

# NORTHGATE

**Northgate plc**  
ANNUAL REPORT AND ACCOUNTS  
for the year ended 30 April 2018



## About us

NORTHGATE PLC IS THE LEADING LIGHT COMMERCIAL VEHICLE HIRE BUSINESS IN THE UK, SPAIN AND IRELAND BY FLEET SIZE AND HAS BEEN OPERATING IN THE SECTOR SINCE 1981. OUR CORE BUSINESS IS THE HIRE OF LIGHT COMMERCIAL VEHICLES TO BUSINESSES ON A FLEXIBLE AND TERM BASIS, OFFERING OUR CUSTOMERS A BESPOKE FLEET MANAGEMENT SOLUTION THAT MATCHES THEIR REQUIREMENTS.



### THE NORTHGATE DIFFERENCE

- Option of no capital or contractual commitment
- Ease of flexing number and type of vehicles
- Leading levels of service



### Materiality

Northgate's Annual report and Accounts 2018 aims to provide a fair, balanced and understandable assessment of our business model, strategy and performance in relation to material matters which affect all our stakeholders.

To achieve this, we focused on:

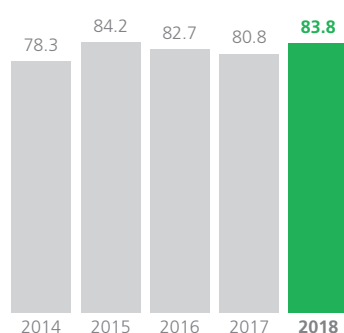
- Specific quantitative and qualitative criteria
- Risks and opportunities which impact the achievement of our strategic objectives
- Feedback from key stakeholders during the year.



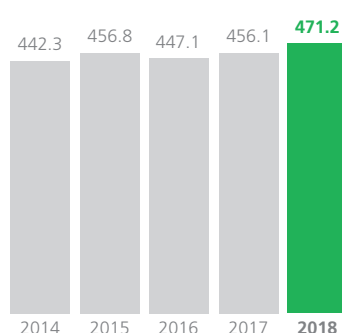
# Highlights

## FINANCIAL

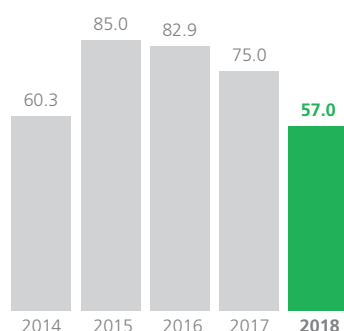
### Average VOH ('000)



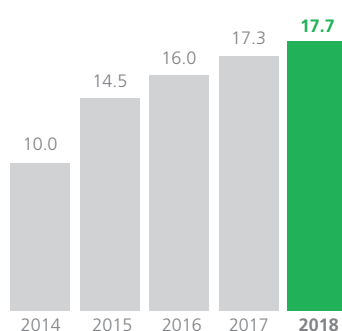
### Revenue – hire of vehicles (£m)



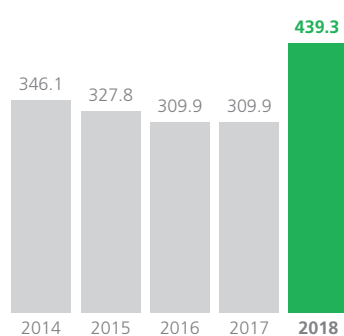
### Underlying PBT (£m)



### Dividend per share (p)



### Net debt (£m)



### About our non-GAAP measures and why we use them

Throughout this report 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.

In particular we refer to disposals 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).

Underlying measures exclude certain one-off items such as those arising due to restructuring activities and recurring non-operational items, including certain intangible amortisation.

Exceptional items are explained in the Notes to the accounts and a reconciliation of GAAP to non-GAAP measures is included on page 32.

➔ Read about our performance on pages 18 to 33

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### Navigating the report

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# Chairman's statement

DURING 2018 MUCH WORK HAS BEEN UNDERTAKEN TO POSITION THE GROUP TO DELIVER SUSTAINABLE LONG TERM GROWTH.

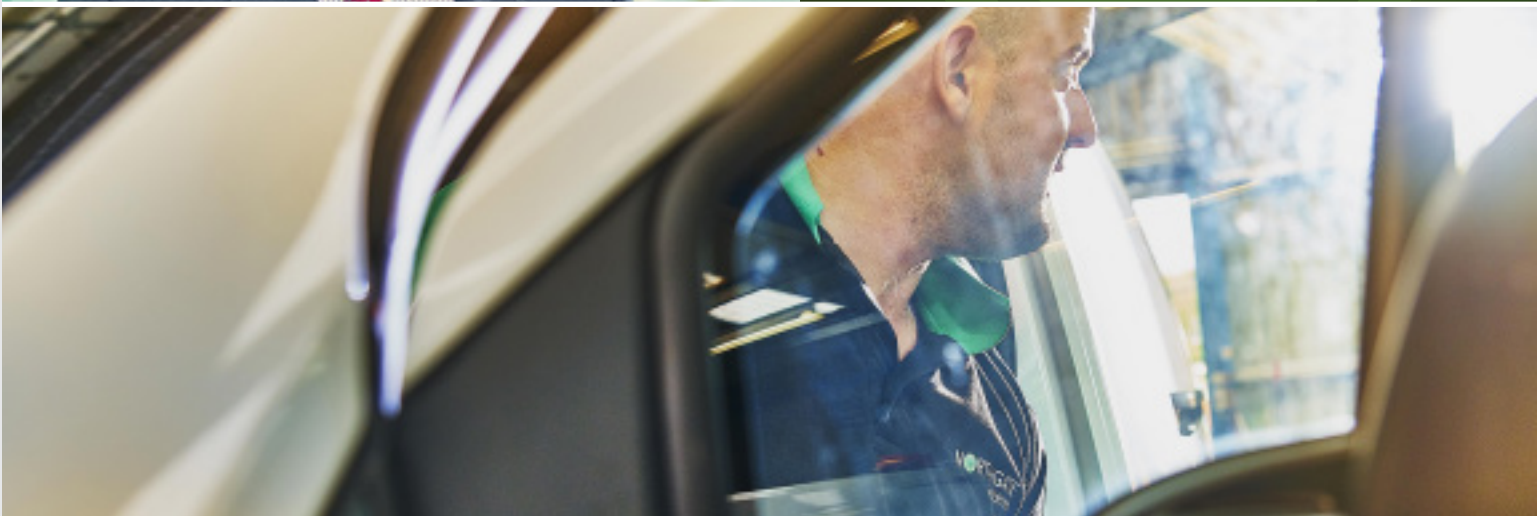
### USEFUL LINKS

- For further information on performance see pages 18 to 33
- See our Business model on pages 10 and 11



“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.”

**Andrew Page** CHAIRMAN



➤ Read more about our People in CSR on pages 42 to 45



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 Chief executive's review on page 18.

## 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 disposals profit 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 1.5x – 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 renegotiated 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 Group's Interim CFO. I am pleased to report that Philip 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 Chief Executive'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 12 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  
25 June 2018

# Q&A with the CEO

KEVIN BRADSHAW

## What is your vision for Northgate?

Northgate operates in a market sector that is seeing strong growth, as businesses which need light commercial vehicles increasingly recognise that they do not need to own these vehicles, and that renting vans on fixed or flexible terms can be a much more cost effective solution. I believe that this structural shift in the market is set to continue, across all our territories, and my ambition is for Northgate to capture a very substantial part of that growth opportunity, providing the range and quality of light commercial vehicle rental services that will attract and retain customers. We now have the right strategy to achieve this, and the right leadership team in each territory, and I believe that we are well placed to grow profits and cash flow, and to deliver strong returns for our shareholders.



Read about our strategy on pages 12 to 15

## What progress has been made in turning around the performance of the UK business?

Getting the UK business back on track and performing well is a major challenge, and a huge amount of work remains to be done. However, I think we have made an encouraging start. The new leadership team is now complete and has the skills and experience to re-energise our people and drive the business forward. The sales and marketing functions have been restructured and the teams refocused on finding and capturing profitable growth opportunities, and this is reflected in the strong VOH growth we saw in the second half of the year, following several years of decline.

The next steps will focus on working more efficiently across our operations, and managing our fleet assets effectively. The first phases of our major IT transformation process are under way, and this programme will underpin our efforts to drive higher revenues through our fixed cost base, and generate higher returns on capital employed. So progress to date in the UK has been good, and I believe there is now some real momentum in the business, but there is still an enormous task ahead.



Read about our performance on pages 18 to 33

## Can the Spanish business continue to grow as quickly as it has done over the past 12 months?

The Spanish business grew strongly last year, and I am confident that this will continue. The light commercial vehicle market in Spain is experiencing the same structural changes as we are seeing in the UK, shifting away from ownership and into both flexible and fixed term rental, and this underpins our growth opportunity. We have a strong leadership team, and high calibre, experienced people across our business, and this has enabled Northgate to grow faster than the market. We have successfully expanded our range of services to anticipate the way the market has evolved, such as bundling fixed term and flexible rental propositions and targeting high growth sectors, and effectively exploited the competitive advantages of our network. I am therefore confident that we can continue to deliver strong growth in Spain.



Read about our marketplace on pages 8 and 9

## What is the benefit to Northgate of having businesses across three separate territories?

There are significant benefits in having rental businesses in more than one country, with the main advantage being the transfer of know how between countries, across all areas of our business. An example of this was seen during the scoping and initial implementation of the UK's IT transformation programme, which drew heavily on the experience of the Spanish business several years earlier. Another area of significant knowledge transfer between countries has been in operations management, including workshop scheduling and ways for speeding up cycling of vehicles through depots. There are also a number of concrete procurement synergies. Overall, I have no doubt that all three of our businesses are more efficient because they are part of a wider group and deliver better returns than they would do individually.

## Does the increasing regulatory pressure on emissions from diesel vehicles pose a threat to Northgate's business model?

We recognise the pressures on our customers to manage their businesses on a sustainable basis and we work with them to respond to this. Our fleet is composed entirely of modern vehicles which meet the highest levels of exhaust emissions standards and our close relationships with our suppliers ensures that this remains the case. We have increased the number of electric and hybrid vehicles in the fleet, particularly in Spain in response to some specific customer requirements. As regulations evolve, and have an impact on our customers and their demand for light commercial vehicles, so our vehicle fleet and our rental propositions will evolve to meet this demand.



Read about our business model on pages 10 and 11



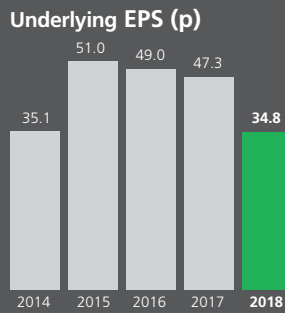
# Why invest in Northgate?



## THE NORTHGATE EQUITY STORY

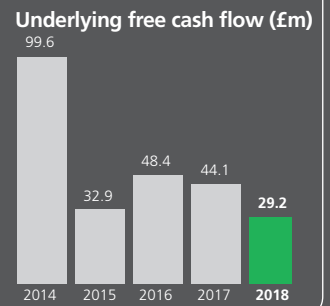
### PROFITABILITY

Although underlying EPS has declined in recent years, the recovery potential is strong and EPS will recover as we grow the fleet.



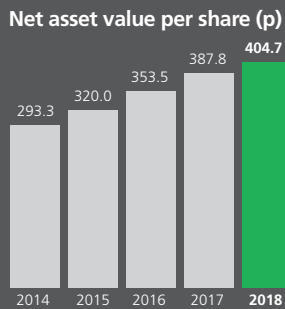
### CASH FLOW

Our underlying operations are cash generative, giving us the opportunity to invest in fleet during periods of growth. During periods of contraction we can sell vehicles to generate cash.



