares are forfeited.

The ALD Group Net Income corresponds to the published ALD Group Net Income. The achievement of the performance condition hereinabove defined will be assessed by the ALD Board of Directors' meeting by 30 March 2021 (30 March, 2020 for Plan 2.A) at the latest.

At December 31, 2018 191 employees benefit from the long-term incentives plans.

The following table shows the shares granted and outstanding at the beginning and end of the reporting period.

	Number of shares
<b>As at January 1, 2018</b>	-
Granted during the year	302,794
Vested during the year	-
Forfeited during the year	(5,984)
<b>As at December 31, 2018</b>	<b>296,810</b>

For equity settled share-based payments, the fair value of these instruments, measured at the grant date, is spread over the vesting period and recorded in shareholders' equity under Retained earnings and other reserves. At each accounting date, the number of these instruments is revised in order to take into account vesting conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under Staff expenses from the start of the plan are then adjusted accordingly.



The Group is involved in another free share plan as of December 31, 2018 granted by the parent company Société Générale.

Free shares plan (“AGA”) is granted to a limited number of managers, subject to attendance conditions. At December 31, 2018, 172 employees benefit from 108,786 shares in all existing plans (192 employees benefit from 148,700 shares\* at December 31, 2017).

\*Previously reported number of shares as at December 31, 2017 (32,029) related to shares granted in 2017 only.

Société Générale grants rights to its equity instruments directly to the employees of the company: the parent (not the subsidiary) provides these employees of the company with the equity instruments. Therefore, in accordance with IFRS 2, the company shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, and recognise a corresponding increase in equity as a contribution from the parent.

### Expenses recorded in the income statement

(in EUR Million)	December 31, 2018	December 31, 2017
Net expenses from free share ALD plans	(0.9)	-
Net expenses from free share Societe Generale plan	(0.8)	(0.5)
<b>Total Expense</b>	<b>(1.7)</b>	<b>(0.5)</b>

### NOTE 26. BORROWINGS FROM FINANCIAL INSTITUTIONS, BONDS AND NOTES ISSUED

As at December 31,

(in EUR million)	2018	Cash	Non cash	2017
Bank borrowings	7,955.8	7,955.8		7,660.9
<b>Non-current borrowings from financial institutions</b>	<b>7,955.8</b>	<b>7,955.8</b>		<b>7,660.9</b>
Bank overdrafts	209.8	209.8		187.9
Bank borrowings	3,751.3	3,751.3		4,000.7
<b>Current borrowings from financial institutions</b>	<b>3,961.2</b>	<b>3,961.2</b>		<b>4,188.6</b>
<b>Total borrowings from financial institutions</b>	<b>11,917.0</b>	<b>11,917.0</b>		<b>11,849.4</b>
Bonds and notes-originated from securitisation transactions	1,058.1	1,058.1		882.4
Bonds and notes-originated from EMTN programme	3,404.2	3,404.2		1,400.0
Other non-current bonds issued	-	-		-
<b>Non-current bonds and notes issued</b>	<b>4,462.4</b>	<b>4,462.4</b>		<b>2,282.4</b>
Bonds and notes-originated from securitisation transactions	251.9	251.9		491.9
Bonds and notes-originated from EMTN programme	200.0	200.0		506.0
Other current bonds issued	-	-		-
<b>Current bonds and notes issued</b>	<b>451.9</b>	<b>451.9</b>		<b>997.9</b>
<b>Total bonds and notes issued</b>	<b>4,914.3</b>	<b>4,914.3</b>		<b>3,280.3</b>
<b>Total borrowings from financial institutions and bonds</b>	<b>16,831.3</b>	<b>16,831.3</b>		<b>15,129.8</b>

### **Maturity of borrowings and bonds**

<b>(in EUR million)</b>	<b>As at December 31,</b>	
	<b>2018</b>	<b>2017</b>
Less than 1 year	4,413.1	5,186.5
1-5 years	12,155.5	9,637.9
Over 5 years	262.6	305.4
<b>Total borrowings and bonds</b>	<b>16,831.3</b>	<b>15,129.8</b>

