# NORTHGATE PLC

## *PRELIMINARY RESULTS FOR THE 12 MONTHS ENDED 30 APRIL 2018*

### Good progress in delivery of strategic initiatives - growth accelerating across the Group

| Year ended 30 April | **2018**<br>**£m** | 2017<br>£m | *Change*<br>*%* |
|---|---|---|---|
| Revenue – vehicle hire | **471.2** | 456.1 | *+3.3%* |
| Revenue – vehicle sales | **230.5** | 211.3 | *+9.1%* |
| Underlying[1] EBITDA | **251.0** | 241.3 | *+4.0%* |
| Underlying[1] Operating Profit | **68.3** | 84.6 | *(19.2%)* |
| Underlying[1] Profit before Tax | **57.0** | 75.0 | *(24.0%)* |
| Underlying[1] Earnings per Share | **34.8p** | 47.3p | *(26.4%)* |
| Dividend per Share | **17.7p** | 17.3p | *2.3%* |
| Profit before Tax | **52.7** | 72.2 | *(27.0%)* |
| Earnings per Share | **32.4** | 45.7 | *(29.0%)* |
| Net Replacement Capex[1] | **(185.8)** | (172.9) | 7.5% |
| EBITDA less Net Replacement Capex | **65.2** | 68.4 | *(4.7%)* |
| Growth Capex[1] (incl. acquisition) | **(125.2)** | (1.2) | - |
| Net Debt | **(439.3)** | (309.9) | *(41.8%)* |
| Return on Capital Employed % | **7.5%** | 10.5% | - |

**Full year Highlights**

New strategy implemented during the year created strong momentum in our markets:

- UK vehicles on hire (VOH) returned to growth, with organic year-end closing VOH 6.9% higher.
- 3,400 further vehicles now acquired in the UK following a competitor entering administration.
- Relaunched minimum term rental proposition, delivering strong growth in both Spain and UK
- Step up in VOH in Spain drove 14.8% growth in rental revenue.
- New fleet optimisation strategy implemented during final quarter, to improve future cash returns.
- Refinancing agreed to extend majority of the Group's Revolving Credit Facility for one year and to increase the leverage covenant.
- Final dividend 11.6p per share proposed (2017 11.6p) taking the total dividend payable for the year to 17.7p per share, an increase of 2.3% (2017: 17.3p).

(1) Refer to GAAP Reconciliation and Glossary of terms note.

**Kevin Bradshaw, Chief Executive of Northgate, commented:**

"During the year we comprehensively overhauled Northgate's rental strategy to address the compelling growth opportunity in our markets, and we have made good progress implementing this, ending the year with real momentum in both our main territories.

Our self-help turnaround programme in the UK started to deliver tangible results, with more competitive pricing, commercial agility and competitive new propositions reversing the previous decline in VOH, which ended the year 6.9% higher on a like-for-like basis than at the same time last year. We have now acquired more than 3,400 vehicles following a competitor's entry into administration, reinforcing our momentum in the market.

In Spain, our rate of growth stepped up substantially as we used our leadership in flexible hire to launch new propositions into a wider range of target markets. This drove strong growth in VOH and rental revenue, and our market leading operations ensured that rental margins were maintained, as we deployed substantial additional capital to grow our fleet.

In both Spain and the UK our profits from disposals were significantly lower, due to a range of legacy commercial and financial factors. We have now implemented a new fleet optimisation strategy across the group, that will extend vehicle holding periods, create a more efficient capital base and maximise shareholder value.

In October 2017 we set out targets for our businesses, and we are now evolving these further, to reflect the material developments over the past six months, and to relate our targets more closely to our key financial indicators, including rental profit and cashflow. Our overarching medium-term objectives have not changed, which are to deliver strong revenue growth, expanded margins and attractive returns for shareholders, and we are encouraged by progress made to date."

**Outlook & Guidance**

***UK***

The VOH growth delivered during the second half of FY2018 has continued into early FY2019, providing an encouraging start to the year. The market remains competitive and although there are indications of price pressure easing, significant cost pressures remain, including OEM price increases as well as investments to drive growth and improve our operating efficiency.

In line with previous guidance, we expect mid-high single-digit organic VOH growth in FY2019 and, with the addition of the VOH impact of the vehicles we acquired, this is expected to drive strong rental revenue growth. Our continuing focus on driving growth, and the costs of our business transformation programme, are expected to lead to rental margins being broadly flat in FY2019.

Rental profits are expected to grow significantly beyond FY2019, with VOH expected to continue to grow in line with previous guidance, and margins expanding due to operational leverage and efficiencies being delivered as a result of our transformation programme.

From FY 2019 Ireland will be reported as part of the UK and this guidance includes Ireland.

***Spain***

The VOH growth delivered during the second half of FY2018 has continued into early FY2019, demonstrating the continuing momentum in the business. We are seeing some increasing price competition in the flex rental market, as well as continuing cost pressures including the cost of network expansion.

In line with previous guidance, we expect double-digit VOH growth in FY2019, driving continuing strong rental revenue growth. Rental margins in FY2019 are expected to expand due to the positive impact of depreciation rate change previously guided.

Beyond FY2019 further rental profit growth is expected, driven primarily by previously guided growth in VOH and operating leverage.

***Group***

Group operating profits in FY2019 will be impacted positively by the change in depreciation rates implemented with effect from 1 May 2018, partially offset by the remaining negative impact of previous rate changes, in line with previous guidance.

Group rental profit is expected to grow strongly, driven by continuing VOH growth and expanding margins in Spain.

As previously guided, due to the new fleet optimisation strategy introduced in the final quarter of FY2018, which will extend vehicle holding periods by 3-9 months, vehicle disposal profits across the Group in FY2019 are expected to be significantly lower than in FY2018.

The interest charge in FY2019 will be higher due to the higher net debt and the higher margin charge this incurs.

Beyond FY2019 we expect further rental profit growth, and higher disposal profits, as the process of fleet aging is completed and disposal volumes increase.

ROCE in FY2019 will be impacted by the reduction in disposal profits, as the fleet is aged, and by strong growth in VOH, with capital employed increasing ahead of the profit from the growth vehicles.

**Capex and cash Flow**

The reduction in vehicle disposal volumes in FY 2019 due to the implementation of the fleet optimisation strategy will be reflected in Group net replacement capex, which is expected to be 25-35% lower than in FY2018. This will deliver an increase in EBITDA less net replacement capex in FY2019 of £50-£70 million.

Organic growth capex in FY2019 is expected to be in the range £90-120 million, and to generate marginal returns substantially ahead of WACC. Beyond FY2019 growth capex will reflect the continuing strong VOH growth anticipated.

**Net Debt**

We plan to maintain our balance sheet within a target leverage range of 1.5 to 2.5 times net debt to EBITDA, and during periods of significant growth we would expect leverage to be towards the higher end of this range. This is consistent with our objective of maintaining a balance sheet that enables us to finance our growth plans, is efficient in terms of providing long term returns to shareholders, and safeguards the Group's financial position through economic cycles. This updates our previous the leverage guidance of 1.25 to 1.85 times net debt to EBITDA.

***GAAP reconciliation and glossary of terms***

Throughout this document we refer to underlying results and measures; the underlying measures allow management and other stakeholders to better compare the performance of the group between the current and prior period without the effects of one-off or non-operational items. Underlying measures exclude certain one-off items such as those arising from restructuring activities and

recurring non-operational items. Specifically we refer to disposal profit. This is a non-GAAP measure used to describe the adjustment in depreciation charge made in the year for vehicles sold at an amount different to their net book value at the date of sale (net of attributable selling costs).

A reconciliation of GAAP to Non-GAAP underlying measures and a glossary of terms used in this document are outlined below the financial review.

**Next Results**

Northgate will provide a First Quarter Trading Update on the day of its Annual General Meeting on 18 September.

## Contact details

There will be a presentation for investors and analysts at 9.00 a.m. today at Numis, 5th Floor, London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT. If you have not already registered to attend, please contact MHP Communications on the number below.

A live webcast of this presentation will be available via a link on the Company's web-site www.northgateplc.com .
There will also be a listen-only dial-in facility on 0800 358 6377 (toll-free) or 0330 336 9126 (local)
Confirmation code 9977392.

For further information please contact:


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**Notes to Editors:**

Northgate plc is the leading light commercial hire business in the UK, Spain and Ireland by fleet size and has been operating in the sector since 1981.

Northgate's core business is the hire of light commercial vehicles to businesses on a flexible or term basis, giving customers the ability to manage their vehicle fleet requirements in a way which can adapt to changing business needs without the requirement to enter into a long-term arrangement.

**CHAIRMAN'S STATEMENT**

During 2018 much work has been undertaken to position the Group to deliver sustainable long-term growth in revenues, profits and shareholder returns. Our work has involved bringing in new senior management and supporting and encouraging the Executive team through the development and implementation of a long-term strategy focused on delivering shareholder value. New and, we believe, higher quality revenue streams have been developed and actions have been taken to better manage our businesses on a day to day basis. The impact of some of these actions has dampened short-term earnings but the Board is confident that the changes which have been made position Northgate well to deliver good progress going forwards.

During the year a comprehensive strategic review was undertaken together with a thorough analysis of how returns from our investment in vehicles can be maximised. From this work our revised strategy evolved and this strategy will, we believe, deliver improved performance and is more closely aligned with delivering good returns for all of our shareholders. Further details of this are contained in the CEO's report.