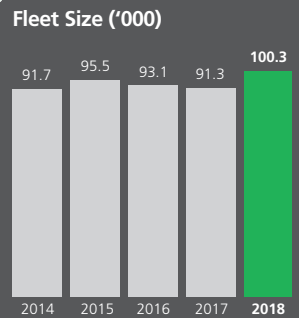
### FINANCIAL STRENGTH

Our balance sheet value continues to grow and demonstrates our underlying financial strength.



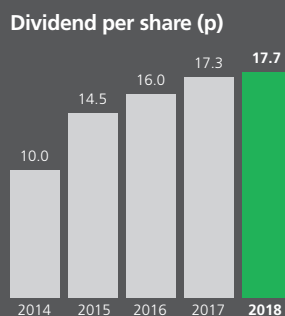
### SCALE

Our scale enables us to enjoy greater synergies and provide a wider range of services to customers.



### SHAREHOLDER RETURNS

We operate a progressive dividend policy and continue to grow our dividend within our cover range providing sustainable returns to investors.



### MARKET

Northgate participates in a growing market which is underpinned by a structural shift away from ownership towards rental. Our recently enhanced service and product offering allows us to penetrate more deeply into these markets meaning that we are well positioned for growth.

[Read about our performance on pages 18 to 33](#)

# ***CUSTOMER FOCUS***



We help businesses grow through our commitment to providing greater choice, value and convenience for our customers

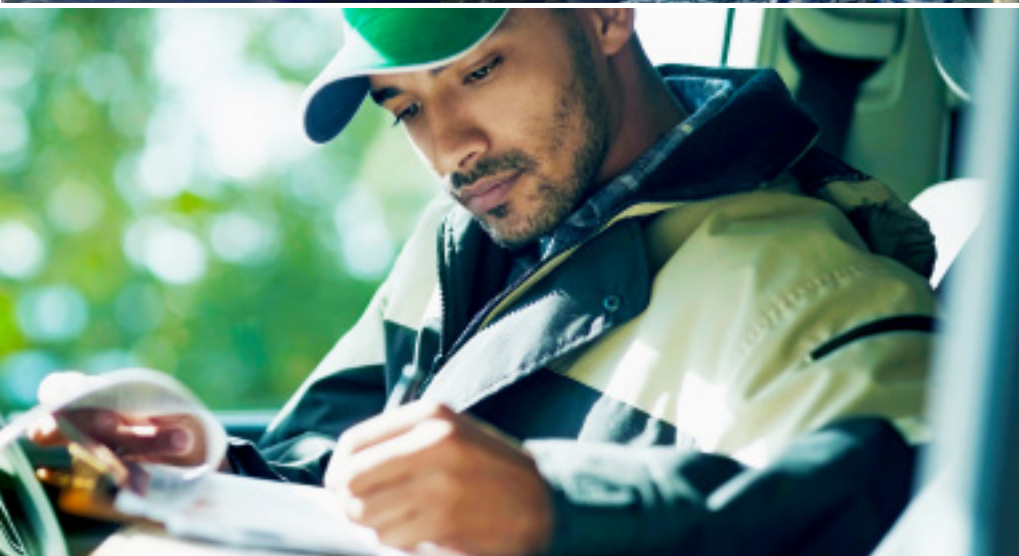






# Strategic Report

This section outlines our strategic objectives. The CEO and CFO provide commentary on the Group's operational and financial performance in the year. We explain how we are performing against our key performance indicators and set out the principal risks to the business as part of an overall review of our risk management procedures. Finally, we outline how the Group is managing its responsibilities to all of its stakeholders.



## CONTENTS

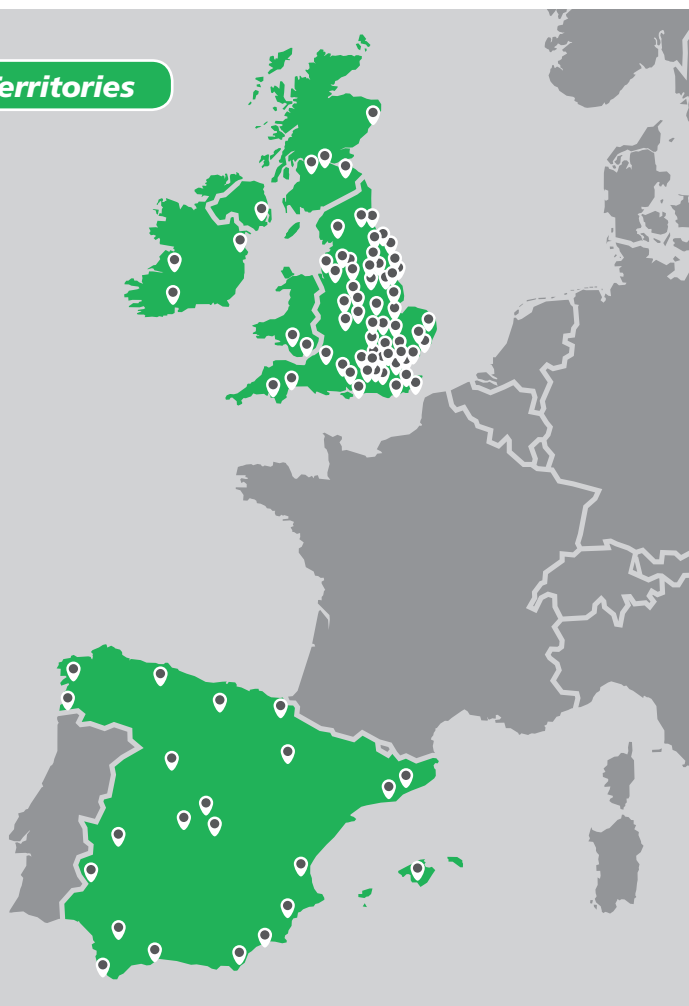
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# Marketplace

OUR MARKETS ARE UNDERGOING SIGNIFICANT STRUCTURAL CHANGES WHICH WE ARE WELL PLACED TO CAPITALISE ON. BUSINESS USE OF LCVS IS GROWING AND GDP GROWTH IN ALL OUR MARKETS HAS BEEN STRONG THROUGHOUT THE YEAR. WE ARE SEEING STRONG TAKE UP OF OUR PRODUCT OFFERING AS CUSTOMERS RECOGNISE THE ADVANTAGES OF OUR UNIQUE OFFERING TO THEIR BUSINESS.

## Our Territories



We undertake our key activities in three distinct geographic markets: UK, Spain and Ireland. We ensure our product offering is tailored to that particular market's needs and leverage our scale, knowledge and experience to drive business forward.



**1.2%**  
GDP GROWTH IN UK



**2.9%**  
GDP GROWTH IN SPAIN



**3.9%**  
GDP GROWTH IN IRELAND

There are c.8 million LCVs in operation across all our markets with annual revenues in the sector of c.£15bn. Our comprehensive offering ensures that we have full access to this exciting market opportunity.

### USEFUL LINKS



Read about our performance on pages 18 to 33



Read about our business model on pages 10 and 11

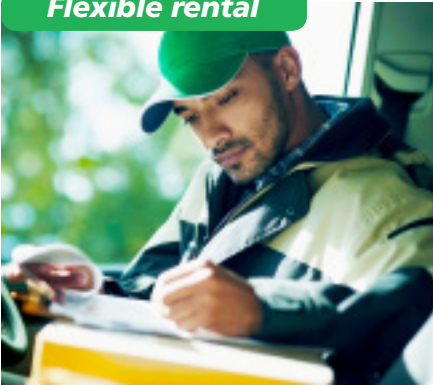


Read about our strategy on pages 12 to 15

OUR KEY MARKETS



**Flexible rental**



**Overview:** Flexible rental is the historical core of Northgate and is an area where we remain a market leader with 31% of total market share. With no contractual or capital commitment, the market offers the most operational flexibility for our customers. Vehicles are usually supplied fully inclusive of maintenance and other service enhancements.

**Opportunity:** This is a growing market (6% pa) in which the Group is a market leader. Our competitors are typically smaller regional operations and we can leverage our competitive advantage through our scale and unique understanding of customer requirements. We aim to defend and grow our share of this market.

➤ Read more on how we are gaining share in our core market on page 14

**Minimum term**



**Overview:** Minimum term rentals require a contractual commitment from customers to commit to rental for a minimum period of 12 months. This product offers customers similar benefits to vehicle ownership while limiting their exposure to residual value risk and initial cash outflow. We offer additional service enhancements which distinguishes our offering from our competitors.

of minimum term commitments with levels of service typically associated with flexible rental, and we offer additional service enhancements which distinguishes our offer from our competitors.

**Opportunity:** Minimum term hire is a substantially larger market than flexible rental and estimated growth in the market is 8% pa. The Group has <0.5% of the market share; however, our unique product offering means we are well placed to capture the significant market opportunity. We are able to offer a range

➤ Read more on how we are growing our minimum term offering on page 14

We are also well positioned to take advantage of the structural shift from vehicle ownership to rental through our range of rental services which offer customers the opportunity to improve cash flow and remove residual value risk from their business.

➤ Read more on how we are converting vehicles from ownership on page 15

**Vehicle sales**



**Overview:** Acquisition of used vehicles in the secondary market generates transactions of £5bn in value per year. End users are typically individual business owners.

**Opportunity:** We can access the end users directly through our national network of retail sale locations. This enables us to reduce the overall holding cost of our vehicles. Our scale and network enables us to offer customers the widest range of vehicles and service in the market.

➤ Read more on how we are consolidating the UK LCV market on page 15

SOURCE: based on research conducted by OC&C using data from MSI BVRLA, DFT, SIMI. Market defined as LCVs only.

# Business model

**WHY DO WE EXIST? TO DRIVE BUSINESS FORWARD.** WE SUPPORT OUR CUSTOMERS' BUSINESS AT EVERY STAGE IN THE BUSINESS LIFE CYCLE. WE ENSURE THEY CAN GROW AND DEVELOP, DRIVING THEIR BUSINESS FORWARD.

## WE LEVERAGE OUR KEY RESOURCES

### Vehicles

- We operate a fleet of c.100k vehicles
- We offer a full range of light commercial vehicle models

### Relationships

- Manufacturers supply a key resource for our business; our close relationships allow us to meet customer demand and drive business forward
- Employees are at the heart of everything we do and enable us to deliver market leading levels of customer service

### Leadership

We have the leadership to mobilise for success and capitalise on an outstanding market opportunity.

[Read more in Governance](#)

### Technology

We are investing in our systems and processes to ensure we stay at the forefront of market developments.

### Capital

We work together with our lenders and investors in order to access funds to grow the business sustainably.

## TO ENABLE OUR KEY ACTIVITIES



## COMPETITIVE ADVANTAGE

### Scale

We operate a fleet of over 100k vehicles across three countries, leveraging our vast offering to ensure we meet customer demands

### Offering

The Northgate Difference:

- **Option of no capital or contractual commitment**
- **Ease of flexing number of vehicles**
- **Leading levels of service**

### We buy

We negotiate directly with manufacturers and ensure that we have a range of vehicles to suit our customers.

### We rent

Vehicle rental is our core business. We seek to maximise value from our vehicles by maintaining high levels of utilisation. We have a diverse product offering to ensure that we can offer a range of commercial fleet solutions.