### **Currencies**

The carrying amounts of the Group's borrowings are denominated in the following currencies:

#### **Borrowings by currency**

<b>(in EUR million)</b>	<b>As at December 31,</b>	
	<b>2018</b>	<b>2017</b>
Euro	12,536.0	11,285.6
UK Pound	1,775.4	1,605.8
Danish Krone	309.0	305.0
Swedish Kronor	373.4	311.8
Other currencies	1,837.4	1,621.6
<b>Total borrowings and bonds</b>	<b>16,831.3</b>	<b>15,129.8</b>

### **External funding**

Local external banks and third parties provide 32.3% of total funding, representing EUR 5,434 million at December 31, 2018 (28% and EUR 4,217 million at December 31, 2017).

An amount of EUR 519.9 million or 3% of total funding is provided by external banks. The residual external funding (EUR 4,914 million) has been raised through asset-backed securitisations and unsecured bonds.

### **Asset-backed securitisation programme**

A new securitisation deal took place in the UK in December 2018 for GBP 414 million with a revolving period of 1 year. Full details of the securitisation deals in the Group are shown in section 3.1.2 Treasury risk.

### **EMTN programme**

The Group is engaged in a Euro Medium Term Notes (EMTN) programme. The EMTN programme limit is set at EUR 6 billion for the aggregate nominal amount of notes outstanding at any one time. An application has been filed with the Luxembourg Stock Exchange in order for the notes issued under the programme to be listed on the official list and admitted to trading on the Regulated Market of the

Luxembourg Stock Exchange. The programme is rated BBB+ by Standard & Poor's and A- by Fitch ratings services. Two public bonds were launched by the Group in 2017. A bond in July 2017 for an amount of EUR 600 million maturing in 5 years at a fixed rate of 0.875% and in November 2017 another bond for an amount of EUR 600 million maturing in 3 years at a floating rate of Euribor 3M + 43 bps. Three new public bonds have been launched in 2018; a bond in February 2018 for an amount of EUR 800 million maturing in 3 years at floating rate of Euribor 3M + 34 bps, a bond in July 2018 for an amount of EUR 500 million maturing in 3 years at floating rate of Euribor 3M + 62 bps and a Positive Impact Bond, a EUR 500m 4-years senior note at a fixed rate of 1.250%. The Group has also issued a private bond in July 2017 for EUR 200 million and another one in June 2018 for EUR 400 million.

### **Société Générale funding**

Following the external funding raised in recent years, the funding raised through Société Générale has remained stable at 68 % as at December 31, 2018.

Most of the funding provided by the SG group is granted through Société Générale Bank and Trust (SGBT) based in Luxembourg. SGBT provides funds to the ALD Group Central Treasury which then grants loans in different currencies to 20 ALD subsidiaries as well as to the holding companies. The total amount of loans granted by SGBT amounted to EUR 8,227 million at December 31, 2018 (EUR 7,920 million at December 31, 2017) with an average maturity of 1.9 years.

The remaining SG funding is provided either by local SG branches or SG group Central Treasury in Paris, representing EUR 3,170 million at December 31, 2018 (EUR 2,993 million at December 31, 2017).

At December 31, 2018 the Group has undrawn borrowing facilities of EUR 3.4 billion (EUR 1.6 billion at December 31, 2017).

### **Guarantee given**

A guarantee at first demand has been granted to an English Financial institution for an amount of GBP 120 million on behalf of ALD Automotive UK, under the conditions negotiated in the frame of the distribution agreement concluded with this financial institution.

A guarantee at first demand has been granted to Banque Internationale a Luxembourg for an amount of EUR 20 million on behalf of Axus Luxembourg SA, under the conditions negotiated in the frame of the distribution agreement concluded with this financial institution.