**Performance**

Revenues grew by 5% to £702m (2017: £667m), Group underlying operating profit was £68.3m (2017: £84.6m) and underlying earnings per share were 34.8p, (2017: 47.3p). The decline in Group operating profit resulted from a number of factors, principally a lower level of rental profit in the UK and Ireland together with significantly lower levels of profit on disposal of used vehicles across the Group. A further impact was felt from new vehicle and other cost inflation.

Against this backdrop it is noteworthy that our Spanish business continued its excellent performance with rising VOH and increased rental profits. Furthermore, it is encouraging to see the early signs of an improved performance in the UK, with the fourth quarter delivering growth in VOH to yield a year-end VOH volume almost 7% ahead of the previous year. This improving trend together with some upward revisions in hire rates should help to deliver improved UK rental profit performance in 2019.

The impact of lower profit from used vehicles negatively impacted the profits in both Spain and the UK. This is principally a reflection of the sale of younger vehicles in previous years. Going forward, under the Group's Fleet Optimisation programme, we expect to age our fleet more and this should lead to improved returns.

On a "steady-state" basis Northgate tends to generate high levels of free cash flow. However, as the Group develops its business, with increasing VOH, the capital investment required for this expansion will absorb a significant proportion of free cash flow. We believe that, with its current capital structure, targeted leverage at 1.5-2.5x and the progressive dividend policy with a cover range of 2.0x - 3.0x the Group is well-placed to continue to develop its business, grow VOH and deliver increased profits and returns.

**Dividend**

The Group is in a strong financial position with the current bank facilities recently re-negotiated to give a longer duration and more flexible leverage covenants. For the year ended 30 April 2018, we are proposing a final dividend of 11.6p (2017: 11.6p) which, together with the interim dividend of 6.1p (2017: 5.7p), gives a full year dividend of 17.7p (2017:17.3p) representing an increase of 0.4p on 2017. If approved by Shareholders, the final dividend will be paid on 21 September 2018 to Shareholders on the register on 10 August 2018.

**Board Changes**

During the year the previous CFO, Paddy Gallagher, left the business. Since September 2017 David Tilston has served as the Company's Interim CFO. I am pleased to report that Phillip Vincent has been appointed as Group CFO with effect from 16 July 2018. David Tilston will remain in the business for a short period in order to facilitate an effective handover.

Philip was most recently at SABMiller plc where he was Regional Finance Director, Asia Pacific and previously Director of Group Finance and Control. Prior to this Philip was for three years CFO of BBC Worldwide, which was the main commercial arm of the BBC, following a range of senior financial roles there.

I am delighted to welcome Philip Vincent to the Board of Northgate. He brings a wealth of relevant financial and commercial experience gained in a wide range of senior roles, in the UK and internationally, which will enable him to make a significant contribution to Northgate's future success. I would like to thank David Tilston for undertaking the role of CFO on an interim basis.

**The Way Forward**

Our core objective is to grow shareholder value and we will do this by developing a business capable of delivering long-term, sustainable and growing cash flows, achieved through a disciplined approach to deployment of capital and a rigorous focus on execution. Our touchstones will be cash flow and returns on investment.

As set out in our CEO's report, the potential market for Northgate's product and services is significant and we are determined to develop and grow our business to access more of this landscape. The strategic review, which was conducted by our Executive team with input from external consultants, demonstrated the potential for Northgate to grow. It is pleasing to see the growth in our minimum term hire business in both Spain and the UK. The quality of earnings from this product is more predictable and represents an enhancement. We believe that there is significant opportunity to grow this segment alongside our traditional flexible rental business.

**Our People**

I would like to record the Board's thanks to all of our 3,000 team members throughout Northgate. They are the people who, day in and day out, make sure that our customers receive a superb service and we are most grateful to them.

**Outlook**

Much work has been done at Northgate over the past twelve months to position the business for further profitable growth and development. We now have strong Executive teams in both the UK and Spain, our Irish business has been incorporated under the UK Executive team and we have a clear strategy to grow our revenues, profits and returns.

We ended 2018 with good momentum and 2019 has started well. I am confident that a fully focused Northgate team can continue the progress and deliver improving performance for the benefit of all of our Shareholders.

**Andrew Page, Chairman**

## CHIEF EXECUTIVE REVIEW

### Our opportunity

There are more than 8 million Light Commercial Vehicles (LCV) on the roads in Northgate's three territories. These vehicles are either purchased, rented for a committed term, or rented for a flexible period, and LCV transactions generate total annual revenues of approximately £15 billion. Growth in the LCV minimum term and flexible rental markets is particularly strong, driven by three factors:

- Cultural change - customers no longer feel that they need to own vehicles outright;
- Cash-flow – customers see the attraction of a low initial deposit followed by the certainty in ongoing cash flows that is afforded by minimum term rental models; versus the high initial cash outlay coupled with uncertainty about the residual value associated with outright purchase;
- Whole-life costs – customers recognise that third party provision and management of vehicles results in lower total costs over the life of the vehicle than if it is owned.

We believe strongly that these three factors are driving a major structural shift in the LCV market, away from vehicle ownership, and that this will underpin continuing strong growth in both the minimum term and flexible rental sectors in the coming years.

### Our strategy

***Rental***

The flexible and minimum term rental and second-hand vehicle trading segments in which Northgate participates represent around 70% of the total LCV market by value. Our aim is to build on our strong market positions and exploit our relative competitive advantages in these segments to deliver strong growth and attractive returns. The strategy is built around four market objectives:

1. Defend and grow our share of flexible rental markets
2. Gain share in minimum term markets
3. Convert vehicle ownership to minimum term rental
4. Consolidate the fragmented UK used LCV resale market

Northgate has a range of competitive strengths that we are now reinforcing and deploying to deliver on these strategic market objectives, including:

- Our strong brand, reputation and relationships in the LCV market;
- The breadth and depth of our operational experience and expertise;
- Our nation-wide network of rental depots, service workshops and sales forecourts across all our territories – delivering both national coverage capability as well as a presence in local markets;
- Our purchasing scale and strong relationships with vehicle manufacturers;
- Our strong balance sheet and cashflows and our disciplined approach to capital deployment.

We are now further enhancing our capabilities and bringing these competitive advantages to bear on the market, focusing rigorously on execution in pursuit of the clear growth opportunities identified.

In the year ended 30 April 2018 we started to see the first tangible results from this rental strategy in both our main markets, with the results to date described in detail below.

***Management of the vehicle fleet***

Following an extensive review of vehicle economics in all territories, it was concluded that holding vehicles for longer periods would improve cash returns, and this policy was applied during the fourth quarter. This will extend average vehicle holding periods by between 3 and 9 months, unless constrained by operational factors such as mileage or the condition of the vehicle.

Implementing this policy will lead initially to a reduction in vehicle sales, with a corresponding reduction in replacement vehicle purchases, so that for the period over which the fleet is aged, the revenue and profits from disposals, net replacement capex, and net debt levels will all be lower than they would have been under the previous policy. There will be no impact on EBITDA or operating cashflow.

Over the longer term this strategy will deliver a more efficient capital base, as the like-for-like average net book value of vehicles in the fleet falls, and this should support higher ROCE and cash returns. Depreciation rates will be adjusted prospectively from 1 May 2018.

## OUR 2018 PERFORMANCE

### UK

| Year ended 30 April<br>**KPI** | **2018**<br>**('000)** | 2017<br>('000) | *Change*<br>*%* |
|---|---|---|---|
| Average VOH | **40.2** | 41.4 | *(2.9%)* |
| Closing VOH (organic) | **42.2** | 39.5 | *+6.9%* |
| Vehicles purchased (incl. acquired) | **22.3** | 15.4 | *+44.8%* |
| Vehicles sold | **19.8** | 20.4 | *(2.9%)* |
| Profit per Unit (PPU) £ | **384** | 703 | *(45.4%)* |
| Closing fleet size (incl. acquired) | **52.9** | 46.4 | *+14.0%* |
| Average utilisation % (organic) | **87%** | 88% | *(1 ppt)* |
| Average fleet age at year-end (mo.) | **21** | 22 | *(1 mo.)* |

| Year ended 30 April<br>**PROFIT & LOSS** (Underlying) | **2018**<br>**£m** | 2017<br>£m | *Change*<br>*%* |
|---|---|---|---|
| Revenue – Vehicle hire | **263.8** | 272.2 | *(3.1%)* |
| Revenue – Vehicle sales | **149.1** | 144.0 | *+3.5%* |
| Total Revenue | **412.9** | 416.2 | *(0.8%)* |
| Rental profit | **23.0** | 29.5 | *(22.2%)* |
| *Rental Margin %* | ***8.7%*** | *10.9%* | *(2.2 ppt)* |
| Disposals profit | **7.6** | 14.3 | *(47.0%)* |
| Operating profit | **30.6** | 43.9 | *(30.3%)* |
| ROCE % | **6.4%** | 9.4% | *(3.0 ppt)* |

***Rental business***

Average VOH in the UK in 2018 declined by 2.9% compared to 2017, which resulted in a 3.1% year-on-year fall in rental revenue to £263.8 million (2017: £272.2 million). The year-on-year VOH trend improved substantially through the course of the year, however, from a decline of 6.5% in the first quarter to organic growth of 3.2% in the fourth quarter, and this momentum was reflected in organic VOH of 42,200 at the end of the year, 6.9% higher than at the same time in the previous year.

This turnaround in UK VOH from decline to growth was driven by the new rental strategy, extensive senior management changes, and the self-help actions that resulted from the strategy, in particular in marketing and sales. The marketing function was restructured to focus on lead generation, and new digital marketing and telesales capabilities were developed. In the sales function there was an enhanced focus on lead conversion and simplification of customer acquisition processes.