### We sell

At the end of a vehicle's rental life we maximise cash returns by selling vehicles through the optimal disposal channel, we recycle this capital to support our objectives.

## AND ENSURE A STRONG PRODUCT OFFERING

### Flexible rental

Customers hire vehicles when they need them, for as long as needed:

- Customers choose vehicles and customisation;
- Flex vehicle fleet to match business need; and
- Price inclusive of servicing and maintenance.

### Minimum term rental

To support customers who have more certainty over their fleet requirements:

- Commitment can start at just 12 months;
- Flexible options within the contracted period; and
- Price inclusive of servicing and maintenance.

### Vehicle sales

- Retail operations in all three territories;
- Trusted name with high levels of repeat customers; and
- Finance and other support packages available.

## WE CREATE SUSTAINABLE VALUE FOR OUR STAKEHOLDERS

### Customers

We aim to help our customers drive their business forward, supporting their fleet needs as their business changes.

### Investors and lenders

We provide investors with regular updates enabling them to make informed investment decisions. We encourage two way communication with analysts, shareholders and lenders to ensure that we are allocated capital efficiently at a rate which enables us to provide returns to our shareholders and lenders.

### Employees

At Northgate we are proud of the development opportunities that we offer our people and we are continually looking to develop our team members as our business grows. We do this through offering our employees opportunity to learn and grow within the business as well as the opportunity to participate in the success of their hard work through our share scheme.

### Communities and the environment

We strive to be a good neighbour and give back to the communities in which we operate. Our employees are supported in championing causes close to their hearts and we encourage them to engage with the communities that accommodate us.

We recognise the need for business to respect the environment and build sustainability into our business model.

### Suppliers

We aim to be a responsible business partner and maintain close working relationships with our suppliers. This allows us to efficiently execute our strategy while having a positive impact on our suppliers' business.



Read more in Corporate social responsibility on page 42

## Understanding

From our beginning in 1981 to the current position as the UK and Spain's leading commercial vehicle hire provider, Northgate's history is a testament to our commitment to our clients, customers and shareholders.

## System

Investment in our network and systems enhances the customer experience and ensures we deliver the best experience for our customers and value for our stakeholders.

# Strategy

OUR STRATEGY IS TO USE OUR COMPETITIVE ADVANTAGE TO CAPITALISE ON THE CLEAR GROWTH OPPORTUNITIES WE HAVE IDENTIFIED IN ALL OUR MARKETS.

## Strategic opportunities

### 1 FLEXIBLE – DEFEND AND GROW SHARE

#### Description

- As a core market for Northgate, it is important that we defend our position and grow our market share

#### Why this is important

- Flexible rental is the historical core of Northgate
- Our network and people are enabled to capture growth in this market and win market share

#### How this will be achieved

- Leading service proposition
- Capitalising on structural market shift towards rental market
- Agile pricing

### 2 MINIMUM TERM HIRE – GAIN SHARE

#### Description

- Our share of the minimum term hire market is low but there is a significant opportunity to grow in this space as it is a naturally adjacent market to our core business

#### Why this is important

- We can serve this market with limited variations in our operating model
- There are significant opportunities to cross sell within our existing customer base

#### How this will be achieved

- Unique product offering
- Providing greater flexibility than our competitors

➤ See our strategy in action on pages 14 and 15

## ALL SUPPORTED AND MOBILISED BY OUR STRATEGIC PILLARS

### Through leadership



Our strong leadership teams in each business will ensure we can achieve our strategic opportunities. Our leadership drives cultural change and will therefore help us to achieve growth.

### Through culture



Culture is an integral part of our business and enables our people to align behind our growth strategy.

### 3 CONVERSION OF 'OWNED' TO TERM HIRE

#### Description

- A large proportion of vehicle purchases are financed at the point of sale making minimum term hire an attractive alternative for customers

#### Why this is important

- Whole-life costs to customer can be lower than ownership
- Cultural change means that customers no longer feel the need to own vehicles outright

#### How this will be achieved

- Our range of flexibility of rental terms and vehicle offering can help customers make the switch to minimum term hire by offering certainty of cash flows and removing residual value risk

### 4 CONSOLIDATE THE FRAGMENTED UK LCV TRADING MARKET

#### Description

- The used LCV market in the UK is highly fragmented with a large number of regional competitors

#### Why this is important

- Northgate has an opportunity to leverage scale through its national Van Monster network
- Our access to a range of disposal channels allows us to maximise cash returns on sale of vehicles and ensure that we can invest in rental fleet

#### How this will be achieved

- Increase in proportion of disposals through retail channels

➤ Read about our KPIs on pages 16 and 17

#### Through systems



Our growth will be supported through our business infrastructure. In particular, our processes and systems are being updated to drive our business and our service offering.

#### Through scale



Northgate has a vast service offering and, combined with a large geographical presence, this ensures we are well placed to achieve growth. We can leverage our scale to achieve our growth strategy.

# Strategy in action

OUR RENEWED STRATEGY HAS BEEN KEY TO OUR CONTINUED SUCCESS IN SPAIN AND THE BEGINNING OF THE TURNAROUND IN OUR UK MARKET. INCLUDED BELOW ARE SOME EXAMPLES OF HOW WE ARE SEEING THE EFFECTS OF THIS RENEWED FOCUS IMPACT OUR BUSINESS

## 1 GAINING SHARE IN OUR CORE MARKET

### Entregás a Domicilio

This year we have seen some great examples of our strategy in action. Our network, scale and renowned levels of customer service has allowed us to capture market share from our competitors.

We are also seeing how our complete product offering presents opportunities for us to grow with our customers. From an initial contract of 5 flexible hire vehicles we have been able to demonstrate our value to this customer, subsequently providing a further 15 vehicles on flexible hire and 20 vehicles on a minimum term hire basis.



**27 REFRIGERATED VEHICLES**

12 TERM HIRE FOR 48 MONTHS + 15 FLEXIBLE RENTAL

## 2 GROWING OUR MINIMUM TERM OFFERING

### Wandle Housing Association

Our product flexibility and ability to change vehicles within a rental term is a key difference which enables us to make significant progress against our second strategic growth pillar. Our leading levels of service and operational delivery have allowed us to rapidly partner with this customer and provide their entire fleet and capture future growth.



**FULL 47 VEHICLE FLEET**

SIGNED ON 3 YEAR DEAL



#### USEFUL LINKS

> For further information on strategy see pages 12 and 13

### 3 CONVERTING VEHICLES FROM OWNERSHIP

#### Gordon Building Services

With “We Buy, You Rent” customers get a fair market price for old vehicles and all the benefits of renting new vehicles. With Gordon Building Services we acquired their legacy fleet and converted this to Northgate fleet on a three year minimum term deal.



## 11 VEHICLES SWITCHED

TO 3 YEAR TERM DEAL

### 4 CONSOLIDATE THE FRAGMENTED UK LCV MARKET

#### Retail penetration growth

Our vast vehicle disposal network allows us to efficiently recycle capital within the business. Our focus on maximising the end of life returns on hire vehicles is key to the success of our business and we have seen the percentage of vehicles sold through our retail channels grow from 36% to 48%.



GROWTH IN VEHICLES SOLD THROUGH OUR RETAIL CHANNELS FROM

## 36% TO 48%

# Key performance indicators

IDENTIFYING AND MONITORING THE KEY INDICATORS OF SUCCESS IN OUR BUSINESS IS CRITICAL TO INFORM STRATEGIC DECISION MAKING.

|             | DESCRIPTION  | PERFORMANCE  |
|-------------|--|--|
| FINANCIAL   | <p><b>1 Earnings</b></p> <p>Underlying PBT and EPS are key measures of profitability. They also are key remuneration metrics. Underlying PBT and EPS are stated excluding exceptional costs in order to better compare performance year on year.</p>   | <ul style="list-style-type: none"> <li>Underlying PBT was £57.0m (2017 – £75.0m).</li> <li>Underlying EPS was 34.8p (2017 – 47.3p).</li> </ul> |
|             | <p><b>2 Return on capital employed (ROCE)</b></p> <p>In a capital intensive business ROCE is an important measure of performance. ROCE measures how efficiently the Group allocates capital to deliver returns to our shareholders.</p>  | <ul style="list-style-type: none"> <li>ROCE was 7.5% (2017 – 10.5%).</li> </ul>  |
| OPERATIONAL | <p><b>3 Vehicles on hire</b></p> <p>Growing average vehicles on hire is critical to the success of our business. Placing vehicles on hire with customers at profitable rates is a critical driver of our earnings.</p>   | <ul style="list-style-type: none"> <li>Group vehicles on hire was 83,800 (2017 – 80,800)</li> </ul>  |
|             | <p><b>4 Asset management</b></p> <p>Utilisation needs to be optimised in order to be operationally efficient but must also be balanced against the need to have fleet available to meet customer demand. Utilisation is a measure of the proportion of available fleet on hire with customers.</p> | <ul style="list-style-type: none"> <li>Group utilisation was 89% (2017 – 89%).</li> </ul>  |
|             | <p><b>5 Staff retention</b></p> <p>Attracting, retaining and developing the right people is key to the successful delivery of our strategy. Staff turnover is a key measure for monitoring performance in this area.</p>   | <ul style="list-style-type: none"> <li>Group staff turnover was 20% (2017 – 20%).</li> </ul>   |

KEY OF PRINCIPAL RISKS

- ① **Economic environment**
- ② **Market risk**
- ③ **Vehicle holding costs**
- ④ **Legal compliance and the employee environment**
- ⑤ **IT systems**
- ⑥ **Access to capital**

USEFUL LINKS

- > Read about strategy on pages 12 to 15
- > Read about our performance on pages 18 to 33
- > Read about corporate social responsibility on pages 42 to 45
- > Read about managing risk on pages 34 to 41

| TARGET  | RISK FACTOR LINK | BUSINESS MODEL LINK |         |         |
|---|------------------|---------------------|---------|---------|
|   |                  | WE BUY              | WE RENT | WE SELL |
| <ul style="list-style-type: none"> <li>Our target is to grow the underlying earnings and PBT of the Group. The earnings profile in the coming years will be impacted by changes to depreciation rates.</li> </ul> | ① ② ③<br>④ ⑤ ⑥   | 🕒                   | 🕒       | 🕒       |
| <ul style="list-style-type: none"> <li>We aim to maintain ROCE above our weighted average cost of capital.</li> </ul>   | ① ② ③<br>④ ⑤ ⑥   | 🕒                   | 🕒       | 🕒       |
| <ul style="list-style-type: none"> <li>Our target is to grow vehicles on hire at profitable margins in order to maximise sustainable returns to investors.</li> </ul>   | ① ② ④            |                     | 🕒       |         |
| <ul style="list-style-type: none"> <li>We aim to maintain utilisation at current levels or above.</li> </ul>  | ① ② ③<br>④ ⑥     | 🕒                   | 🕒       | 🕒       |
| <ul style="list-style-type: none"> <li>We aim to manage staff turnover at current levels or below.</li> </ul>   | ④                | 🕒                   | 🕒       | 🕒       |

## Chief Executive's review

DURING THE YEAR WE COMPREHENSIVELY OVERHAULED NORTHGATE'S RENTAL STRATEGY TO ADDRESS THE COMPELLING GROWTH OPPORTUNITY IN OUR MARKETS, ENDING THE YEAR WITH REAL MOMENTUM.



"We are now further enhancing our capabilities and bringing our competitive advantages to bear on the market"

Kevin Bradshaw CHIEF EXECUTIVE

### 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 £15bn. 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; and
- 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; and
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 nationwide 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; and
- Our strong balance sheet and cash flows 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 throughout this report.