A guarantee at first demand has been granted to a landlord for an amount of EUR 6.5 million on behalf of ALD RE DAC Ireland, under the conditions negotiated in the frame of the premises rental agreement concluded with this landlord.

## **NOTE 27. RETIREMENT BENEFIT OBLIGATIONS AND LONG TERM BENEFITS**

### Defined contribution plans

Defined contribution plans limit the ALD's liability to contributions paid to the plan but do not commit ALD to a specific level of future benefits.

Main defined contribution plans provided to employees of the Group are located in France. They include state pension plans and other national pension plans such as ARRCO and AGIRC, as well as pension schemes put in place by some entities of the Group for which the only commitment is to pay annual contributions (PERCO).

#### Post-employment benefit plans (Defined benefit plans)

Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Main defined benefit plans provided to employees of the Group are located in Belgium, Germany, Italy and Switzerland.

#### **Reconciliation of assets and liabilities recorded in the balance sheet**

The amount recognised in the balance sheet is determined as follows:

<b>(In EUR million)</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
A - Present value of funded defined benefit obligations	17.4	17.2
B - Fair value of plan assets	(12.3)	(12.0)
<b>C = A + B Deficit (surplus)</b>	<b>5.1</b>	<b>5.2</b>
<b>D - Present value of unfunded defined benefit obligations</b>	<b>3.3</b>	<b>3.7</b>
<b>E - Change in asset ceiling</b>	-	-
<b>F - Separate assets</b>	-	-
<b>C + D - E - F = Net balance recorded in the balance sheet</b>	<b>8.4</b>	<b>8.9</b>

Post-employment benefit plans include annuity payments, end-of-career indemnities as well as mixed plans (cash balance). Annuity payments are added to pension plans paid by state and mandatory benefit plans.

The present values of defined benefit obligations have been valued by independent qualified actuaries.

#### **Components of the cost of the defined benefits**

<b>(In EUR million)</b>	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Current service cost including social security contributions	1.1	1.3
Employee contributions	(0.2)	(0.2)
Past service cost / curtailments	-	(0.2)
Settlement	-	-
Net interest	0.1	0.1
Transfer from unrecognised assets	-	-
<i>Components recognised in income statement</i>	<i>1.0</i>	<i>1.0</i>
Actuarial gains and losses due to assets (*)	0.2	(0.3)
Actuarial gains and losses due to changes in demographic assumptions	-	(0.1)
Actuarial gains and losses due to changes in economical and financial assumptions	(0.4)	(0.3)
Actuarial gains and losses due to experience	(0.5)	(0.3)
Change in asset ceiling	-	-

<i>Components recognised in unrealised or deferred gains and losses</i>	<i>(0.7)</i>	<i>(1.0)</i>
<b>Total components of the cost of the defined benefits</b>	<b>0.3</b>	<b>-</b>

*(\*) Actuarial gains and losses due to assets from which the actuarial gains and losses due to assets included in the net interest cost is deducted*

### Changes in net liabilities of post-employment benefit plans recorded in the balance sheet

Changes in the present value of defined benefit obligations:

(In EUR million)

	2018	2017
<b>Balance at January 1,</b>	<b>20.9</b>	<b>21.6</b>
Current service cost including social security contributions	1.1	1.3
Employee contributions	-	-
Past service cost / curtailments	-	(0.2)
Settlement	-	(0.3)
Net interest	0.3	0.3
Actuarial gains and losses due to changes in demographic assumptions	-	(0.1)
Actuarial gains and losses due to changes in economic and financial assumptions	(0.4)	(0.3)
Actuarial gains and losses due to experience	(0.5)	(0.3)
Foreign exchange adjustment	-	(0.2)
Benefit payments	(0.7)	(0.9)
Acquisition/(Sale) of subsidiaries	-	-
Transfers and others	-	-
<b>Balance at December 31,</b>	<b>20.7</b>	<b>20.9</b>