Northgate also made more use of tactical price flexibility, to compete more effectively and defend and grow share in the flexible rental market, resulting in a return to growth in flexible rental in the fourth quarter after a period of decline previously.

In the minimum term market, a compelling new proposition was launched in September 2017, built around Northgate's main competitive strengths, and this gained strong traction in the market through the second half. At the end of the year minimum term hire contracts accounted for around 11% of total UK VOH, compared to around 1% at the start of the year. The average term of these contracts is three years, representing a significant improvement in the visibility of rental revenue and earnings.

The more competitive price positioning and acquisition of new minimum term contract customers also contributed to lower margins in the UK, with the rental margin in 2018 reducing by 2.2 ppts to 8.7%, compared to 10.9% during 2017.

The rental margin was also impacted negatively by higher vehicle purchase and other costs which were not passed on to customers during 2017 and 2018. On 1 May 2018 prices were therefore raised by 4.8% for UK flexible rental customers, passing on the cumulative impact of new vehicle and other cost inflation. Initial indications from the market are that competitors' prices are also increasing, and there has been no material increase in Northgate customer churn.

The net impact of the lower average VOH and lower rental margins was a 22.2% reduction in UK rental profits to £23.0 million (2017: £29.5 million).

Northgate ended the year with real momentum in both the flexible and minimum term rental markets in the UK, and the strong organic VOH growth that accelerated through the course of the year was then reinforced by the acquisition of 3,400 additional vehicles around the year end.

***Transaction to acquire additional vehicles***

During the fourth quarter a competitor entered administration and in April Northgate acquired approximately 3,200 vehicles from certain of the funders to whom ownership of the vehicles had reverted. Shortly after the end of the year a further 200 vehicles net were added. The total consideration is expected to be approximately £36 million net, of which £13 million was incurred before 30 April.

A process was initiated to determine the optimal commercial solution for each acquired vehicle, including potential conversion of the previous competitor's customers onto Northgate agreements and tariffs, or integration of the vehicle into the existing rental fleet, or sale of the vehicle. Around 2,000 of the vehicles acquired are expected to have become Northgate VOH by the end of the first quarter of 2019, with the remainder either sold or awaiting redeployment into the rental fleet.

*Management of fleet and vehicle sales*

The total UK fleet size increased by 14.0% to 52,900 vehicles, driven by growth in closing VOH and the acquisition of 3,200 vehicles at the end of the year. As well as this acquisition, the increase comprised 19,100 vehicles purchased for the fleet less approximately 15,800 de-fleeted vehicles. The average age of the fleet at the end of the year was around one month lower compared to the same time last year, reflecting the growth in VOH towards the end of the year.

A total of 19,800 vehicles were sold in the UK during the year, including third-party vehicles purchased for resale and sales from stock. Total sales were 2.9% lower than in the previous year. Sales through Van Monster channels accounted or 48% of total sales in the year, compared to 36% in 2017.

The average UK profit per unit (PPU) on disposals fell by more than 45% in 2018 to £384 (2017: £703). This reflected the previous policy of selling younger vehicles with higher book values, as well as the (£136) impact on PPU of the unwind of previous depreciation rate changes. Primarily as a result of the lower PPU, disposal profits in the UK almost halved to £7.6 million, from £14.3 million in 2017.

*Operating profit and ROCE*

The reductions in rental profit and profit from disposals both contributed almost equally to the decrease of £13.3 million in UK operating profit, to £30.6 million (2017: £43.9 million).

The return on capital employed in the UK was 6.4% (2017: 9.4%) reflecting both the fall in operating profit and the increase in capital employed resulting from the growth in the fleet and the higher replacement costs incurred under the previous fleet management policy. The new strategy to age the fleet should reduce the capital employed per vehicle and improve the efficiency of the capital base.

*Capex and cashflow*

| Year ended 30 April<br>£ million | **2018**<br>**£m** | 2017<br>£m | *Change*<br>*%* |
|---|---:|---:|---:|
| Depreciation | **(96.8)** | (90.1) | *(7.4%)* |
| EBITDA | **128.1** | 134.2 | *(4.8%)* |
| Net Replacement Capex | **(91.0)** | (89.1) | *(2.1%)* |
| EBITDA less Net Replacement Capex | **37.1** | 45.1 | *(17.7%)* |
| Growth Capex (incl. inorganic) | **(54.1)** | 22.2 | - |

EBITDA reduced by 4.8% to £128.1 million (2017: £134.2 million) due to the lower rental revenue. Total UK operating costs excluding depreciation were flat year-on-year, with the lower direct costs resulting from the reduction in average VOH in the year offset by a small increase in indirect costs.

Net replacement capex in the year was £91.0 million, 2.1% higher than in 2017, mainly due to new vehicle price inflation.

EBITDA less net replacement capex reduced by 17.7% in 2018 to £37.1 million (2017: £45.1 million) reflecting the lower EBITDA and higher replacement capex in the year. Investment to grow the fleet was £54.1 million, including approximately £13 million partial cost of the acquired vehicles, compared to disinvestment of £22.2 million in 2017, when the fleet contracted.

## SPAIN

| Year ended 30 April<br>**KPI** | **2018**<br>**('000)** | 2017<br>('000) | *Change*<br>*%* |
|---|---|---|---|
| Average VOH | **40.3** | 36.0 | *+11.9%* |
| Closing VOH | **42.7** | 37.7 | *+13.3%* |
| Vehicles purchased | **18.9** | 15.5 | *+21.9%* |
| Vehicles sold | **13.0** | 12.7 | *+2.4%* |
| PPU € | **871** | 1,589 | *(45.2%)* |
| Closing fleet size | **48.0** | 41.8 | *+14.8%* |
| Average utilisation % | **91%** | 91% | - |
| Average fleet age at year-end (mo.) | **19** | 20 | *(1 mo.)* |

| Year ended 30 April<br>**PROFIT & LOSS** (Underlying) | **2018**<br>**£m** | 2017<br>£m | *Change*<br>*%* |
|---|---|---|---|
| Revenue – Vehicle hire | **187.6** | 163.4 | *+14.8%* |
| Revenue – Vehicle sales | **73.5** | 63.2 | *+16.3%* |
| Total Revenue | **261.2** | 226.7 | *+15.2%* |
| Rental profit | **29.0** | 25.5 | *+13.6%* |
| *Rental margin %* | ***15.4%*** | *15.6%* | *(0.2 ppt)* |
| Disposals profit | **10.0** | 17.1 | *(41.6%)* |
| Operating Profit | **39.0** | 42.6 | *(8.6%)* |
| ROCE % | **10.0%** | 14.2% | *(4.2 ppt)* |

***Rental business***

Average VOH in Spain grew by 11.9% in 2018 and this was the major driver of the 14.8% growth in rental revenue to £261.2 million (2017: £226.7 million). The reported growth in rental revenue benefitted from weaker sterling, with rental revenue growing by 10.0% at constant exchange rates.

Year-on-year VOH growth accelerated through the course of the year, building from 8.1% in the first quarter up to 14.1% in the fourth quarter, and closing VOH of 42,700 at the end of the year was 13.3% higher than at the same time in the previous year.

Northgate's rapid growth is underpinned by the growth in the Spanish market, driven by favourable macro-economic conditions, a thriving service sector, and the structural shift away from outright vehicle ownership and into minimum term hire in particular. Northgate's VOH growth is above the market rate of growth, driven by effective execution of the company's strategy.

The step up in the pace of VOH and rental revenue growth was mainly driven by leveraging Northgate's leading position in the flexible rental market to push hard into minimum term hire market with a range of compelling new propositions. As well as exploiting opportunities for cross-selling created by the company's deep relationships across the LCV market, the strategy includes bundling of minimum term and flexible products, and this approach gained significant traction with larger customers in particular. At the end of the year around 23% of VOH were being supplied on minimum term contracts.

Other factors that contributed to the strong VOH growth included targeting of fast growing market segments such as refrigerated vehicles for food distribution, companies participating in Spain's major infrastructure investment programme, and electric vehicles for municipal authorities.

The 2018 rental margin was broadly flat at 15.4% (2017: 15.6%) as the operational leverage of the higher revenue base and improvements in operational efficiency more than offset the impact of more minimum term customers in the VOH mix and vehicle price inflation. Vehicle utilisation in the year remained above 91%.

Rental profits in 2018 grew 13.6% to £29.0 million (2017: £25.5 million) driven by the growth of VOH. Rental profits grew by 8.8% at constant exchange rates.

***Management of fleet and vehicle sales***

The total fleet size in Spain increased by 14.8% to 48,000 vehicles, driven by the rapid growth in VOH during the year. This net increase of 6,200 vehicles comprised 18,900 vehicles purchased for the fleet less approximately 12,700 de-fleeted vehicles. The average age of the fleet at the end of the year was around one month lower than at the same time last year, mainly reflecting the strong growth in VOH and resulting expansion of the fleet during the second half of the year.

A total of 13,000 vehicles were sold in the Spain during the year, 2.4% more than in the previous year. The average profit per unit (PPU) on disposals in Spain fell by more than 45% to €871 (2017: €1,589), reflecting the previous policy of selling increasingly younger vehicles with higher book values, as well as the (€131) impact on PPU of the unwind of previous depreciation rate changes. As a result of the lower PPU, profits from vehicle sales fell by 41.6% to £10.0 million (2017: £17.1 million).

***Operating profit and ROCE***

The growth of rental profit of £3.5 million was more than offset by the £7.1 million fall in disposal profits, with total operating profit declining by £3.6 million (8.6%) to £39.0 million (2017: £42.6 million). Profits reported by the Spanish business benefitted from weaker sterling, and operating profit at constant currency decreased by 12.4%.