#### 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 three and nine 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 cash flow.

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.



#### USEFUL LINKS

- [➤ Read about strategy on pages 12 to 15](#)
- [➤ Read about our marketplace on pages 8 and 9](#)

# Chief Executive's review

CONTINUED



## Our 2018 Performance

### UK

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

| Year ended 30 April             | 2018<br><b>£m</b> | 2017<br><b>£m</b> | Change<br>% |
|---------------------------------|-------------------|-------------------|-------------|
| <b>PERFORMANCE (underlying)</b> |                   |                   |             |
| Revenue – vehicle hire          | <b>263.8</b>      | 272.2             | (3.1%)      |
| Revenue – vehicle sales         | <b>149.1</b>      | 144.0             | +3.5%       |
| Total revenue                   | <b>412.9</b>      | 416.2             | (0.8%)      |
| Rental profit                   | <b>23.0</b>       | 29.5              | (22.2%)     |
| Rental margin %                 | <b>8.7%</b>       | 10.9%             | (2.2 ppt)   |
| Disposals profit                | <b>7.6</b>        | 14.3              | (47.0%)     |
| Operating profit                | <b>30.6</b>       | 43.9              | (30.3%)     |
| ROCE %                          | <b>6.4%</b>       | 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 pts 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 defleeted 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 3.0% lower than in the previous year. Sales through Van Monster channels accounted for 48% of total sales in the year, compared to 36% in 2017.

# Chief Executive's Review

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

ROCE 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 cash flow

| Year ended 30 April               | 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 net 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                 | 2018<br>('000) | 2017<br>('000) | Change<br>% |
|-------------------------------------|----------------|----------------|-------------|
| <b>KPI</b>                          |                |                |             |
| 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                 | 2018<br>£m     | 2017<br>£m     | Change<br>% |
| <b>PERFORMANCE (underlying)</b>     |                |                |             |
| 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)   |



# Chief Executive's review

CONTINUED

## 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 benefited 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 macroeconomic 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 Group'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 the minimum term hire market with a range of compelling new propositions. As well as exploiting opportunities for cross selling created by the Group'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 defleeted 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 PPU in Spain fell by more than 45% to €871 (2017: €1,589), reflecting the previous policy of selling increasingly younger vehicles with higher net 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, disposals profit fell by 41.6% to £10.0 million (2017: £17.1 million).

## Operating profit and ROCE

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

ROCE 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 cash flow

| Year ended<br>30 April                  | 2018<br>£m | 2017<br>£m | Change<br>% |
|---|------------|------------|-------------|
| Depreciation                            | (76.7)     | (56.0)     | (36.9%)     |
| EBITDA                                  | 115.7      | 98.6       | +17.3%      |
| Net replacement<br>capex                | (80.5)     | (77.3)     | (4.1%)      |
| EBITDA less net<br>replacement<br>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<br>('000) | 2017<br>('000) | Change<br>% |
|-------------------------|----------------|----------------|-------------|
| <b>KPI</b>              |                |                |             |
| 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<br>£m     | 2017<br>£m     | Change<br>% |
| <b>PERFORMANCE</b>      |                |                |             |
| 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%)     |
| <b>CASH FLOW</b>        |                |                |             |
| 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 £7.8m (2017: £4.0 million) due to the defleeting 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 35.5% 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 reintegrated 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 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.



“In 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.”

DAVID TILSTON INTERIM CHIEF FINANCIAL OFFICER

### Group summary

A summary of the Group's financial performance is 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 £64.1m (2017: £81.5m) and profit before tax was £52.7m (2017: £72.2m). 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 £701.7m. 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 hire 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       | 52.4       | 56.7       | (4.3)        | (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; and
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.

#### USEFUL LINKS



For further information on strategy see pages 12 to 15

# Financial review

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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:

| Year:          | Cumulative impact | Year on year impact |                      |             |
|----------------|-------------------|---------------------|----------------------|-------------|
|                | Group<br>£m       | Group<br>£m         | UK and Ireland<br>£m | Spain<br>£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 forward 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:

| Year:          | Cumulative impact | Year on year impact |                    |             |
|----------------|-------------------|---------------------|--------------------|-------------|
|                | Group<br>£m       | Group<br>£m         | UK & Ireland<br>£m | Spain<br>£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 defleeting in each year.

## 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 underlying tax charge was £10.7 million (2017: £12.0 million) and the underlying effective tax rate was 19% (2017: 16%). 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 133.2 million, 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 (2017: 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; and
4. return of surplus cash

The Group plans to maintain a balance sheet within a target leverage range of 1.5x to 2.5x 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 1.25x to 1.85x 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<br>£m     | 2017<br>£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)      |
| <b>Free cash flow</b>                  | <b>(96.0)</b>  | 42.9       |
| Dividends                              | (23.4)         | (21.9)     |
| <b>Net cash (consumed) generated</b>   | <b>(119.4)</b> | 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 upfront. 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 VOH 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<br>£m | 2017<br>£m |
|---------------------------|------------|------------|
| Free cash flow            | (96.0)     | 42.9       |
| Add back: Growth capex    | (125.2)    | 1.2        |
| Underlying free cash flow | 29.2       | 44.1       |

Net debt reconciles as follows:

| Year ended 30 April           | 2018<br>£m | 2017<br>£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      |

# Financial review

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Free cash outflow was £96.0 million (2017: £42.9 million inflow) 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: £44.1 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 83% (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<br>£m | Drawn<br>£m | Headroom<br>£m | Maturity  | Borrowing<br>Cost |
|------------------|----------------|-------------|----------------|-----------|-------------------|
| UK bank facility | 457            | 343         | 114            | July 2021 | 2.38%             |
| Loan notes       | 88             | 88          | –              | Aug 2022  | 2.38%             |
| Other loans      | 23             | 11          | 12             | Nov 2018  | 0.94%             |
|                  | <b>568</b>     | <b>442</b>  | <b>126</b>     |           | <b>2.27%</b>      |

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 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<br>£m | 2017<br>£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<br>£ : € | 2017<br>£ : € |
|----------|---------------|---------------|
| 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 Euros 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

# Financial review

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## GAAP Reconciliation

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

|  | Group<br>2018<br>£000 | Group<br>2017<br>£000 |
|--|-----------------------|-----------------------|
| Profit before tax  | 52,738                | 72,222                |
| <i>Add back:</i>   |                       |                       |
| Restructuring costs  | 2,499                 | 2,189                 |
| Certain intangible amortisation                              | 1,767                 | 1,830                 |
| Spain tax settlement   | –                     | (1,235)               |
| Refinancing costs  | –                     | –                     |
| <b>Underlying profit before tax</b>                          | <b>57,004</b>         | <b>75,006</b>         |
|  | Group<br>2018<br>£000 | Group<br>2017<br>£000 |
| Profit for the year  | 43,232                | 60,901                |
| <i>Add back:</i>   |                       |                       |
| Restructuring costs  | 2,499                 | 2,189                 |
| Certain intangible amortisation                              | 1,767                 | 1,830                 |
| Spain tax settlement   | –                     | (1,235)               |
| Tax on exceptional items and certain intangible amortisation | (1,145)               | (686)                 |
| <b>Underlying profit for the year</b>                        | <b>46,353</b>         | <b>62,999</b>         |
| Weighted average number of Ordinary shares                   | 133,232,518           | 133,232,518           |
| <b>Underlying basic earnings per share</b>                   | <b>34.8p</b>          | <b>47.3p</b>          |
|  | Group<br>2018<br>£000 | Group<br>2017<br>£000 |
| Operating profit   | 64,077                | 81,482                |
| <i>Add back:</i>   |                       |                       |
| Restructuring costs  | 2,499                 | 2,189                 |
| Certain intangible amortisation                              | 1,767                 | 1,830                 |
| Spain tax settlement   | –                     | (896)                 |
| <b>Underlying operating profit</b>                           | <b>68,343</b>         | <b>84,605</b>         |
| <i>Add back:</i>   |                       |                       |
| 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                    |
| <b>EBITDA</b>  | <b>250,967</b>        | <b>241,287</b>        |

|   | 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                |
| <i>Exclude:</i>   |                    |                       |                         |                           |                              |                       |
| 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                |
| <i>Divided by:</i> Revenue: hire of vehicles                                  | 263,780            | 187,644               | 20,623                  | –                         | (860)                        | 471,187               |
| <b>Rental margin</b>  | <b>8.7%</b>        | <b>15.4%</b>          | <b>2.6%</b>             | <b>–</b>                  | <b>–</b>                     | <b>11.1%</b>          |

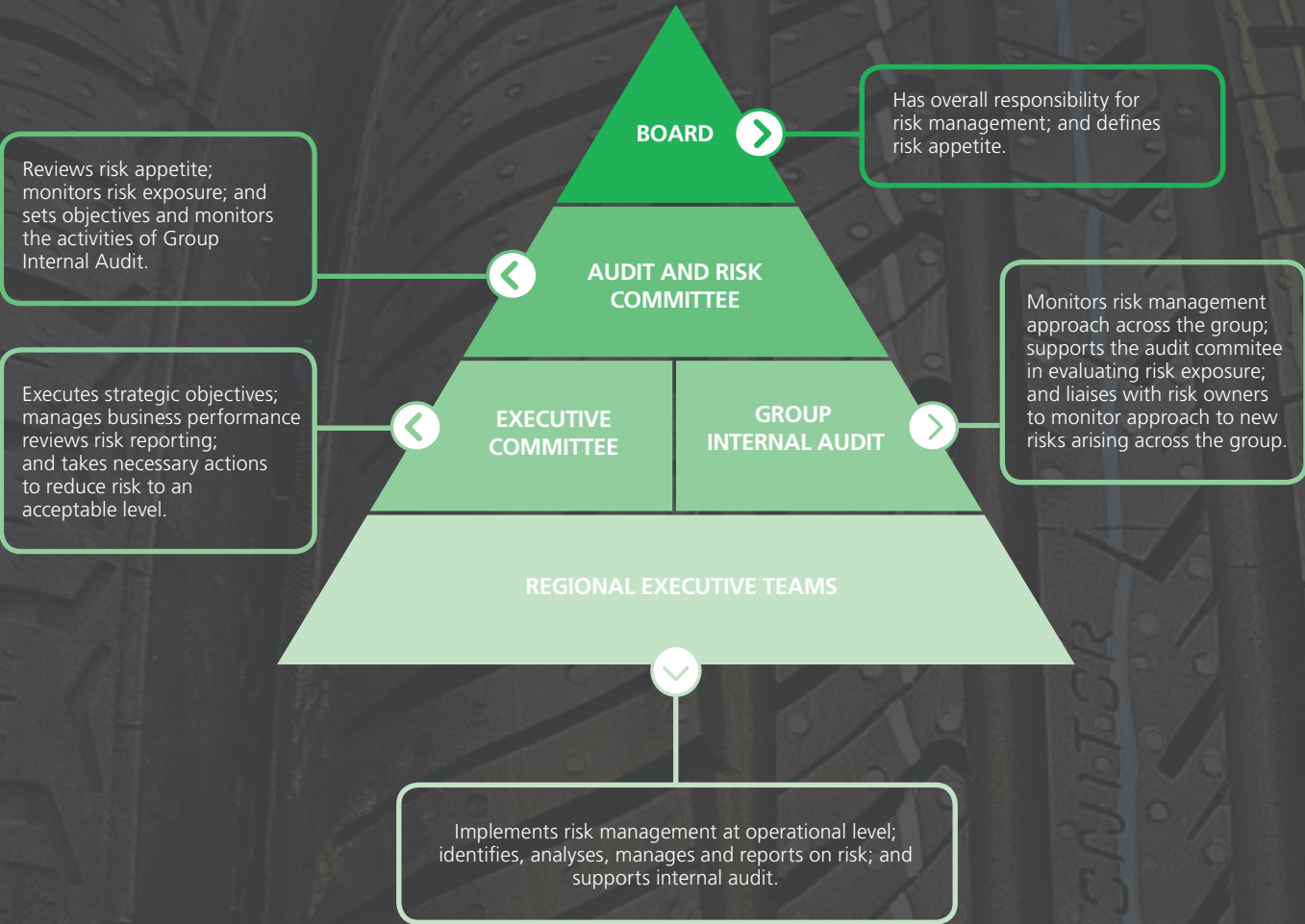
|   | UK<br>2017<br>£000 | Spain<br>2017<br>£000 | Ireland<br>2017<br>£000 | Corporate<br>2017<br>£000 | Eliminations<br>2017<br>£000 | Group<br>2017<br>£000 |
|---|--------------------|-----------------------|-------------------------|---------------------------|------------------------------|-----------------------|
| Underlying operating profit (loss)  | 43,886             | 42,607                | 3,233                   | (5,121)                   | –                            | 84,605                |
| <i>Exclude:</i>   |                    |                       |                         |                           |                              |                       |
| 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                |
| <i>Divided by:</i> Revenue: hire of vehicles                                  | 272,168            | 163,419               | 21,528                  | –                         | (995)                        | 456,120               |
| <b>Rental margin</b>  | <b>10.9%</b>       | <b>15.6%</b>          | <b>7.8%</b>             | <b>–</b>                  | <b>–</b>                     | <b>12.4%</b>          |