Changes in fair value of plan assets and separate assets:

(In EUR million)

	2018	2017
<b>Balance at January 1,</b>	<b>12.0</b>	<b>11.7</b>
Expected return on plan assets	0.2	0.2
Expected return on separate assets	-	-
Actuarial gains and losses due to assets	(0.2)	0.3
Foreign exchange adjustment	-	(0.1)
Employee contributions	0.2	0.2
Employer contributions to plan assets	0.5	0.6
Benefit payments	(0.3)	(0.7)
Acquisition/(Sale) of subsidiaries	-	-
Transfers and others	-	(0.3)
<b>Balance at December 31,</b>	<b>12.3</b>	<b>12.0</b>

### Information regarding funding assets (for all benefits and future contribution)

The breakdown of the fair value of plan assets is as follows: 22 % bonds, 48 % equities, 10 % money market instruments and 20 % others.

Employer contributions to be paid to post-employment defined benefit plans for 2019 are estimated at EUR 0.5 million.

## Actual returns on funding assets

The actual returns on plan and separate assets were:

(In EUR million)	31 December 2018	31 December 2017
Plan assets	-	0.5
Separate assets	-	-

The assumptions on return on assets are presented in the following section.

## Main assumptions detailed by geographical area

The significant actuarial assumptions used to determine the pension benefit obligation amount are as follows:

	31 December 2018	31 December 2017
Discount rate		
Europe	1.5%	1.5%
Long-term inflation		
Europe	1.5%	1.7%
Future salary increase		
Europe	1.4%	1.4%
Average remaining working lifetime of employees (in years)		
Europe	14.6	15.7
Duration (in years)		
Europe	12.5	12.9

The assumptions by geographical area are averages weighted by the present value of the liabilities (DBO).

The yield curves used to discount the liabilities are corporate AA yield curves (source: Merrill Lynch) observed in the end of October for GBP and EUR, and corrected at the end of December if the decrease in discount rates had a significant impact.

Inflation rates used are the long-term targets of the central banks of the monetary areas above.

The average remaining working lifetime of employees is calculated taking into account withdrawal assumptions.

The assumptions described above have been applied on post-employment benefit plans.

## Obligations sensitivities to main assumptions ranges

(Percentage of item measured)	31 December 2018 (*)	31 December 2017 (*)
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<b>Variation in discount rate</b>		
Impact on the present value of defined benefit obligations at December 31, N	(6.9)%	(7.4)%
<b>Variation in long term inflation</b>		
Impact on the present value of defined benefit obligations at December 31 N	3.1%	3.6%
<b>Variation in future salary increases</b>		
Impact on the present value of defined benefit obligations at December 31 N	8.8%	15.5%

(\*) Variation of +0.5% in the measured item

The disclosed sensitivities are averages of the variations weighted by the present value of defined benefit obligations.

### Other long-term benefits

Some entities of ALD may award their employees other long-term benefits, like long-term deferred variable remunerations, time saving accounts (French Term) "Comptes Epargne Temps" or long service awards. They are different from post-employment benefits and termination benefits, which are not fully due within twelve months following the financial year during which the services are rendered by the employees.

The net balance of other long-term benefits is EUR 11.3 million. The total amount of charges for other long-term benefits is EUR 2 million.