The return on capital employed in Spain was 10.0% (2017: 14.2%) reflecting both the fall in operating profit and the increase in capital employed that was driven by the growth and mix of the fleet.

***Capex and cashflow***

| Year ended 30 April | **2018** | 2017 | *Change* |
|---|---|---|---|
| **CASHFLOW** | **£m** | £m | *%* |
| Depreciation | **(76.7)** | (56.0) | *(36.9%)* |
| EBITDA | **115.7** | 98.6 | *+17.3%* |
| Net Replacement Capex | **(80.5)** | (77.3) | *(4.1%)* |
| EBITDA less Net Replacement Capex | **35.2** | 21.3 | *+65.1%* |
| Growth Capex | **(72.0)** | (20.0) | *nm* |

EBITDA increased by 17.3% to £115.7 million (2017: £98.6 million) reflecting operational leverage resulting from the growth of the business, with 70% of the increase in rental revenue in the year falling straight to EBITDA. Fixed costs in Spain were slightly higher year-on-year, mainly due to the expansion of some rented depot facilities and higher marketing costs.

Net replacement capex in Spain in the year was £80.5 million, 4.1% higher than in 2017, mainly due to new vehicle price inflation. EBITDA less net replacement capex grew by 65.1%, to £35.2 million (2017: £21.3 million), reflecting the operational leverage. Growth capex was £72 million, £52 million higher than in 2017, due to the rapid VOH growth and expansion of the fleet

**IRELAND**

| Year ended 30 April | **2018** | 2017 | *Change* |
|---|---|---|---|
| **KPI** | **('000)** | ('000) | *%* |
| Average VOH | **3.3** | 3.4 | *(2.9%)* |
| Closing fleet size | **3.8** | 3.9 | *(2.6%)* |
| Utilisation % | **87%** | 89% | *(2 ppt)* |

| Year ended 30 April | **2018** | 2017 | *Change* |
|---|---|---|---|
| £ million | **£m** | £m | *%* |
| **PROFIT & LOSS** | | | |
| Revenue – Vehicle hire | **20.6** | 21.5 | (4.2%) |
| Revenue – Vehicle sales | **7.8** | 4.0 | *+93.8%* |
| Total Revenue | **28.4** | 25.6 | *+11.2%* |
| Operating Profit | **2.5** | 3.2 | *(21.3%)* |
| **CASHFLOW** | | | |
| EBITDA | **11.0** | 13.2 | *(16.8%)* |
| Net Capex | **(13.4)** | (9.9) | *(35.5%)* |

Average VOH in Ireland declined by 2.9% in 2018, reflecting some market uncertainty towards the end of the year, and a loss of commercial focus by the company in reacting to these conditions, reflected in lower utilisation rates. Rental revenue fell by 4.2% to £20.6 million (2017: £21.5 million) and EBITDA declined by 16.8% to £11.0 million (2017: £13.2 million) as a result of the negative operating leverage.

Revenue from vehicle disposals grew strongly to £7.8 million (2017: £4.0 million) due to the de-fleeting and sale of increasingly younger vehicles. The impact of the increase in sales volumes in the year was greater than the effect of the reduction in PPU that also resulted from the sale of younger vehicles.

Net capex of £13.4 million was 36% higher than in 2017 due to the more rapid replacement of the fleet, and EBITDA less total net capex swung from £3.3 million in 2017 to negative £2.4 million in 2018.

The Irish business is now being re-integrated into the UK business, with the functional heads in Ireland now reporting to their UK counterparts, and a plan launched to turn around the performance of the business, by returning VOH to growth and addressing a wide range of operational issues.

**Kevin Bradshaw, Chief Executive Officer**

## FINANCIAL REVIEW

### Group summary

A summary of the Group's financial performance as follows:

| Year ended 30 April | **2018**<br>**£m** | 2017<br>£m | *Change*<br>*£m* | *Change*<br>*%* |
|---|---|---|---|---|
| Revenue | **701.7** | 667.4 | *34.2* | *+5.1%* |
| Underlying operating profit | **68.3** | 84.6 | *(16.3)* | *(19.2%)* |
| Underlying profit before tax | **57.0** | 75.0 | *(18.0)* | *(24.0%)* |
| Underlying EPS | **34.8 p** | 47.3p | *(12.5p)* | *(26.4%)* |
| Dividend per share | **17.7 p** | 17.3p | *0.4p* | *2.3%* |
| Underlying free cash flow | **29.2** | 44.2 | *(15.0)* | *(33.9%)* |

On a statutory basis, Group operating profit was £64.1 million (2017: £81.5 million) and profit before tax was £52.7 million (2017: £72.2 million). The statutory effective tax rate was 18.0% (2017: 16.0%). Basic earnings per share were 32.4p (2016: 45.7p).

### Revenue

Group revenue increased by 5.1% to £701.7 million. Revenue grew by 3.4% at constant exchange rates, reflecting sterling weakness in 2018 compared to 2017.

Group revenue comprised:

| Year ended 30 April | **2018**<br>**£m** | 2017<br>£m | *Change*<br>*£m* | *Change*<br>*%* |
|---|---|---|---|---|
| Vehicle Hire | **471.2** | 456.1 | *15.1* | *3.3%* |
| Vehicle Sales | **230.5** | 211.3 | *19.2* | *9.1%* |

Vehicle rental revenue grew to £471.2 million from £456.1 million in 2017, mainly driven by the 3.7% increase in Group average VOH.

Group vehicle sales volumes remained broadly flat, with sales revenue growth being primarily driven by the 8.0% growth in average proceeds per vehicle, mainly due to younger vehicles being sold and the higher proportion of vehicles being sold through retail channels in the UK.

### Underlying operating profit

Underlying Group operating profit reduced by 19.2% to £68.3 million. Underlying operating profit was supported by £1.7 million of foreign exchange benefit.

Underlying Group operating profit comprised:

| Year ended 30 April | **2018**<br>**£m** | 2017<br>£m | *Change*<br>*£m* | *Change*<br>*%* |
|---|---|---|---|---|
| Rental Profit | **52.5** | 56.7 | *(4.2)* | *(7.5%)* |
| Disposals Profit | **19.6** | 33.0 | *(13.4)* | *(40.6%)* |
| Corporate Costs | **(3.7)** | (5.1) | *1.4* | *27.1%* |
| Total | **68.3** | 84.6 | *(16.3)* | *(19.3%)* |

The decline in Group vehicle rental profit reflected the growth in Spain, driven by strong growth of VOH and stable rental margins, being more than offset by the decline in the UK due to the decline in average VOH and lower rental margins.

The reduction in Group disposals profits resulted primarily from the higher net book value per vehicle sold, reflected in previous changes to depreciation rates (-£4.2 million) and the age profile of vehicles being sold (-£10.0 million). This was slightly offset by the impact of increased sales volumes (+£1.1 million).

Underlying corporate costs reduced to £3.7 million (2017: £5.1 million ).

**Depreciation rate changes**

The accounting requirements to adjust depreciation rates due to changes in expectations of future residual values of used vehicles make it more difficult to identify the underlying profit trends in the business. When a vehicle is acquired it is recognised as a fixed asset at its cost net of any discount or rebate receivable. The cost is then depreciated evenly over its rental life, matching its pattern of usage.

Matching of future market values to net book value on the disposal date requires significant judgement for the following key reasons:

1. Used vehicle prices are subject to short term volatility which makes it challenging to estimate future residual values;
2. The exact disposal age is not known at the point at which rates are set and therefore the book value at disposal date is not certain;
3. Mileage and condition are the key factors in influencing the market value of a vehicle. This can vary significantly through a vehicle's life depending upon how the vehicle is used.

Inevitably, a difference arises between the net book value of a vehicle and its market value at the date of disposal. Where differences arising are within an acceptable range these are adjusted against depreciation. Where these differences are outside of the range Northgate changes the depreciation rate estimate to better reflect the pattern of usage of the vehicle.

The impact of previous rate changes on 2018 operating profit, and the estimated impact on future years of the previous changes, is set out below:

| | **Cumulative impact** | **Year-on-year impact** | | |
|---|---|---|---|---|
| | **Group** | **Group** | **UK & Ireland** | **Spain** |
| Year: | **£m** | **£m** | **£m** | **£m** |
| 30 April 2013 | 5.3 | 5.3 | 5.3 | – |
| 30 April 2014 | 4.3 | (1.0) | (1.0) | – |
| 30 April 2015 | 15.7 | 11.4 | 8.4 | 3.0 |
| 30 April 2016 | 12.0 | (3.7) | (5.9) | 2.2 |
| 30 April 2017 | 6.3 | (5.7) | (4.1) | (1.6) |
| 30 April 2018 | 2.1 | (4.2) | (2.7) | (1.5) |
| 30 April 2019 | 2.1 | (2.1) | - | (2.1) |

In February 2018 the Group announced a new fleet optimisation strategy. This strategy optimises the holding periods of all vehicles across the Group with a focus on maximising shareholder returns.

This fleet optimisation strategy will deliver a more efficient capital base for the business as net book values are allowed to reduce, with more moderate capital expenditure and funding requirements in the short term supporting targeted increases in ROCE. The decision to extend holding periods, combined with continued progress in increasing the volume of disposals through the retail channel, would have resulted in higher profits on disposal going forwards on the basis of the depreciation rates in use before the change in fleet strategy.