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

# Managing risk

OUR RISK MANAGEMENT STRATEGY SUPPORTS OUR ABILITY TO RESPOND TO THE CHANGING NEEDS OF OUR STAKEHOLDERS AND DYNAMICS OF THE MARKETS IN WHICH WE OPERATE. THE PURPOSE OF OUR RISK MANAGEMENT STRATEGY IS TO IDENTIFY RISK WHICH COULD IMPACT THE DELIVERY OF OUR STRATEGIC OBJECTIVES AND MITIGATE THESE TO AN ACCEPTABLE LEVEL.

There is a formal governance structure underpinning our approach to risk management. Key roles and responsibilities within the structure are as follows:



## Identification of risks

The Board and the Group's management have responsibility for identifying the major business risks facing the Group and for developing systems to mitigate and manage those risks. The control of key risks is reviewed by the Board and the Regional Executive Teams at their monthly meetings.

The Group risk register comprises risks identified and owned at the business unit level by the Regional Executive Teams. These are given a risk score and incorporated into the Plc risk register where the Group Wide impact and effectiveness of any mitigation is assessed by internal audit. These risks are subsequently aligned with the principal risk register and are categorised as strategic, financial or operational risks.

The Board oversees the ongoing process for identifying, evaluating and managing the significant risks faced by the Group and that it has been in place for the year under review and up to the date of approval of this annual report and accords with corporate governance guidance and therefore the Board has performed a robust assessment of the principal risks facing the Group.

## Risk appetite

The Board maintains a focus on effective risk management which cascades all the way through the organisation. The culture of the organisation ensures that all activities from day-to-day operations to high level strategic decisions are performed in line with this approach.

The Board's assessment of our principal risks is based on the perceived impact on our ability to deliver our strategic objectives and likelihood of occurrence.

The governance of risk is undertaken in the context of the Group's overall risk appetite. The Group considers risk appetite to ensure adequate resources are allocated to the correct risks. During the year the Audit and Risk Committee reviewed the Group's updated Group risk register, which subdivides the Group's six principal risks into 20 specific risks. The results were as follows:

| Risk appetite | Number of specific risks |
|---------------|--------------------------|
| Minimal       | 9                        |
| Low           | 6                        |
| Medium        | 5                        |
| High          | –                        |
| <b>Total</b>  | <b>20</b>                |

## Principal risks

Recognising that all businesses entail elements of risk, the Board maintains a policy of continuous identification and review of risks which represent an existential threat to the business or may cause future Group results to differ materially from expected results. The table below is an overview of the principal risks faced by the Group, with corresponding controls and mitigating factors. The specified risks are not intended to represent an exhaustive list of all potential risks and uncertainties. The risk factors outlined below should be considered in conjunction with the Group's system for managing risk, described above and in the Corporate Governance Report on page 53

### USEFUL LINKS

- [Read about strategy on pages 12 to 15](#)
- [Read about corporate governance on pages 53 to 55](#)






# Managing risk

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## Principal risks and uncertainties




| RISK   | TYPE               | BUSINESS MODEL LINK  |
|--|--------------------|--|
| <p><b>1 Economic environment</b></p> <p>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 in which 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.</p>  | <p>STRATEGIC</p>   | <p>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.</p> |
| <p><b>2 Market risk</b></p> <p>The markets in which the Group operates are fragmented with low barriers to entry meaning that price competition is high.</p> <p>There is a risk that the Group fails to attract and retain customers based on pricing. This could either be because of uncompetitive pricing or failing to successfully communicate the inherent value of our offering.</p> <p>There is also a risk that demand for our existing products could materially diminish due to other structural changes in the market.</p> | <p>STRATEGIC</p>   | <p>Competition influences how we create value for our customers and investors, either by enhancing our service offering or investing in pricing.</p>   |
| <p><b>3 Vehicle holding costs</b></p> <p>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.</p>  | <p>OPERATIONAL</p> | <p>Vehicle holding costs directly impact our key resources and activities.</p>   |

USEFUL LINKS

-  [Read about our performance on pages 18 to 33](#)
-  [Read about our business model on pages 10 and 11](#)
-  [Read about our strategy on pages 12 to 15](#)

Evaluation is defined as Management’s assessment of whether the risk factor has:

 **Increased**  **Decreased**  **Stayed the same** since the prior year.

| IMPACT BEFORE MITIGATION  | MITIGATION   | EVALUATION  |
|---|--|---|
| <p>The high level of operational gearing in our business model means that changes in demand can lead to higher levels of variability in profits.</p> <p>An adverse change in macroeconomic conditions could also increase the risk of customer failure and therefore incidences of bad debts.</p> | <p>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.</p> <p>The Group is not materially exposed to a single customer sector and no individual customer contributes more than 5% of total revenue generated.</p> <p>The Group’s current hedging arrangements protect it from material foreign exchange risks.</p> <p>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.</p> |    |
| <p>If our pricing is perceived to be higher than our competition for the same level of service, then we will 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.</p>                               | <p>Core pricing is based upon target levels of return with discount authority levels allowing flexibility to ensure that we remain competitive on pricing.</p> <p>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.</p> <p>Investment has continued in marketing to ensure that the value proposition underpinning pricing is well communicated and received.</p>   |  |
| <p>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.</p>   | <p>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 managed 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.</p> <p>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.</p>                           |  |

CONTINUED OVERLEAF




# Managing risk

CONTINUED

| RISK   | TYPE               | BUSINESS MODEL LINK   |
|--|--------------------|---|
| <p><b>4 Legal compliance and the employee environment</b></p> <p>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.</p> <p>Failure to attract, develop and retain individuals with the appropriate skills will inhibit the successful delivery of our strategy.</p> | <p>OPERATIONAL</p> | <p>Material non-compliance with regulations would affect our relationships with customers and suppliers.</p> <p>Our relationship with employees is a key resource which enables the effective delivery of our key activities.</p> |
| <p><b>5 IT systems</b></p> <p>IT systems are integral to the operations of the Group. Failure to appropriately invest in the Group's systems and in the security and continuity of those systems could result in a loss of commercial agility, loss or theft of sensitive data and an inability to effectively carry out the business activities of the Group.</p>   | <p>OPERATIONAL</p> | <p>Systems underpin our competitive advantage by enabling us to effectively deliver the business model.</p>   |
| <p><b>6 Access to capital</b></p> <p>The Group operates a capital intensive business model and requires sufficient access to capital in order to maintain and grow the fleet.</p> <p>As such, an inefficient capital cycle or failure to access credit represents a significant risk to the delivery of strategy and continuation of the business.</p>   | <p>FINANCIAL</p>   | <p>Capital is one of our key resources and therefore impacts how efficiently we fund the business and subsequently deliver value for our stakeholders.</p>  |






USEFUL LINKS

-  Read about our performance on pages 18 to 33
-  Read about our business model on pages 10 and 11
-  Read about our strategy on pages 12 to 15

Evaluation is defined as Management’s assessment of whether the risk factor has:

 **Increased**  **Decreased**  **Stayed the same** since the prior year.

| IMPACT BEFORE MITIGATION   | MITIGATION   | EVALUATION  |
|--|--|---|
| <p>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.</p> <p>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.</p>   | <p>Compliance with laws and regulations is ultimately the responsibility of the Board. Management of compliance is appropriately delegated to the relevant business unit leaders. Group Internal Audit monitors and reports any non-compliance to the Board.</p> <p>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.</p> <p>Regular communication and engagement with everyone across the business is vital to our success.</p> |    |
| <p>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. 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.</p> <p>Incorrectly handling sensitive data or unsuccessfully defending against malicious cyber-attacks would cause significant reputational harm and negatively impact relationships with all stakeholders.</p> | <p>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.</p> <p>The Group has an appropriate business continuity plan in the event of disruption arising from an IT systems failure.</p> <p>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.</p>  |  |
| <p>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.</p>   | <p>The Group’s main facilities mature in 2021 and 2022 and the Group believes that these facilities provide adequate resources for present requirements.</p> <p>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. The impact of access to capital on the viability of the Group is considered in the viability statement on page 40.</p>  |  |

# Viability statement



## Assessment of prospects

The Group's business model and strategy together with its market position are integral to an understanding of its prospects, details of which can be found on pages 8 to 15. The nature of the Group's activities is long term and the business model is flexible and can adapt through economic cycles. The Group's overall strategy has been renewed in the last year in order to target a wider customer base and provide more certainty over future revenues. The Group maintains its position as a market leader in its core market of flexible vehicle hire and has a distinct competitive advantage in the minimum term market, which is discussed on pages 8 and 9.

Within the wider market context the Group has focused on four key strategic opportunities, namely:

- defending and increasing our share of the flexible rental market;
- gaining market share in minimum term markets;
- converting previous owners to a rental model; and
- consolidating the fragmented retail trading market in used vehicles.

The Group's prospects are assessed through its strategic planning process. This process includes an annual review of the ongoing strategic plan, led by the CEO together with the involvement of all relevant business functions in all territories. The Board participates fully in the process through an annual strategy day and regular Board meetings. Part of the Board's role is to challenge the plan in order to ensure it is robust and makes due consideration of the appropriate external environment.

The latest updates to the strategic plan were finalised in March 2018. As a result of this process, detailed financial forecasts were prepared for the three year period to 30 April 2021. The first year of the financial forecast forms the Group's operating budget and is subject to reforecast at regular intervals. Subsequent years are forecast from the first year, based on historical experience and expected measures within the overall strategic plan.

The key assumptions in the financial forecasts include:

- Successful execution of the strategic plan; and
- Implementation of the fleet optimisation strategy.

## Assessment of viability

The Directors have assessed the viability of the Group over a three year period to 30 April 2021, taking into account the Group's current position and the potential impact of the principal risks documented in the Strategic Report. Based upon this assessment the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 30 April 2021.

The three year period was selected as this represents the normal holding period of our core vehicle assets and therefore represents the Group's investment cycle. This period is aligned to how our business model runs through its cycle, how capital is employed in the business and, therefore, how returns on investment are reviewed.