### NOTE 28. PROVISIONS

(in EUR million)	Damage risk retention	Other	Total
<b>As at January 1, 2017</b>	<b>187.7</b>	<b>54.5</b>	<b>242.2</b>
Additions	91.4	18.5	109.9
Reversal	(93.3)	(5.4)	(98.6)
Transfer to liabilities qualified as held-for-sale	-	-	-
Transfer to payables	(0.0)	-	(0.0)
Currency translation differences	(0.0)	(1.0)	(1.1)
Scope changes	2.0	0.8	2.8
<b>As at December 31, 2017</b>	<b>187.8</b>	<b>67.4</b>	<b>255.2</b>
<b>Of which current</b>	<b>99.5</b>	<b>59.2</b>	<b>158.7</b>
<b>As at January 1, 2018</b>	<b>187.8</b>	<b>67.4</b>	<b>255.2</b>
Additions	66.1	8.5	74.6
Reversal	(55.9)	(16.3)	(72.2)
Used during the year	-	-	-
Transfer total	-	-	-
Currency translation differences	(0.0)	(0.4)	(0.4)
Scope changes	0.1	-	0.1
<b>As at December 31, 2018</b>	<b>198.1</b>	<b>59.3</b>	<b>257.4</b>
<b>Of which current</b>	<b>101.1</b>	<b>50.4</b>	<b>151.5</b>

Other provisions relate mainly to provisions made against disputed invoices. These are considered separately to impairment of receivables and do not represent a credit risk.

**NOTE 29. TRADE AND OTHER PAYABLES**

<b>(in EUR million)</b>	<b>As at December 31,</b>	
	<b>2018</b>	<b>2017</b>
Trade payables	710.1	738.3
Deferred leasing income *	426.0	410.8
Other accruals and other deferred income	397.6	393.7
Advance lease instalments received	278.6	252.1
Accruals for contract settlements	83.8	84.0
VAT and other taxes	191.4	181.4
Other	0.6	0.9
<b>Trade and other payables</b>	<b>2,088.1</b>	<b>2,061.2</b>

*\*Deferred leasing income relates to maintenance and tyre revenue which is profiled in line with historical maintenance expenditure in order to match revenue and costs. This policy is explained further in Note 3 Financial Risk Management.*

**NOTE 30. DIVIDENDS**

A dividend that related to the period ended December 31, 2017 for an amount of EUR 222.3 million (EUR 0.55 per share) was paid to ALD shareholders on June 1, 2018 of which dividend paid to Societe Generale is EUR 177.4 million (a dividend of EUR 155.6 million paid to Societe Generale that related to the period ended December 31, 2016).



## NOTE 31. EARNINGS PER SHARE

### Basic earnings per share

(in EUR million)	As at December 31,	
	2018	2017
Net income attributable to owners of the parent	555.6	567.6
Weighted average number of ordinary shares with voting rights (in thousands)	403,909	404,104
<b>Total basic earnings per share (in cents)</b>	<b>1.38</b>	<b>1.40</b>

Following the shareholders meeting held on March 17, 2017 it was decided to issue 9 additional shares for each share issued, which resulted in the number of ordinary shares increasing from 40,410,364 to 404,103,640

Following the combined General Meeting held on May 22, 2018, ALD SA was authorised to purchase its own shares for the purposes of attributing, covering and paying off any scheme for the allocation of free shares, employee savings scheme and any other form of allocation to employees and executive directors of the Company or of companies related to it under the conditions set out in applicable legislative and regulatory provisions. Total number of shares making up current share capital 404,103,640. As at December 31, 2018 total number of shares to which voting rights are attached, excluding shares without voting rights (treasury shares, etc.) is 403,714,587. Weighted average number of ordinary shares with voting rights is 403,909,294.

### Diluted earnings per share

(in EUR million)	As at December 31,	
	2018	2017
Net income attributable to owners of the parent	555.6	567.6
Weighted average number of ordinary shares (in thousands)	404,104	404,104
<b>Total diluted earnings per share (in cents)</b>	<b>1.37</b>	<b>1.40</b>

Rights to free shares granted to employees will be settled with treasury shares under the long-term incentives employee plans. Treasury shares are included in the calculation of diluted earnings per share assuming all outstanding rights will vest.

ALD S.A. did not issue any diluted instruments for the year ended December 31, 2017, therefore diluted earnings per share equal to basic earnings per share for that period.