The Board therefore reviewed depreciation rates in line with accounting standards and in March 2018 made the decision to reduce depreciation rates by 3% in Spain and Ireland and by 0.5% in the UK, with effect from 1 May 2018. The estimated impact on future years of these changes is set out below:

| | **Cumulative impact** | **Year-on-year impact** | | |
|---|---|---|---|---|
| | **Group** | **Group** | **UK & Ireland** | **Spain** |
| Year: | **£m** | **£m** | **£m** | **£m** |
| 30 April 2019* | 17.4 | 17.4 | 4.1 | 13.3 |
| 30 April 2020* | 12.0 | (5.4) | (1.4) | (4.0) |
| 30 April 2021* | 6.6 | (5.4) | (1.4) | (4.0) |
| 30 April 2022* | 1.3 | (5.3) | (1.4) | (4.0) |
| 30 April 2023* | – | (1.3) | – | (1.3) |

* These are management estimates based on indicative fleet size and assuming an equalised level of de-fleeting in each of the four years.

**Interest**

Net underlying finance charges for the year increased by 18.1% to £11.3 million (2017: £9.6 million) as a result of higher net debt. The net cash interest charge for the year was £10.7 million (2017: £9.0 million) as a result of higher borrowings and a £0.3 million adverse foreign exchange impact. Non-cash interest was £0.6 million (2017: £0.6 million).

**Underlying profit before tax**

Excluding the impact of foreign exchange, underlying profit before tax was £57.0 million, £18.0 million lower than in 2017 (2017: £75.0 million). Weaker sterling during the year increased profit before tax by £1.5 million compared to the prior year.

**Taxation**

The Group's tax underlying tax charge was £10.7 million (2017: £12.0 million) and the underlying effective tax rate was 18.7% (2017: 16.0%). The statutory effective tax rate was 18% (2017: 16%).

**Earnings per share**

Underlying EPS was 34.8p compared to 47.3p in the prior year. Statutory earnings per share was 32.4p compared to 45.7p in the prior year.

Underlying earnings for the purpose of calculating EPS were £46.4 million (2017: £63.0 million). The weighted average number of shares for the purposes of calculating EPS was 133.2m, in line with the prior year

**Exceptional items**

During the year £2.5 million of exceptional net costs were incurred (2017: £1.5 million) which mainly related to restructuring costs incurred in the UK as part of the strategic turnaround initiatives.

**Dividend and capital allocation**

In December 2017 the Board updated the Group's dividend policy, such that the underlying basic earnings per share will cover the total annual dividend within a range of 2.0x to 3.0x.

Subject to approval, the final dividend proposed of 11.6p per share (2016: 11.6p) will be paid on 21 September 2018 to shareholders on the register as at close of business on 10 August 2018.

Including the interim dividend paid of 6.1p (2017: 5.7p), the total dividend relating to the year would be 17.7p (2017: 17.3p). The dividend is covered 2.0x by underlying earnings, in line with stated policy.

The Group's objective is to build shareholder value by generating returns above the cost of capital. Capital will be allocated within the business in accordance with the framework outlined below, with the first priority being to allocate capital to support the Group's growth ambitions:

1. Investment for growth
2. Provide regular returns to shareholders
3. Acquisitions
4. Return of surplus cash

The Group plans to maintain a balance sheet within a target leverage range of 1.5 to 2.5 times net debt to EBITDA, and during periods of significant growth net debt would be expected to be towards the higher end of this range. This is consistent with the Group's objective of maintaining a balance sheet that is efficient in terms of providing long term returns to shareholders and safeguards the Group's financial position through economic cycles.

This policy represents an update to previous leverage guidance of 1.25 to 1.85 times net debt to EBITDA, reflecting the Group's current balance sheet position, growth aspirations and banking restrictions at that time.

**Cash flow**

A summary of the Group's cash is as follows:

| Year ended 30 April | **2018** | 2017 |
|---|---|---|
| | **£m** | £m |
| Underlying operational cash generation | **240.5** | 238.3 |
| Net capital expenditure | **(311.0)** | (174.1) |
| Net taxation and interest payments | **(22.2)** | (21.2) |
| Share purchases and refinancing costs | **(3.3)** | (0.1) |
| **Free cash flow** | **(96.0)** | 42.9 |
| Dividends | **(23.4)** | (21.9) |
| **Net cash (consumed)/generated** | **(119.4)** | 21.0 |

A total of £486.9 million was invested in new vehicles compared to £346.3 million in the prior year. The Group's new vehicle capital expenditure was partially funded by £186.9 million generated from the sale of used vehicles (2017: £177.0 million). Other net capital expenditure amounted to £11.0 million (2017: £4.8 million).

All vehicles required for the Group's operations are paid for in cash up-front. The cash flow generation of the Group in any year is therefore influenced by the capital expenditure to grow the business or

cash generated by adjusting the fleet size downwards if vehicles on hire reduce. If the impact of increasing or reducing the fleet size in the year is removed from net capital expenditure, the underlying free cash generation of the Group was as follows:

| Year ended 30 April | **2018** | 2017 |
|---|---|---|
| | **£m** | £m |
| Free cash flow | **(96.0)** | 42.9 |
| Add back: Growth capex | **125.2** | 1.2 |
| Underlying free cash flow | **29.2** | 44.2 |

Net debt reconciles as follows:

| Year ended 30 April | **2018** | 2017 |
|---|---|---|
| | **£m** | £m |
| Opening net debt | **309.9** | 309.9 |
| Net cash consumed/(generated) | **119.4** | (21.0) |
| Other non-cash items | **(0.8)** | 0.5 |
| Exchange differences | **10.8** | 20.5 |
| Closing net debt | **439.3** | 309.9 |

Free cash flow was £96.0m (2017: £42.9 million) after net capital expenditure of £311.0 million (2017 £(174.1) million). If the impact of growth capex in the year is removed from net capital expenditure in each year, the underlying free cash flow of the Group was £29.2 million (2017: £44.2 million).

Net cash consumption was £(119.4) million (2017: £21.0 million generated). After an adverse exchange rate impact of £10.8 million (2017: £20.5 million), closing net debt was £439.3 million (2017: £309.9 million) and gearing was 82% (2017: 61%).

**Borrowing facilities**

The group successfully refinanced its core bank facilities in the year, extending the final maturity date by one year. As at 30 April 2018 the Group had £442 million drawn against total committed facilities of £568 million, giving headroom of £126 million, as detailed below:

| | **Facility** | **Drawn** | **Headroom** | **Maturity** | **Borrowing Cost** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | | |
| UK bank facility | 457 | 343 | 114 | Jul-21 | 2.38% |
| Loan notes | 88 | 88 | – | Aug-22 | 2.38% |
| Other loans | 23 | 11 | 12 | Nov-18 | 0.94% |
| | **568** | **442** | **126** | | **2.27%** |

The overall cost of borrowings at 30 April 2018 is 2.27% (2017: 2.17%).

The margin charged on bank debt is dependent upon the Group's net debt to EBITDA ratio, ranging from a minimum of 1.50% to a maximum of 3.00%. The net debt to EBITDA ratio at 30 April 2018 corresponds to a margin of 2.25% (2017: 1.75%).

Interest rate swap contracts have been taken out which fix a proportion of bank debt at 2.40% (2017: 2.16%) giving an overall cost of bank borrowings (gross of cash balances) at 30 April 2018 of 2.28% (2017: 2.16%).

The other loans consist of £10.5m of local borrowings in Spain and £0.5m of preference shares.

The split of borrowings (gross of cash balances and excluding overdrafts) by currency is as follows:

| | **2018** | 2017 |
|---|---|---|
| | **£m** | £m |
| Euro | **328** | 256 |
| Sterling | **128** | 76 |
| Borrowings before unamortised arrangement fees | **456** | 332 |
| Unamortised arrangement fees | **(3)** | (2) |
| Borrowings (excluding cash and overdrafts) | **453** | 330 |

There are three financial covenants under the Group's facilities as follows:

| | **Threshold** | **April 2018** | **Headroom** | **April 2017** |
|---|---|---|---|---|
| Interest cover | 3x | 6.22 | £34m (EBIT) | 9.23x |
| Loan to value | 70% | 43% | £277m (Net debt) | 37% |
| Debt leverage | 2x | 1.76x | £31m (EBITDA) | 1.31x |

The covenant restriction on leverage was increased to 2.75x on refinancing of facilities in April 2018, to be applied from the next testing date. Had this applied to the April 2018 testing date the EBITDA headroom would have been £91 million.

**Balance sheet**

Net tangible assets at 30 April 2018 were £530.3 million (2017: £509.7 million), equivalent to a net tangible asset value of 398p per share (2017: 383p per share).

Gearing at 30 April 2018 was 82.8% (2017: 61.0%).

Return on capital employed was 7.5% (2017: 10.5%).

**Treasury**

The function of Group Treasury is to mitigate financial risk, to ensure sufficient liquidity is available to meet foreseeable requirements, to secure finance at minimum cost and to invest cash assets securely and profitably. Treasury operations manage the Group's funding, liquidity and exposure to interest rate risks within a framework of policies and guidelines authorised by the Board of Directors.

The Group uses derivative financial instruments for risk management purposes only. Consistent with Group policy, Group Treasury does not engage in speculative activity and it is Group policy to avoid using more complex financial instruments.

**Credit risk**

The policy followed in managing credit risk permits only minimal exposures, with banks and other institutions meeting required standards as assessed normally by reference to major credit agencies.

Group credit exposure for material deposits is limited to banks which maintain an A rating. Individual aggregate credit exposures are also limited accordingly.

**Liquidity and funding**

The Group has sufficient funding facilities to meet its normal funding requirements in the medium term as discussed above. Covenants attached to those facilities as outlined above are not restrictive to the Group's operations.