The strategy and associated principal risks underpin the Group's three year strategic planning process (the Plan), which is updated annually. This process takes into account the current and prospective macroeconomic conditions in the countries in which we operate and the competitive tension that exists within the markets that we trade in.

The Plan also encompasses the projected cash flows, dividend cover and headroom against financial covenants under the Group's existing facilities. The Plan makes certain assumptions about the normal level of capital recycling likely to occur and therefore considers whether additional financing will be required. Headroom against the Group's existing facilities at 30 April 2018 was £126m as detailed on page 30. The facilities have maturity dates between November 2018 and August 2022, which exceeds the period under review and provides sufficient headroom to fund the capital expenditure and working capital requirements during the planned period.



#### USEFUL LINKS

- For further information on strategy see pages 12 to 15
- For further information on marketplace see pages 8 and 9
- For further information on principal risks see pages 34 to 41



As explained in the Strategic Report, part of our core business provides customers with vehicles on a non-contract basis which allows them to flex their vehicle requirements as their business needs change. This is core to the proposition we offer. However, it does mean that there is less certainty over the future revenue streams of the Group over a longer period of time. The Directors have therefore made assumptions on future revenue generation in the context of current market conditions and prospects of the Group.

In making this statement, the Directors have considered the resilience of the Group, taking into account its current position and the principal risks facing the business. The Plan was stress tested for severe but reasonable scenarios and the effectiveness of any mitigating actions that would reasonably be taken. The Plan was specifically stress tested for reasonable downturns in vehicles on hire, hire rates, vehicle acquisition costs and residual values of vehicles. The outcome of this testing satisfied the Directors with respect to the ongoing liquidity and solvency of the Group over the period under review. In particular, should there be a significant downturn in demand for the Group's business, vehicle utilisation can be maintained through purchasing fewer vehicles, increasing disposals, or a combination of the two, which would generate cash and reduce debt.

# Corporate social responsibility

RELATIONSHIPS ARE INTEGRAL TO OUR BUSINESS MODEL AND THE SUCCESSFUL DELIVERY OF OUR STRATEGY. WE BELIEVE THAT A POSITIVE IMPACT IN THESE RELATIONSHIPS WILL ENABLE US TO CREATE SUSTAINABLE VALUE FOR OUR SHAREHOLDERS.

Outlined below are details of five key relationships with our stakeholders, the steps we take to engage with them, and the impact we have which helps us build a responsible and sustainable business.

We strive to do all we can to maintain and deepen these relationships to best serve our customers, provide returns to our shareholders, and be responsive to changing expectations regarding the role of business in society. We aim to build a responsible business which has a positive impact on all of our stakeholders and creates value beyond profitability.

## 1 OUR CUSTOMERS

One of our most significant societal impacts results from the relationships we have with our customers supporting their businesses in the UK, Spain and Ireland. We aim to drive business forward by helping customers manage their fleet in the most efficient way and do this by offering a full range of vehicle solutions.

We currently support business in the UK, Spain, and Ireland with:

- 73,200 vehicles on fully flexible hire allowing our customers to adapt to changing demand; and
- 16,000 vehicles on minimum term hires allowing our customers a stable platform to grow their business.

Across our markets we have a positive impact on the economies in which we operate, generating economic activity and adding value for our customers.

We value our customers' feedback and have worked throughout the year to deliver some great results for our customers.

The following examples highlight this:

### UK

We were able to find a flexible vehicle solution that enabled Enserve Group to achieve cost savings while promoting more eco-friendly driving through use of our telematics platform with Enserve noting:

"Under Northgate's flexible rental agreement, vehicles can be handed back without penalty, making it the perfect solution to the flexible element of contract work. The way that Northgate has responded to any challenges thrown at Enserve and maintained the cost savings it delivers to the business has given us full confidence in their service."

### Spain

Working with Areatrans, we have demonstrated the value of our scale and agility with the customer noting that:

"Northgate has the unique capability to provide a vehicle in the shortest possible time, allowing us to respond immediately to our customers."

Further case studies are available online at

[www.northgateplc.es](http://www.northgateplc.es) & [www.northgatevehiclehire.co.uk](http://www.northgatevehiclehire.co.uk)



## 2 OUR INVESTORS

Our investors provide us with the funding we need to meet the capital requirements of the Group. We are listed on the London Stock Exchange and provide investors with regular updates enabling them to make informed investment decisions. We encourage two way communication with financial analysts, shareholders and lenders to ensure that we are allocated capital efficiently at a rate which enables us to provide returns to our shareholders.

Our leadership team regularly hold meetings with investors and feedback from them informs strategic discussion at Board level. The Group also held a capital markets day in October with investors and analysts, to give further insight to our strategic direction and an update on performance between reporting periods.

## 3 OUR EMPLOYEES

We believe that employee engagement is crucial to the success of our business model and the delivery of our strategy outlined on pages 12 to 15. We have a positive impact on our employees through creation of high quality jobs with opportunities for progression. Clear communication ensures that employee goals are aligned to the Group. Regular training enables everyone to perform to the best of their ability and progress their career within the Group. We also offer flexible benefits to our employees in recognition that each individual has different needs, and those needs may change over time.

The composition of our workforce at 30 April is as follows:

|              | 2018         |            |              | 2017  |        |       |
|--------------|--------------|------------|--------------|-------|--------|-------|
|              | Male         | Female     | Total        | Male  | Female | Total |
| UK           | 1,288        | 475        | 1,763        | 1,286 | 495    | 1,781 |
| Spain        | 735          | 388        | 1,123        | 668   | 370    | 1,038 |
| Ireland      | 83           | 31         | 114          | 69    | 28     | 97    |
| <b>Total</b> | <b>2,106</b> | <b>894</b> | <b>3,000</b> | 2,023 | 893    | 2,916 |

The gender split at a senior management level is as follows:

|                 | 2018 |        | 2017 |        |
|-----------------|------|--------|------|--------|
|                 | Male | Female | Male | Female |
| Directors       | 5    | 2      | 4    | 2      |
| Senior managers | 21   | 5      | 21   | 5      |

### Health, safety and working environment

Our approach to health and safety is simple: to ensure that no harm comes to anyone engaged with Northgate. As employers we believe that we should mitigate health, safety and environment risks within our control to an acceptable level.

Our 'Safe and sound' programme creates an environment of openness and awareness, where all colleagues feel empowered to raise concerns about working practices and conditions. Regular training is provided to employees, most of which is carried out internally by our Health, Safety & Environment team.

The Health, Safety & Environment team carried out audit reviews to measure performance of health, safety and environment management systems at all locations across the Group during the year and where necessary identified improvements and monitored compliance against Group policy.

Health and Safety performance across the business is measured using an Accident Frequency Rate (AFR). This is calculated as the number of lost time incidents, multiplied by 100,000, divided by the number of hours worked. These figures were as follows:

|         | 2018 | 2017 | 2016 |
|---------|------|------|------|
| UK      | 0.9  | 0.8  | 0.9  |
| Spain   | 1.9  | 1.9  | 2.2  |
| Ireland | 0.9  | 1.0  | 1.1  |
| Group   | 1.2  | 1.2  | 1.4  |



We aim to have as low an AFR as possible. However, due to the unique nature of our business it is difficult to find a comparator population for AFRs from which to deduce a meaningful target other than minimisation. AFRs are monitored against previous performance and if there were to be a significant decline in performance then a root cause analysis, over and above the continuous monitoring currently in place, would be performed.

### Internal communications

The Group mixes face to face, digital and traditional communications channels in order to maximise the impact of communication with our employees. Examples include newsletters, staff conferences and use of Yammer.

### Training


We use multiple training platforms for our employees. These include Leadership and Operations Academies in the UK and the Northgate Campus online platform in Spain.

### Equality and human rights

Northgate is committed to equality and considers applicants without prejudice judging applications for employment neither by race, nationality, gender, age, disability, sexual orientation nor political bias.

Our ethical standards are communicated to employees through the Group's Code of Business Conduct, which covers bribery, competition, conflicts of interest, inside information, confidentiality, gifts and entertainment, discrimination, harassment and fair dealing with customers and suppliers. In addition, the Group's whistleblowing policy and procedure enables every employee to have a voice and a means by which they may draw concerns to our attention.

Information on equality, including our statement of compliance with the Modern Slavery Act, is contained on our website.

 Read more at [www.northgateplc.com](http://www.northgateplc.com)

# Corporate social responsibility

CONTINUED

## 4 OUR SUPPLIERS

Our suppliers provide important inputs to our business model, enabling us to meet demand and deliver for our customers. We believe that maintaining strong relationships with our suppliers is mutually beneficial. It allows us to efficiently execute our strategy and it has a positive impact on our suppliers' ability to manage cash flow and production. Vehicle pricing is negotiated on an annual basis and we maintain an active dialogue with suppliers throughout the year. These relationships provide a competitive advantage and help us generate sustainable value for our shareholders.

## 5 OUR COMMUNITIES AND THE ENVIRONMENT

We value the communities in which we operate and our aim is that our business activities have a positive impact on them. In addition to supporting local business with their fleets we employ 3,000 people across all of our locations. Further, we continue to champion green technology and initiatives to protect our environment.

### Communities

As well as being a contributor to the economies in which we operate we actively encourage our colleagues to engage with charities that are close to their hearts. All charitable activity is promoted and championed through ongoing internal communications.

### UK and Ireland

In the UK we established a national partnership with Macmillan Cancer Support and have supported them throughout the year so that they can continue to change the lives of millions of people affected by cancer. Throughout the year our people hosted a number of fundraising events including a Go Mad, Go Green Day and participation in the Worlds Biggest Coffee Morning.