## NOTE 32. COMMITMENTS

### Operating lease commitments – Group Company as lessee

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various plant and machinery under cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

#### Operating lease commitments

(in EUR million)	As at December 31,	
	2018	2017
No later than 1 year	15.9	20.0
Later than 1 year and no later than 5 years	49.9	68.8
Later than 5 years	29.8	26.5
<b>Total</b>	<b>95.6</b>	<b>115.3</b>

#### NOTE 33. RELATED PARTIES

##### Identity of related parties

The Group is controlled by Société Générale Group. Transactions with Société Générale and its subsidiaries have been identified as related party transactions. All business relations with Société Générale Group are handled at normal market conditions.

In addition, one member of ALD board of Directors is also a Non-Executive Director at the Supervisory Board of a company based in the US, MT Americas (Virginia, US). The company operates within the recycling industry in the US and South America. There is no business relationship between MT Americas and ALD Group.

This member was also a Non-Executive Director at CarTime Technologies A/S from April 1, 2017 until June 1, 2018, a company based in Denmark, specialised in road pricing and digital parking. There was no business relationship between CarTime Technologies and ALD Group.

##### Key management compensation

Key management includes members of the Executive Committee of ALD Group. The Executive Committee is composed of executive managers of ALD and Société Générale as well as regional supervisors of the most important subsidiaries. The members are the Chief Executive Officer, the two Deputy Chief Executive Officers, the Chief Financial Officer and the Chief Operating Officer.

The compensation paid or payable to key management for employee services is shown below:

(in EUR million)	As at December 31,	
	2018	2017
Salaries and other short term employment benefits	8.6	9.0
Post employment benefits	0.3	0.2
Other long term benefits	1.6	1.5
<b>Total</b>	<b>10.5</b>	<b>10.7</b>

Since the listing of the company in June 2017, ALD S.A. is supervised by a new Board Committee which has been implemented according to the AFEP-MEDEF rules. The board is composed of employees of ALD S.A. and Société Générale as well as independent board members who benefit from a compensation.

### **Sales of goods and services**

Société Générale (“SG”) and its subsidiaries are customers of ALD Group. Total fleet leased to SG and its subsidiaries amounts to 7,658 cars in 27 countries. Rentals have been priced at normal market conditions. More than 50% of the total fleet leased to SG Group is leased by ALD France. Rental paid by SG Group to ALD France accounts for EUR 17.7 million and EUR 17 million in the years ended December 31, 2018 and December 31, 2017, respectively.

### **Purchases of goods and services**

#### Information Technology (“IT”) Services

ALD Group has a contract with SG Global Services centre (India), with which ALD subcontracted IT services including development, maintenance and support of international applications. The main advantage is to facilitate the roll out of common tools to all subsidiaries while ALD IT teams at a Group level still keep the knowledge of each project, train users and follow up the set up, usage and evolution locally. ALD has also subcontracted some technical infrastructure services to SG, mainly in France. Overall amount of IT services subcontracted to SG and its subsidiaries amounts to EUR 18.75 million in fiscal year 2018 (2017: EUR 19.48 million).

#### Premises

Some Group entities share premises with SG or with SG business divisions in some countries (mainly ALD France and ALD Denmark which represent around 65 % of the total rentals paid to SG). Rentals have been priced at arm’s length and amounted to EUR 0.4 million in fiscal year 2018 (2017: EUR 1.0 million) for ALD France and ALD S.A. At the end of 2017 ALD S.A. moved its office to a property outside of the SG network. Rental for ALD Denmark amounted to EUR 0.3 million in fiscal year 2018 (2017: EUR 0.3 million).

#### Brokerage

Société Générale retail banking network sells long term rental contracts to customers on behalf of ALD against a commission for each contract sourced. In year 2018, around 15,000 contracts have been signed through Société Générale distribution network in 4 different countries. 79 % of contracts originated through this channel come from the French banking networks of SG Group. The commission paid to SG by ALD France represented EUR 2.54 million for the year ended December 31, 2018 (2017: EUR 2.52 million).