**Capital management**

The Group's objective is to maintain a balance sheet structure that is efficient in terms of providing long term returns to shareholders and safeguards the Group's financial position through economic cycles.

Operating subsidiaries are financed by a combination of retained earnings and borrowings.

The Group can choose to adjust its capital structure by varying the amount of dividends paid to shareholders, by issuing new shares or by adjusting the level of capital expenditure.

**Interest rate management**

The Group's bank facilities and other loan agreements incorporate variable interest rates. The Group seeks to manage the risks associated with fluctuating interest rates by having in place a number of financial instruments covering at least 50% of its borrowings at any time. The proportion of gross borrowings hedged into fixed rates was 73% at 30 April 2018 (2017: 97%).

**Foreign exchange risk**

The Group's reporting currency is, and 59% of its revenue is generated in Sterling (2017: 62%). The Group's principal currency translation exposure is to the Euro, as the results of operations, assets and liabilities of its Spanish and Irish businesses must be translated into Sterling to produce the Group's consolidated financial statements.

The average and year end exchange rates used to translate the Group's overseas operations were as follows:

| | **2018** | **2017** |
|---|---|---|
| | **£ : €** | **£ : €** |
| Average | 1.13 | **1.18** |
| Year end | 1.14 | **1.18** |

The Group manages its exposure to currency fluctuations on retranslation of the balance sheets of those subsidiaries whose functional currency is in Euro by maintaining a proportion of its borrowings in the same currency. The exchange differences arising on these borrowings have been recognised directly within equity along with the exchange differences on retranslation of the net assets of the Euro subsidiaries. At 30 April 2018 71% of Euro net assets were hedged against Euro borrowings (2017: 70%).

**Going concern**

Having considered the Group's current trading, cash flow generation and debt maturity including severe but plausible stress testing scenarios, the Directors have concluded that it is appropriate to prepare the Group financial statements on a going concern basis.

**David Tilston, Interim Chief Financial Officer**

**Principal Risks and Uncertainties**

## Economic environment

The demand for our products and services could be affected by a downturn in economic activity in the countries in which the Group operates.

Economic activity in the territories we operate could be adversely impacted by the UK decision to leave the EU or the ongoing uncertainty created by the current political situation in Spain.

The economic environment is pervasive across our business model as changes in the environment will impact our resources, offering and activities. However, demand for our flexible products could also be higher in periods of uncertainty.

The high level of operational gearing in our business model means that changes in demand can lead to higher levels of variability in profits.

An adverse change in macroeconomic conditions in times of political uncertainty or otherwise could also increase the risk of customer failure and therefore incidences of bad debts.

Flexibility is ingrained in the Group's business model and allows any vehicles returned to be placed with different customers. Alternatively, the group can generate cash and reduce debt by reducing purchases and increasing vehicle disposals.

The Group is not materially exposed to a single customer sector and no individual customer contributes more than 5% of total revenue generated.

The Group's current hedging arrangements protect it from material foreign exchange risks.

The impact of the UK's decision to leave the EU is still uncertain, as is the current Spanish political situation. However, there have been no material impacts on the group to date.

## Market risk

The markets in which the Group operates are fragmented with low barriers to entry meaning that price competition is high.

There is a risk that the Group fails to attract and retain customers based on pricing. This could either be because of pricing too highly or failing to successfully communicate the inherent value of our offering.

There is also a risk that demand for our existing products could materially diminish due to other structural changes in the market.

Competition influences how we create value for our customers and investors, either by enhancing our service offering or investing in pricing.

If our pricing is perceived to be higher than our competition for the same level of service, then we will either lose market share or be forced to reduce prices to remain competitive. Without any adjustment to the cost base, this will result in lower returns.

Core pricing is based upon target levels of return with discount authority levels allowing flexibility to ensure that we remain competitive on pricing.

Investment has been made in pricing in the year in order to generate demand. Focus around margins will continue into the subsequent year to ensure that returns are not eroded in the long term.

Investment has continued in marketing to ensure that the value proposition underpinning pricing is well communicated and received.

## Vehicle Holding Costs

The profitability of the Group is dependent upon minimising vehicle holding costs, which are affected by the pricing levels of new vehicles purchased and the disposal value of vehicles sold.

Vehicle holding costs directly impact our key resources and activities.

An increase in holding costs, if not recovered through hire rate increases or other operational efficiencies, would adversely affect profitability, shareholder returns and cash generation.

Pricing is negotiated with manufacturers on an annual basis in advance of purchases being made. The number and mix of suppliers and model variants is controlled in order to optimise buying terms.

The holding period of vehicles is continuously reviewed to ensure that disposals are made at the optimal time in a vehicle's life cycle thereby ensuring we recycle capital in the most efficient way. Whilst the Group is exposed to fluctuations in the used vehicle market, we seek to optimise the sales route for each vehicle. Should the market experience a short-term decline in residual values, we can age our existing fleet until the market improves.

## Legal compliance and the employee environment

Non-compliance with regulations, inadequate maintenance of our vehicles and a working environment where individuals do not receive appropriate training and support could harm relationships with stakeholders and place employees and customers' employees at risk of harm.

Failure to attract, develop and retain individuals with the appropriate skills will inhibit the successful delivery of our strategy.

Material non-compliance with regulations would affect our relationships with customers and suppliers.

Our relationship with employees is a key resource which enables the effective delivery of our key activities.

Failure to comply with laws and regulations would put the reputation of the business at risk, both in terms of attracting fines and penalties and maintaining good customer and supplier relationships.

Failure to invest in our workforce and high levels of staff turnover will impact upon customer service and delivery of the Group's strategic objectives.

Compliance with Laws and regulations is ultimately the responsibility of the Board. Management of compliance is delegated to the relevant business unit leaders. Group Internal Audit monitors and reports on non-compliance to the Board.

Salaries are benchmarked against the market and a range of incentives are provided to attract and retain staff. Personal development plans and tailored training are conducted for all employees. Succession plans are in place for senior positions.

Regular communication and engagement with everyone across the business is vital to our success.

## IT Systems

IT systems are integral to the operations of the Group. Failure to appropriately invest in the Group's systems and the security and continuity of systems could result in loss of commercial agility, loss or theft of sensitive data and an inability to effectively carry out the business activities of the group.

Systems underpin our competitive advantage by enabling us to effectively deliver the business model.

A lack of investment in new systems or failure of existing systems or could inhibit the commercial agility of business and the efficient continuity of all aspects of our operations.

Failure of existing systems or a lack of investment in new systems could inhibit the commercial agility of the business and the efficient continuity of our operations. Incorrectly handling sensitive data or unsuccessfully defending against malicious cyber-attacks would cause significant reputational harm and negatively impact the relationship with all stakeholders.

The UK business is currently undertaking a material systems change and has implemented an appropriate governance structure to ensure that the project is successfully delivered.

The Group has an appropriate business continuity plan in the event of disruption arising from an IT systems failure.

The appropriate level of investment is made into ensuring that sensitive data is securely held and is adequately protected from cyber-attacks or other breaches.

## Access to Capital

The group operates a capital intensive business model and requires sufficient access to capital in order to maintain and grow the fleet.

As such, an inefficient capital cycle or failure to access or service credit represents a significant risk to the delivery of strategy and continuation of the business.

Capital is one of our key resources and therefore impacts how efficiently we fund the business and subsequently deliver value for our stakeholders.

Failure to maintain or extend access to credit facilities could impact on the Group's ability to deliver its strategic objectives or continue as a going concern.

The Group's main facilities mature in 2021 and 2022 and the Group believes that these facilities provide adequate resources for present requirements.

The Group reports against covenants on a semi-annual basis and continually monitors cash flow forecasts to ensure ongoing covenant compliance and headroom against facilities.

## GLOSSARY OF TERMS

The following defined terms have been used throughout this document:

| Term | Definition |
|---|---|
| Disposals profits | This is a non-GAAP measure used to describe the adjustment in the depreciation charge made in the year for vehicles sold at an amount different to their net book value at the date of sale (net of attributable selling costs) |
| EPS | Underlying basic earnings per share |
| Facility headroom | Calculated as facilities of £568m less net borrowings of £442m. Net borrowings represent net debt of £439m excluding unamortised arrangement fees of £3m and are stated after the deduction of £21m of cash balances which are available to offset against borrowings |
| GAAP | Generally Accepted Accounting Practice: meaning compliance with International Financial Reporting Standards |
| Gearing | Calculated as net debt divided by net tangible assets (as defined below) |
| Growth Capex | Growth capex represents the cash consumed in order to grow the fleet or the cash generated if the fleet size is reduced in periods of contraction. |
| LCV | Light commercial vehicle: the official term used within the European Union for a commercial carrier vehicle with a gross vehicle weight of not more than 3.5 tonnes |
| Net tangible assets | Net assets less goodwill and other intangible assets |
| PBT | Underlying profit before tax |
| PPU | Profit per unit/loss per unit – this is a non-GAAP measure used to describe disposals profits (as defined), divided by the number of vehicles sold |