### Spain

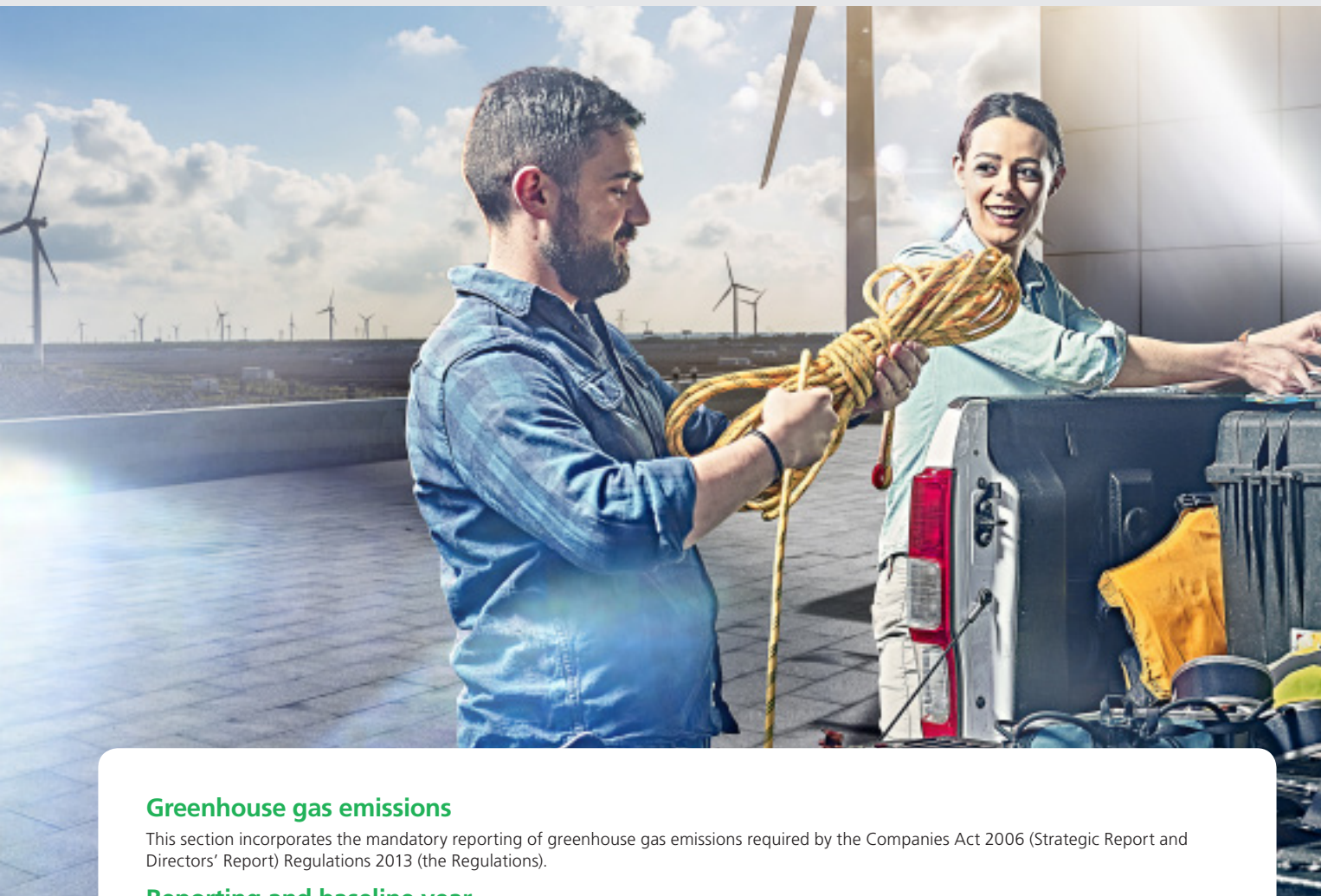
Our Spanish business engaged with a number of community and charity initiatives over the year. This included continued sponsorship of Gavi, a vaccine alliance, as well as entering into partnerships with local schools in order to offer scholarships and training opportunities within our business.

The communities we operate in provide the core of our workforce, meaning that our employees understand the communities where we are present.

### Environment

The activities that we undertake also have a wider impact on the environment. The main measure that we use to assess our environmental impact is greenhouse gas emissions.





## Greenhouse gas emissions

This section incorporates the mandatory reporting of greenhouse gas emissions required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the Regulations).

### Reporting and baseline year

Our reporting and fiscal years have been aligned, meaning that the information presented covers the period from 1 May 2017 to 30 April 2018 with the year ended 30 April 2014 being the baseline data for subsequent periods.

### Consolidation approach and organisational boundary

The emissions data presented has been derived using the operational control approach, required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Each facility under operational control has been included within the figures. Northgate has used the principles of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), ISO 14064-1.

### Methodology

Defra's current conversion factors have been used in arriving at the information supplied below. All six greenhouse gases are reported as appropriate.

### Greenhouse gas emissions figures

| Greenhouse Gas Emissions Source                                | Tonnes of CO <sub>2</sub> e<br>2018 | Tonnes of CO <sub>2</sub> e<br>2017 | Tonnes of CO <sub>2</sub> e<br>2014 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Scope 1 – Combustion of fuel and operation of facilities       | 7,210                               | 6,201                               | 5,980                               |
| Scope 2 – Electricity, heat, steam and cooling                 | 3,581                               | 4,766                               | 4,348                               |
| Intensity ratio: Tonnes of CO <sub>2</sub> e per £m of revenue | 22.9                                | 24.5                                | 23.4                                |

The above data has been verified by an independent, UCAS accredited, third party assessor.

We recognise the need to support our customers in managing a sustainable business. We work with our suppliers to make a fleet available to our customers comprising entirely modern vehicles, achieving the highest levels of exhaust emission standards.

A number of initiatives have been introduced during the year to reduce our greenhouse gas emissions. These include:

#### UK and Ireland

Further investment in LED lighting at an additional three locations.


#### Spain

An increase in the number of electric and hybrid vehicles on the fleet contributing towards emissions reductions.


Our dedication to robust environmental principles, policies and procedures has meant that we have maintained ISO 14001 accreditation in both the UK and Spain.

# ***CUSTOMER FOCUS***

## **HARSCO RAIL KEEPS ON TRACK WITH NORTHGATE FLEXIBLE VAN RENTAL**



We need to work with  
a brand we can trust -  
and we trust Northgate  
HARSCO RAIL



Harsco Rail is one of the world's largest  
railroad maintenance equipment  
companies. Vehicles in Harsco Rail's fleet  
must support and maintain industrial  
machinery on-site and get transport  
operators to remote work locations.





## Governance



Harsco Rail operates nationally and requires truly national support, which Northgate provides with a UK wide network of branches and wholly owned workshops.

Northgate offers Harsco Rail the flexibility and vehicle reliability it needs to meet business demands.

This section outlines our governance structure and presents developments in Board and committee activities in the year. The Chairman provides an introduction to corporate governance. We explain the progress and focus for each Board committee. This section also includes the Report of the Directors and the auditors' report to the members of Northgate plc.

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# Board of Directors



**Andrew Page**  
Chairman



**Kevin Bradshaw**  
Chief Executive Officer



**David Tilston\***  
Interim Chief  
Financial Officer



**Bill Spencer**  
Senior Independent Director

|                                  |  |   |   |   |
|----------------------------------|--|---|---|---|
| <b>JOINED BOARD</b>              | December 2014  | January 2017  | September 2017  | June 2016   |
| <b>COMMITTEE MEMBERSHIP</b>      | Remuneration, Nominations (Chairman)   |   |   | Audit & Risk (Chairman), Remuneration, Nominations  |
| <b>KEY SKILLS AND EXPERIENCE</b> | <ul style="list-style-type: none"> <li>○ Previously CEO of a FTSE 250 business</li> <li>○ International business</li> <li>○ Major capital investment decisions</li> <li>○ Chartered Accountant</li> </ul>          | <ul style="list-style-type: none"> <li>○ Experienced CEO – track record of driving value growth</li> <li>○ Turnaround of a UK multi-site vehicle rental business</li> <li>○ Strategy development</li> </ul> | <ul style="list-style-type: none"> <li>○ Significant cross-sector experience</li> <li>○ International business</li> <li>○ Chartered Accountant</li> </ul> | <ul style="list-style-type: none"> <li>○ International business</li> <li>○ Former CFO of a FTSE 100 company</li> <li>○ Wide multi industry experience</li> </ul>  |
| <b>CURRENT POSITIONS</b>         | <p><b>Carpetright</b> – Senior Independent Director</p> <p><b>Schroder UK Mid Cap Fund plc</b> – Non-Executive Director</p> <p><b>JP Morgan Emerging Markets Investment Trust plc</b> – Non-Executive Director</p> |   | <p><b>Scientific Digital Imaging Plc</b> – Chairman of Audit Committee</p>  | <p><b>Ricardo Plc</b> – Non-Executive Director and Audit Committee Chairman</p>   |
| <b>FORMER POSITIONS</b>          | <p><b>Restaurant Group Plc</b> – Chief Executive Officer</p> <p><b>Arena Leisure Plc</b> – Senior Independent Director</p>   | <p><b>Wyevale Garden Centres</b> – CEO</p> <p><b>Avis Europe Plc</b> – UK Managing Director and Group Chief Information Officer</p>   | <p>Interim CFO roles at <b>Consort Medical Plc</b>, <b>Mouchel Group Plc</b>, <b>SThree Plc</b></p>   | <p><b>Intertek Group</b> – CFO</p> <p><b>Exova Group Plc</b> – Senior Independent Director and Audit Committee Chairman</p> <p><b>UK Mail Group Plc</b> – Non-Executive Director and Audit Committee Chairman</p> |

\* Not statutory director during period of interim office.



**Andrew Allner**  
Non-executive Director



**Jill Caseberry**  
Non-executive Director



**Claire Miles**  
Non-executive Director



**Katie Tasker-Wood**  
Company Secretary

|                                  |  |   |  |  |
|----------------------------------|--|---|--|--|
| <b>JOINED BOARD</b>              | September 2007   | December 2012   | November 2015  | December 2016  |
| <b>COMMITTEE MEMBERSHIP</b>      |  | Audit & Risk, Remuneration (Chairman), Nominations  | Audit & Risk, Remuneration, Nominations  | Secretary to each Committee  |
| <b>KEY SKILLS AND EXPERIENCE</b> | <ul style="list-style-type: none"> <li>○ Significant Board experience</li> <li>○ UK and multinational experience</li> <li>○ Chartered Accountant</li> </ul>  | <ul style="list-style-type: none"> <li>○ Sales</li> <li>○ Marketing</li> <li>○ General management</li> </ul>  | <ul style="list-style-type: none"> <li>○ Commercial strategy</li> <li>○ Multi-channel customer operations</li> <li>○ Large scale transformation</li> </ul> | <ul style="list-style-type: none"> <li>○ International business</li> <li>○ Qualified solicitor</li> <li>○ Risk management</li> </ul> |
| <b>CURRENT POSITIONS</b>         | <p>Go Ahead Group Plc – Chairman</p> <p>SIG Plc – Chairman</p> <p>Fox Marble Holdings Plc – Chairman</p>   | <p>Bellway Plc – Non-Executive Director</p> <p>St Austell Brewery Co Ltd – Non-Executive Director</p>   | <p>Centrica Hive Limited – Managing Director</p>   |  |
| <b>FORMER POSITIONS</b>          | <p>Marshalls Plc – Chairman</p> <p>RHM plc – Finance Director</p> <p>Enodis Plc – Chief Executive</p> <p>AZ Electronic Materials SA – Senior Independent Director and Chair of Audit Committee</p> <p>CSR plc – Chair of Audit Committee</p> <p>Moss Bros Group Plc – Chair of Audit Committee</p> <p>Price Waterhouse – Partner</p> | <p>Enhance Drinks Limited – Chief Executive</p> <p>Mars – Various Sales and Marketing roles</p> <p>PepsiCo – Commercial Director</p> <p>Premier Foods – General Manager</p> | <p>Santander Cards – Managing Director, Retail Distribution</p> <p>GE Money – Commercial Director</p> <p>HFC Bank – Head of Cards</p>                      | <p>Carr's Group plc – Company Secretary</p>  |

# Chairman's introduction to governance



“At Northgate we recognise the vital role that governance plays in delivering the best outcomes for all stakeholders in the business.”

Andrew Page CHAIRMAN

## Dear Shareholder,

At Northgate we recognise the vital role that governance plays in delivering the best outcomes for all stakeholders in the business. Our rigorous systems of risk management and internal control ensure that our businesses operate within the Board approved risk appetite levels set out in the Managing Risk report on page 34.

Governance issues tackled during the year include changes to the Board and further acting upon the recommendations from the previous external and internal Board evaluations. The Board has continued its focus on the monitoring of the Group's renewed strategy and improving employee engagement.

## Board changes

David Tilston replaced Paddy Gallagher as CFO in the year on an interim basis. I am pleased to report that the Group has concluded the search for a permanent replacement with the appointment of Philip Vincent with effect from 16 July 2018. David Tilston will remain in the business for a short period in order to facilitate an effective handover.

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.

## Board evaluation

An internal Board evaluation was conducted in the year and the Board has concentrated on further implementation of recommendations from previous reports. One of the key areas

for development has been overseeing the structural changes across the Group, including establishing a commercial hub and monitoring Group progress against the renewed strategic objectives.