### **Third Party Liabilities (TPL) Insurance policy**

ALD Italy has subscribed a TPL insurance policy for part of their fleet through Sogessur, the Car insurance company of Société Générale Group. Sogessur acts as a frontier and is reinsured through ALD Re, the reinsurance company of ALD Group. Insurance premiums have been fixed at arm's length. The overall amount of insurance premium paid by ALD Italy to Sogessur amount EUR 76.3 million in fiscal year 2018 (2017: EUR 69.5 million).

### Corporate services

Société Générale Group, as a shareholder, provides ALD Group with the following intercompany corporate services:

- Providing support and advice regarding general secretary, tax or compliance matters at a holding level;
- Performing periodical audits in order to verify the effectiveness of governance, risk management, and permanent control;
- Supervising the Human Resources departments of the subsidiaries.

These Corporate services provided by Société Générale have been subject to compensation of EUR 12.2 million in fiscal year 2018 (2017: EUR 12.4 million).

In addition, in fiscal year 2018, there were 69 employees coming from SG (54 in 2017) with a temporary detachment contract in ALD Group with duration of 3 to 5 years; they are part of the local management teams and most of them are included in ALD payroll during the detachment period and are therefore not re-billed to SG. Only the employees based in ALD France and ALD are still paid by SG and re-billed to ALD; the amount re-billed by SG was EUR 7.5 million in 2017 and 12.1 million in 2018.

### **Loans with related parties**

Société Générale and its affiliates provide ALD Group with funding either through ALD Treasury centre or directly to ALD subsidiaries at a market rate. 68 % of the Group's funding was provided through SG in fiscal year 2018, i.e. EUR 11,397 million.

Société Générale provides also bank guarantees on behalf of ALD and its subsidiaries in case of external funding. Overall guarantees released by SG Group amounted up to EUR 957.2 million as of December 31, 2018 (2017: EUR 767.3 million).

Société Générale also provides ALD Group with derivatives instruments which have a nominal amount of EUR 3,575.1 million, and are represented on the balance sheet for a total amount of EUR 16 million in assets and EUR 22.8 million in liabilities.

In compliance with the Asset Liability Management policies of Société Générale, ALD Group reinvests its equity in long term assets in the form of deposits with the central treasury of Société Générale. These deposits will roll-out in approximately 10 years time and will not be renewed. All of the interest rate swaps were cancelled in Q1 2017 and the decision was made not to renew any of the deposits as

they mature. At December 31, 2018 the total amount of long term deposits was EUR 710.5 million (2017: EUR 939 million).

#### **Tax consolidation agreement**

Several ALD entities have entered into tax consolidation agreement or group relief with Société Générale entities:

- ALD Automotive A/S (Denmark) had signed a tax consolidation agreement with SG Group in 2005 (ALD and SG Finans), with Denmark NF Fleet joining in 2006. Danish companies, regarded as separate taxable entities, are covered by the rules of national joint taxation which implies that the loss in one company can be set off against the taxable income in another company.
- Axus Italiana Sarl (Italy) had joined SG tax consolidation group in Italy in 2016. This regime allows the determination of a single IRES taxable base comprised of the taxable income and losses of each of the participating entities.
- ALD Automotive Group PLC (UK) had joined SG Group relief in 2001, allowing members of the group of companies to transfer certain Corporate Tax losses to other members of the Group.
- Merrion Fleet Management Ltd and Merrion Fleet Finance Ltd had joined SG group relief in 2017, allowing members of the group of companies to transfer certain Corporate Tax losses to other members of the Group.

#### **NOTE 34. AUDITORS' FEES**

The total fees of the Company's auditors, as charged to the consolidated income statement for the year ended December 31, 2018, amounted to:

- For Deloitte & Associés: EUR 1.9 million for the certification of the accounts
- For Ernst & Young & Associés: EUR 1.5 million for the certification of the accounts

#### **NOTE 35. EVENTS AFTER THE REPORTING PERIOD**

There are no events after the reporting period for the year ending December 31, 2018.