## GAAP RECONCILIATION

A reconciliation of GAAP to non-GAAP underlying measures is as follows:

| | **Group 2018 £000** | **Group 2017 £000** |
|---|---|---|
| Profit before tax | 52,738 | 72,222 |
| *Add back:* | | |
| Restructuring costs | 2,499 | 2,189 |
| Certain intangible amortisation | 1,767 | 1,830 |
| Spain tax settlement | – | (1,235) |
| **Underlying profit before tax** | **57,004** | **75,006** |

| | Group 2018 £000 | Group 2017 £000 |
|---|---|---|
| Profit for the year | 43,232 | 60,901 |
| *Add back:* | | |
| Restructuring costs | 2,499 | 2,189 |
| Certain intangible amortisation | 1,767 | 1,830 |
| Spain tax settlement | – | (1,235) |
| Refinancing costs | – | – |
| Tax on exceptional items and intangible amortisation | (1,145) | (686) |
| **Underlying profit for the year** | **46,353** | **62,999** |
| Weighted average number of Ordinary shares | 133,232,518 | 133,232,518 |
| **Underlying basic earnings per share** | **34.8p** | **47.3p** |

| | Group 2018 £000 | Group 2017 £000 |
|---|---|---|
| Operating profit | 64,077 | 81,482 |
| *Add back:* | | |
| Restructuring costs | 2,499 | 2,189 |
| Certain intangible amortisation | 1,767 | 1,830 |
| Spain tax settlement | - | (896) |
| **Underlying operating profit** | **68,343** | **84,605** |
| ***Add Back*** | | |
| Fleet Depreciation | 176,600 | 149,742 |
| Other Depreciation | 5,585 | 6,549 |
| Net Impairment | (380) | 131 |
| Loss on disposal of assets | 415 | 199 |
| Intangible amortisation included in operating profit | 404 | 61 |
| **Underlying EBITDA** | **250,967** | **241,287** |

| | UK<br>2018<br>£000 | Spain<br>2018<br>£000 | Ireland<br>2018<br>£000 | Corporate<br>2018<br>£000 | Eliminations<br>2018<br>£000 | Group<br>2018<br>£000 |
|---|---|---|---|---|---|---|
| Underlying operating profit (loss) | 30,571 | 38,960 | 2,543 | (3,731) | – | 68,343 |
| *Exclude* | | | | | | |
| Adjustments to depreciation charge in relation to vehicles sold in the period | (7,598) | (10,002) | (2,010) | – | – | (19,610) |
| Corporate costs | – | – | – | 3,731 | – | 3,731 |
| **Rental Profit** | **22,973** | **28,958** | **533** | **–** | **–** | **52,464** |
| *Divided by:* Revenue: hire of vehicles | 263,780 | 187,644 | 20,623 | – | (860) | 471,187 |
| **Rental margin** | **8.7%** | **15.4%** | **2.6%** | **–** | **–** | **11.1%** |

| | UK<br>2017<br>£000 | Spain<br>2017<br>£000 | Ireland<br>2017<br>£000 | Corporate<br>2017<br>£000 | Eliminations<br>2017<br>£000 | Group<br>2017<br>£000 |
|---|---|---|---|---|---|---|
| Underlying operating profit (loss) | 43,886 | 42,607 | 3,233 | (5,121) | – | 84,605 |
| *Exclude* | | | | | | |
| Adjustments to depreciation charge in relation to vehicles sold in the period | (14,348) | (17,114) | (1,545) | | – | (33,007) |
| Corporate costs | – | – | – | 5,121 | – | 5,121 |
| **Rental Profit** | **29,538** | **25,493** | **1,688** | **–** | **–** | **56,719** |
| *Divided by:* Revenue: hire of vehicles | 272,168 | 163,419 | 21,528 | – | (995) | 456,120 |
| **Rental margin** | **10.9%** | **15.6%** | **7.8%** | **–** | **–** | **12.4%** |

| | Group 2018 £000 | Group 2017 £000 |
|---|---|---|
| Net decrease increase in cash and cash equivalents | (5,507) | (327) |
| *Add back:* | | |
| Receipt of bank loans and other borrowings | (113,902) | – |
| Repayments of bank loans and other borrowings | – | 21,369 |
| **Net cash (consumed) generated** | **(119,409)** | **21,042** |
| *Add back:* Dividends paid | 23,365 | 21,875 |
| **Free cash flow** | **(96,044)** | **42,917** |
| *Add back: growth capex* | 125,145 | 1,127 |
| **Underlying free cash flow** | **29,101** | **44,044** |

**CONSOLIDATED INCOME STATEMENT**

**FOR THE YEAR ENDED 30 APRIL 2018**

| | Note | Underlying 2018 £000 | Statutory 2018 £000 | Underlying 2017 £000 | Statutory 2017 £000 |
|---|---|---|---|---|---|
| Revenue: hire of vehicles | | 471,187 | 471,187 | 456,120 | 456,120 |
| Revenue: sale of vehicles | | 230,485 | 230,485 | 211,309 | 211,309 |
| **Total revenue** | 1 | **701,672** | **701,672** | **667,429** | **667,429** |
| Cost of sales | | (563,232) | (563,232) | (514,446) | (514,446) |
| **Gross profit** | | **138,440** | **138,440** | **152,983** | **152,983** |
| Administrative expenses (excluding exceptional items and certain intangible amortisation) | | (70,097) | (70,097) | (68,378) | (68,378) |
| Exceptional administrative expenses | 6 | – | (2,499) | – | (1,293) |
| Certain intangible amortisation | | – | (1,767) | – | (1,830) |
| Total administrative expenses | | (70,097) | (74,363) | (68,378) | (71,501) |
| **Operating profit** | 1 | **68,343** | **64,077** | **84,605** | **81,482** |
| Interest income | | 1 | 1 | 2 | 2 |
| Finance costs (excluding exceptional items) | | (11,340) | (11,340) | (9,601) | (9,601) |
| Exceptional finance credit | 6 | – | – | – | 339 |
| **Profit before taxation** | | **57,004** | **52,738** | **75,006** | **72,222** |
| Taxation | | (10,651) | (9,506) | (12,007) | (11,321) |
| **Profit for the year** | | **46,353** | **43,232** | **62,999** | **60,901** |

Profit for the year is wholly attributable to owners of the Parent Company. All results arise from continuing operations.

Underlying profit excludes exceptional items as set out in Note 6, as well as certain intangible amortisation and the taxation thereon, in order to provide a better indication of the Group's underlying business performance.

| **Earnings per share** | | | | | |
|---|---|---|---|---|---|
| Basic | 2 | **34.8p** | **32.4p** | **47.3p** | **45.7p** |
| Diluted | 2 | 34.3p | 32.0p | 46.7p | 45.1p |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 30 APRIL 2018**

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| **Amounts attributable to owners of the Parent Company** | | |
| Profit attributable to the owners | 43,232 | 60,901 |
| | | |
| **Other comprehensive income (expense)** | | |
| Foreign exchange differences on retranslation of net assets of subsidiary undertakings | 15,488 | 25,952 |
| Net foreign exchange differences on long term borrowings held as hedges | (11,393) | (21,793) |
| Foreign exchange difference on revaluation reserve | 46 | 85 |
| Net fair value gains on cash flow hedges | 1,105 | 659 |
| Deferred tax charge recognised directly in equity relating to cash flow hedges | (210) | (157) |
| **Total other comprehensive income** | **5,036** | **4,746** |
| **Total comprehensive income for the year** | **48,268** | **65,647** |

All items will subsequently be reclassified to the consolidated income statement.

**CONSOLIDATED BALANCE SHEET**

**AS AT 30 APRIL 2018**

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| **Non-current assets** | | |
| Goodwill | 3,589 | 3,589 |
| Other intangible assets | 5,205 | 3,309 |
| Property, plant and equipment: vehicles for hire | 897,323 | 731,657 |
| Other property, plant and equipment | 67,979 | 65,262 |
| Total property, plant and equipment | 965,302 | 796,919 |
| Deferred tax assets | 10,791 | 13,730 |
| **Total non-current assets** | **984,887** | **817,547** |
| **Current assets** | | |
| Inventories | 31,828 | 33,666 |
| Trade and other receivables | 76,091 | 62,656 |
| Derivative financial instrument assets | – | 213 |
| Current tax assets | 4,745 | – |
| Cash and bank balances | 21,382 | 41,166 |
| **Total current assets** | **134,046** | **137,701** |
| **Total assets** | **1,118,933** | **955,248** |
| **Current liabilities** | | |
| Trade and other payables | 97,671 | 64,913 |
| Derivative financial instrument liabilities | 112 | – |
| Current tax liabilities | 15,246 | 18,568 |
| Short term borrowings | 17,952 | 32,585 |
| **Total current liabilities** | **130,981** | **116,066** |
| **Net current assets** | **3,065** | **21,635** |
| **Non-current liabilities** | | |
| Derivative financial instrument liabilities | 1,277 | 2,706 |
| Long term borrowings | 442,751 | 318,439 |
| Deferred tax liabilities | 4,796 | 1,420 |
| **Total non-current liabilities** | **448,824** | **322,565** |
| **Total liabilities** | **579,805** | **438,631** |
| **NET ASSETS** | **539,128** | **516,617** |
| | | |
| **Equity** | | |
| Share capital | 66,616 | 66,616 |
| Share premium account | 113,508 | 113,508 |
| Own shares reserve | (3,238) | (1,659) |
| Hedging reserve | (1,125) | (2,020) |
| Translation reserve | (1,146) | (5,241) |
| Other reserves | 68,660 | 68,614 |
| Retained earnings | 295,853 | 276,799 |
| **TOTAL EQUITY** | **539,128** | **516,617** |

Total equity is wholly attributable to owners of the Parent Company.

**CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 30 APRIL 2018**

| | Note | 2018 £000 | 2017 £000 |
|---|---|---|---|
| **Net cash (used in) generated from operations** | 4 | **(81,797)** | **47,818** |
| **Investing activities** | | | |
| Interest received | | 1 | 2 |
| Proceeds from disposal of other property, plant and equipment | | 2,374 | 1,222 |
| Purchases of other property, plant and equipment | | (9,292) | (4,878) |
| Purchases of intangible assets | | (4,073) | (1,133) |
| **Net cash used in investing activities** | | **(10,990)** | **(4,787)** |
| **Financing activities** | | | |
| Dividends paid | | (23,365) | (21,875) |
| Receipts of bank loans and other borrowings | | 113,902 | – |
| Repayments of bank loans and other borrowings | | – | (21,369) |
| Net payments to acquire own shares for share schemes | | (3,257) | (114) |
| **Net cash generated from (used in) financing activities** | | **87,280** | **(43,358)** |
| **Net decrease in cash and cash equivalents** | | **(5,507)** | **(327)** |
| Cash and cash equivalents at 1 May | | 19,637 | 18,748 |
| Effect of foreign exchange movements | | (3) | 1,216 |
| **Cash and cash equivalents at 30 April** | | **14,127** | **19,637** |

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Cash and cash equivalents comprise: | | |
| Cash and bank balances | 21,382 | 41,166 |
| Bank overdrafts | (7,255) | (21,529) |
| | **14,127** | **19,637** |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 30 APRIL 2018**

| | Share capital and share premium £000 | Own shares reserve £000 | Hedging reserve £000 | Translation reserve £000 | Other reserves £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Total equity at 1 May 2016** | **180,124** | **(8,157)** | **(2,522)** | **(9,400)** | **68,529** | **242,451** | **471,025** |
| Share options fair value charge | – | – | – | – | – | 1,934 | 1,934 |
| Share options exercised | – | – | – | – | – | (6,612) | (6,612) |
| Profit attributable to owners of the Parent Company | – | – | – | – | – | 60,901 | 60,901 |
| Dividends paid | – | – | – | – | – | (21,875) | (21,875) |
| Net purchase of own shares | – | (114) | – | – | – | – | (114) |
| Transfer of shares on vesting of share options | – | 6,612 | – | – | – | – | 6,612 |
| Other comprehensive income | – | – | 502 | 4,159 | 85 | – | 4,746 |
| **Total equity at 1 May 2017** | **180,124** | **(1,659)** | **(2,020)** | **(5,241)** | **68,614** | **276,799** | **516,617** |
| Share options fair value charge | – | – | – | – | – | 865 | 865 |
| Share options exercised | – | – | – | – | – | (1,678) | (1,678) |
| Profit attributable to owners of the Parent Company | – | – | – | – | – | 43,232 | 43,232 |
| Dividends paid | – | – | – | – | – | (23,365) | (23,365) |
| Net purchase of own shares | – | (3,257) | – | – | – | – | (3,257) |
| Transfer of shares on vesting of share options | – | 1,678 | – | – | – | – | 1,678 |
| Other comprehensive income | – | – | 895 | 4,095 | 46 | – | 5,036 |
| **Total equity at 30 April 2018** | **180,124** | **(3,238)** | **(1,125)** | **(1,146)** | **68,660** | **295,853** | **539,128** |

Other reserves comprise the capital redemption reserve, revaluation reserve and merger reserve.

**NOTES TO THE ACCOUNTS**
**FOR THE YEAR ENDED 30 APRIL 2018**

**1. SEGMENTAL ANALYSIS**

| | UK 2018 £000 | Spain 2018 £000 | Ireland 2018 £000 | Corporate 2018 £000 | Eliminations 2018 £000 | Total 2018 £000 |
|---|---|---|---|---|---|---|
| Revenue: hire of vehicles | 263,780 | 187,644 | 20,623 | – | (860) | 471,187 |
| Revenue: sale of vehicles | 149,139 | 73,548 | 7,798 | – | – | 230,485 |
| **Total revenue** | **412,919** | **261,192** | **28,421** | – | **(860)** | **701,672** |
| | | | | | | |
| **Underlying operating profit (loss) *** | **30,571** | **38,960** | **2,543** | **(3,731)** | – | **68,343** |
| Restructuring costs | | | | | | (2,499) |
| Certain intangible amortisation | | | | | | (1,767) |
| **Operating profit** | | | | | | **64,077** |

| | UK 2017 £000 | Spain 2017 £000 | Ireland 2017 £000 | Corporate 2017 £000 | Eliminations 2017 £000 | Total 2017 £000 |
|---|---|---|---|---|---|---|
| Revenue: hire of vehicles | 272,168 | 163,419 | 21,528 | – | (995) | 456,120 |
| Revenue: sale of vehicles | 144,043 | 63,241 | 4,025 | – | – | 211,309 |
| **Total revenue** | **416,211** | **226,660** | **25,553** | – | **(995)** | **667,429** |
| | | | | | | |
| **Underlying operating profit (loss) *** | **43,886** | **42,607** | **3,233** | **(5,121)** | – | **84,605** |
| Restructuring costs | | | | | | (2,189) |
| Spain tax settlement | | | | | | 896 |
| Certain intangible amortisation | | | | | | (1,830) |
| **Operating profit** | | | | | | **81,482** |

* Underlying operating profit (loss) stated before certain intangible amortisation and exceptional items is the measure used by the Board of Directors to assess segment performance.

**2. EARNINGS PER SHARE**

| Basic and diluted earnings per share | Underlying 2018 £000 | Statutory 2018 £000 | Underlying 2017 £000 | Statutory 2017 £000 |
|---|---|---|---|---|
| The calculation of basic and diluted earnings per share is based on the following data: | | | | |
| **Earnings** | | | | |
| Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Parent Company | 46,353 | 43,232 | 62,999 | 60,901 |
| | **Number** | **Number** | **Number** | **Number** |
| **Number of shares** | | | | |
| Weighted average number of Ordinary shares for the purposes of basic earnings per share | 133,232,518 | 133,232,518 | 133,232,518 | 133,232,518 |
| Effect of dilutive potential Ordinary shares: | | | | |
| – share options | 2,077,803 | 2,077,803 | 1,700,849 | 1,700,849 |
| Weighted average number of Ordinary shares for the purposes of diluted earnings per share | **135,310,321** | **135,310,321** | **134,933,367** | **134,933,367** |
| Basic earnings per share | **34.8p** | **32.4p** | **47.3p** | **45.7p** |
| Diluted earnings per share | **34.3p** | **32.0p** | **46.7p** | **45.1p** |

**3. DIVIDENDS**

Dividends paid in the year were £23,365,000 (2017 – £21,875,000).

An interim dividend of 6.1p per Ordinary share was paid in January 2018 (2017- 5.7p). The Directors propose a final dividend of 11.6p per share for the year ended 30 April 2018 (2017 – 11.6p), which is subject to approval at the Annual General Meeting and has not been included as a liability as at 30 April 2018.

**4. NOTES TO THE CASH FLOW STATEMENT**
**FOR THE YEAR ENDED 30 APRIL 2018**

| Net cash (used in) generated from operations | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| Operating profit | **64,077** | **81,482** |
| Adjustments for: | | |
| Net impairment | (380) | 131 |
| Depreciation of property, plant and equipment | 182,185 | 156,291 |
| Amortisation of intangible assets | 2,171 | 1,891 |
| Loss on disposal of property, plant and equipment | 390 | 199 |
| Loss on disposal of intangible assets | 25 | – |
| Share options fair value charge | 865 | 1,934 |
| **Operating cash flows before movements in working capital** | **249,333** | **241,928** |
| (Increase) decrease in non-vehicle inventories | (1,190) | 525 |
| (Increase) decrease in receivables | (14,641) | 4,801 |
| Increase (decrease) in payables | 6,899 | (8,952) |
| **Cash generated from operations** | **240,401** | **238,302** |
| Income taxes paid, net | (11,451) | (12,602) |
| Interest paid | (10,707) | (8,552) |
| **Net cash generated from operations** | **218,243** | **217,148** |
| Purchase of vehicles | (486,943) | (346,305) |
| Proceeds from disposal of vehicles | 186,903 | 176,975 |
| **Net cash (used in) generated from operations** | **(81,797)** | **47,818** |

**5. ANALYSIS OF CONSOLIDATED NET DEBT**

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| Cash and bank balances | (21,382) | (41,166) |
| Bank overdrafts | 7,255 | 21,529 |
| Bank loans | 364,750 | 244,236 |
| Loan notes | 87,890 | 84,393 |
| Cumulative preference shares | 500 | 500 |
| Confirming facilities | 308 | 366 |
| **Consolidated net debt** | **439,321** | **309,858** |

## 6. EXCEPTIONAL ITEMS

During the year, the Group recognised exceptional items in the income statement made up as follows:

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| Restructuring costs | 2,499 | 2,189 |
| Spain tax settlement | – | (896) |
| **Exceptional administrative expenses** | **2,499** | **1,293** |
| Interest refunded in relation to Spain tax settlement | – | (339) |
| Exceptional finance credit costs | – | (339) |
| Total pre-tax exceptional items | 2,499 | 954 |
| Tax credit relating to exceptional items | (471) | (95) |

**Exceptional administrative expenses**

All of the restructuring costs incurred in the year arose in the UK and Ireland. All restructuring costs relate to programmes which commenced and were completed in the year. UK restructuring programmes related to turnaround initiatives including senior management changes, site closures, and establishment of a commercial hub.

## 7. BASIS OF PREPARATION

The results for the year ended 30 April 2018, including comparative financial information, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and their interpretations adopted by the European Union.

Northgate plc ("the Company") has adopted all IFRS in issue and effective for the year.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements that comply with IFRS in July 2018.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 30 April 2018 or 2017, but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

The financial information presented in respect of the year ended 30 April 2018 has been prepared on a basis consistent with that presented in the annual report for the year ended 30 April 2017.