**NOTE 36. SCOPE OF CONSOLIDATION**

(in %)	As at December 31,	
	2018	2017
<b>ALD S.A.</b>	<b>Parent company</b>	<b>Parent company</b>
<b>Consolidated companies under global integration</b>	<b>interest %</b>	<b>interest %</b>
ALD Autoleasing D GmbH (*)	100.00	100.00
ALD Automotive - Russia	100.00	100.00
ALD Automotive A/S - Denmark	100.00	100.00
ALD Automotive AB - SWEDEN	100.00	100.00
ALD Automotive AG - Switzerland	100.00	100.00
ALD Automotive AS - NORWAY	100.00	100.00
ALD Automotive D.O.O. Beograd - SERBIA	100.00	100.00
ALD Automotive Društvo s Ogranicenom Odgovornoscu za Operativni - Croatia (*)	100.00	100.00
ALD Automotive for Cars Rental and Fleet Management S.A.E. - EGYPT	100.00	100.00
ALD Automotive Fuhrparkmanagement und Leasing GmbH - Austria	100.00	100.00
ALD Automotive Group PLC - UK (*)	100.00	100.00
ALD Automotive LTDA - BRAZIL	100.00	100.00
ALD Automotive Magyarorszag KFT - HUNGARY (*)	100.00	100.00
ALD Automotive Operational Leasing DOO - SLOVENIA	100.00	100.00
ALD Automotive Polska Spolka z Organiczona Odpowiedzialnoscia - POLAND	100.00	100.00
ALD Automotive Private Limited - INDIA	100.00	100.00
ALD Automotive Russia Sas	100.00	100.00
ALD Automotive S.A. de C.V. - MEXICO	100.00	100.00
ALD Automotive S.A. Lease of Cars - GREECE	100.00	100.00
ALD Automotive SA – SPAIN (*)	100.00	100.00
ALD Automotive SRO - Czech Republic	100.00	100.00
ALD Automotive Turizm Ticaret Anonim Sirketi - TURKEY	100.00	100.00
ALD Fleet (SOFOM)	100.00	100.00
ALD International Participations SAS	100.00	100.00
ALD International SAS & CO KG (*)	100.00	100.00
ALD RE DAC - IRELAND	100.00	100.00
Axus Finland OY	100.00	100.00
Axus Italiana Sarl	100.00	100.00
Axus Luxembourg SA	100.00	100.00
Axus Nederland BV	100.00	100.00
AXUS SA NV - BELGIUM (*)	100.00	100.00
First lease Ltd - UKRAINE	100.00	100.00
SG ALD Automotive Portugal Sociedade Geral de Comercio e Aluguer de Benz sa	100.00	100.00
TEMSYS - France (*)	100.00	100.00
ALD Automotive Algeria SPA	99.99	99.99
ALD Automotive SRL - ROMANIA	80.00	80.00
Denmark NF fleet	80.00	80.00
Finland NF fleet	80.00	80.00
NF fleet AB - SWEDEN	80.00	80.00
Norway NF Fleet	80.00	80.00
ALD Automotive Eesti AS - Estonia	75.01	75.01
ALD Automotive SIA - LATVIA	75.00	75.00
UAB ALD Automotive - Lithuania	75.00	75.00
ALD Bulgaria	100.00	51.00
ALD Fortune Auto Leasing and Renting Co. Ltd - China	50.00	50.00
ALD Automotive Limitada (Chile)	100.00	100.00
ALD Automotive Peru S.A.	100.00	100.00
ALD Automotive Colombia S.A.S.	100.00	100.00
ALD Automotive Slovakia S.R.O	100.00	100.00
Merrion Fleet Mgmt (*)	100.00	100.00
<b>Consolidated companies under equity method</b>		
ALD Automotive SA Morocco	35.00	35.00
Nedderfeld 95 Immobilien GmbH & Co. KG	35.00	35.00

(\*) Including subsidiaries