## Compliance with the Code

As disclosed in last year's Annual Report, Andrew Allner completed ten years' service to the Group in September 2017, meaning that he could no longer be classed as independent by the Code or ABI. However, due to the continued benefit of Andrew's wise counsel it was determined that he should remain on the Board for a further year, until September 2018. We are also proposing that Andrew be re-elected for a further year.

This means that the Board did not comply with section B.1.2 of the Code. However, we feel that maintaining a Board with an appropriate mix of skills and experience serves our stakeholders well.

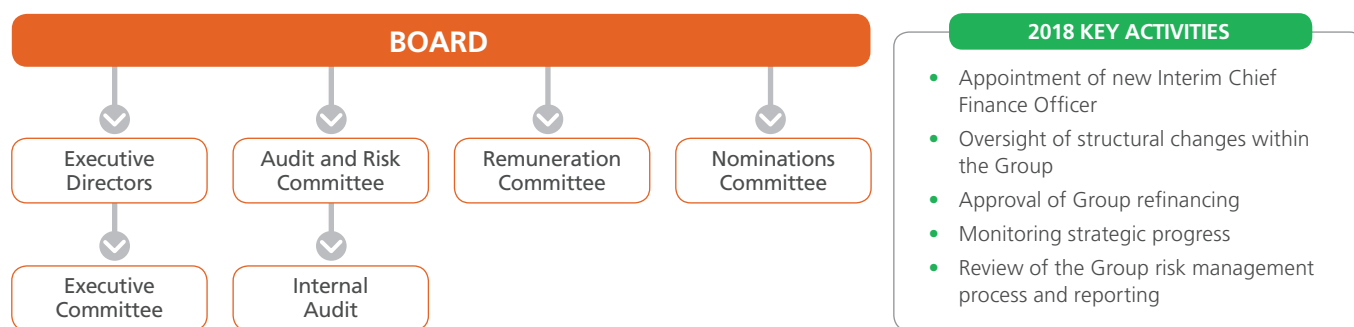
There have been no significant changes to the UK Corporate Governance Code during the year and the Board considers that it has complied with the provisions of the Code throughout the year, other than as described above.

Good governance is a cornerstone of our business and the disciplines and practices that contribute to this are well understood by the Northgate team.

Andrew Page  
Chairman

25 June 2018

# Introduction to governance



## Responsibilities

### Board

*The Board has overall responsibility for:*

- Monitoring progress against strategy of the Group and ensuring long term success for the benefit of all stakeholders;
- Ensuring that adequate resources are available so that strategic objectives may be achieved through the annual planning process and ongoing monitoring;
- Ensuring that the Group's internal control systems (both financial and operational) are fit for purpose and operating as they should be;
- Reporting to and maintaining relationships with shareholders;
- Compliance with laws and regulations and good corporate governance;
- Dividend policy;
- Treasury policy;
- Insurance policy;
- Major capital expenditure;
- Acquisitions and disposals;
- Board structure; and
- Remuneration policy.

### Key focus

- Ensuring execution of Group strategy by executive team
- Monitoring progress against strategic objectives
- Overseeing developments of IT infrastructure and management of cyber risk
- Overseeing service and market development

### Executive Directors

*Executive Directors are responsible for:*

- Ensuring the Group strategy is executed effectively via the Executive Committee;
- Monitoring Group performance;
- Managing the Group's financial affairs; and
- Implementation and review of the system of internal control.

### Delivering on the Strategic Plan

- Developing the renewed Group strategy
- Developing the fleet optimisation strategy
- Refinancing facilities

# Introduction to governance

CONTINUED

| Responsibilities   |   |
|--|---|
| <p><b>Executive Committee</b></p> <p><i>The Executive Committee is responsible for:</i></p> <ul style="list-style-type: none"> <li>• Executing Group strategy and policies;</li> <li>• Considering operational business issues;</li> <li>• Reviewing risk reporting and taking necessary actions; and</li> <li>• Managing business performance.</li> </ul> <p><b>Audit and Risk Committee</b></p> <p><i>The Audit and Risk Committee is responsible for:</i></p> <ul style="list-style-type: none"> <li>• Monitoring the integrity of financial reporting and reviewing the Group's risk management systems on behalf of the Board, including reviewing the work of Group Internal Audit;</li> <li>• Overseeing the statutory audit process:               <ul style="list-style-type: none"> <li>— Recommending appointments to the Board;</li> <li>— Monitoring independence and objectivity, including monitoring auditor rotation and developing policy on non-audit services provided;</li> <li>— Approving auditor remuneration and terms of engagement; and</li> <li>— Overseeing the audit tender process, if applicable.</li> </ul> </li> </ul> | <p><i>Strategic focus</i></p> <p>Implementing the renewed strategy within the business.</p> <p><i>Risk management</i></p> <p>Implemented the recommendations from the latest review and made further improvements to the end to end processes of identifying and reporting risks.</p> |
| <p><b>Remuneration Committee</b></p> <p><i>The Remuneration Committee is responsible for:</i></p> <ul style="list-style-type: none"> <li>• Assessing, reviewing and agreeing with the Board the remuneration policy for the Board excluding the non-executive Directors;</li> <li>• Assessing and reviewing the remuneration policy and benefit structure for Group employees; and</li> <li>• Monitoring the share incentive plans including participation and exceptional circumstances and amending the design of the plans in line with best practice.</li> </ul>   | <p><i>Remuneration Policy</i></p> <p>Implemented changes in remuneration of CEO and increased minimum shareholding requirements of executive Directors.</p>   |
| <p><b>Nominations Committee</b></p> <p><i>The Nominations Committee is responsible for:</i></p> <ul style="list-style-type: none"> <li>• Reviewing the structure, size, skills and experience of the Board and making recommendations regarding any changes;</li> <li>• Considering succession planning for Directors and other senior executives; and</li> <li>• Making recommendations to the Board for candidates to fill Board vacancies when they arise, normally using the services of professional consultants in the search.</li> </ul>  | <p><i>New appointment</i></p> <p>During the year the Nominations Committee approved the appointment of an interim CFO and completed the process of appointing a permanent replacement effective from 16 July 2018.</p>  |

The full terms of reference of the Audit and Risk, Remuneration and Nominations Committees can be found on the Group's corporate website.

# Corporate governance

WE RECOGNISE THE VITAL ROLE THAT GOOD GOVERNANCE PLAYS IN DELIVERING THE BEST OUTCOMES FOR ALL STAKEHOLDERS IN THE BUSINESS.

UK listed companies are required by the FCA (the designated UK Listing Authority), to include a statement in their annual accounts on compliance with the principles of good corporate governance and code of best practice set out in the Code. The provisions of the Code applicable to listed companies are divided into five parts, as set out below:

## 1 Leadership

The business is managed by the Board of Directors, currently comprising two executive and five non-executive Directors, details of whom are shown on pages 48 and 49. The offices of the Chairman and CEO are separate. An overview of the leadership of the Group, including the responsibilities and activities of each component is outlined on pages 53 to 55.

## 2 Effectiveness

### Information supplied

The Chairman ensures that all Directors are appropriately briefed to enable them to discharge their duties. Management accounts are prepared and submitted to the Board on a monthly basis. Before each Board meeting appropriate documentation on all items to be discussed is circulated.

### Attendance

Directors' attendance at Board and Committee meetings during the year is detailed as follows:

|                          | Board       | Audit and Risk | Remuneration | Nominations |
|--------------------------|-------------|----------------|--------------|-------------|
| <b>No. of meetings</b>   | <b>11</b>   | <b>4</b>       | <b>5</b>     | <b>3</b>    |
| AJ Allner                | ●●●●●●●●●●● | ●●●●           | ●●●●●        | ●●●         |
| K Bradshaw               | ●●●●●●●●●●● | ●●●●           | ●●●●●        | ●●●         |
| J Caseberry              | ●●●●●●●●●●● | ●●●●           | ●●●●●        | ●●●         |
| P Gallagher <sup>1</sup> | ●●●●        | ●●             | –            | –           |
| C Miles                  | ●●●●●●●●●●● | ●●●●           | ●●●●●        | ●●●         |
| A Page                   | ●●●●●●●●●●● | ●●●●           | ●●●●●        | ●●●         |
| B Spencer                | ●●●●●●●●●●● | ●●●●           | ●●●●●        | ●●●         |
| D Tilston <sup>2</sup>   | ●●●●●●●     | ●●             | –            | –           |

1. Left the Board and Committees on 26 September 2017.

2. Appointed as Interim CFO on 26 September 2017. Not a statutory Director of the Company.

All Directors in office at that time were present at the AGM held on 19 September 2017.



# Corporate governance

CONTINUED

## 2 Effectiveness CONTINUED

The external auditor and the Head of Group Internal Audit attended all Audit and Risk Committee meetings.

Andrew Allner completed ten years' service as a non-executive Director of the Company in September 2017 and therefore is no longer regarded as independent in terms of the Code or by the ABI. This means that the Board was not compliant with section B.1.2 of the Code (more than half of the Directors, excluding the Chairman, should be independent) from September 2017 to the date of this report. However, we feel that maintaining a Board with an appropriate mix of skills and experience serves our stakeholders well.

### Board review

The internal evaluation established that the Board had built on the evaluation from the previous year. With the appointment of Kevin Bradshaw in January 2017 a refreshing of the Group's strategy was undertaken, which was a further focus of the Board throughout FY2018. In addition, a review against new strategic objectives will be regularly monitored.

Board meetings have been held in different locations and territories during the year, which has had a positive impact on employee engagement and enhanced the Board's first-hand experience of the Company's operations; this will continue throughout FY2019.

### Diversity

The Board has considered the recommendations of the Davies Review into Women on Boards in the light of the provisions of both section B.2 of the Code, with which we are compliant, and of our existing policies and procedures.

The Board recognises the benefits of diversity at all levels of the business and in order to reinforce the Board's commitment to equality, the Board has endorsed an Equal Opportunities Policy, which may be found on our website at:

[www.northgateplc.com](http://www.northgateplc.com)

Whilst the overriding criteria for Board appointments will always be based on merit, so as to encourage an appropriate balance of skills, experience and knowledge on the Board at all times, for all future appointments we will only use executive search firms who have committed to the Voluntary Code of Conduct on gender diversity.

At the same time the Board recognises that, particularly given the nature of its business, the development of a pool of suitably qualified candidates may take time to achieve and therefore does not believe it is appropriate to set targets.

At 30 April 2018 29% of Board members, 19% of the senior management team and 30% of all employees were female.

### Conflicts of interest

Pursuant to those provisions of the Companies Act 2006 relating to conflicts of interest and in accordance with the authority contained in the Company's Articles of Association, the Board has put in place procedures to deal with the notification, authorisation, recording and monitoring of Directors' conflicts of interest and these procedures have operated effectively throughout the year and to the date of signing of this report and accounts.





### 3 Accountability

Although no system of internal controls can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide the Directors with reasonable assurance that, should any problems occur, these are identified on a timely basis and dealt with appropriately.

#### Internal control

Confirmation that the Board has performed an assessment of the risk management and internal control systems of the Group, as required by the Code provision C.2.3, is contained in the Managing Risk report on pages 34 to 41.

#### Whistleblowing hotline

The Board has established a confidential telephone service, operated by an independent external organisation, which may be used by all staff to report any issues of concern relating to dishonesty or malpractice within the Group. All issues reported are investigated by senior management and Group Internal Audit as appropriate.

#### Information and communication

Each reporting segment prepares monthly management accounts with a comparison against their business plan and prior year, with review by management of variance from targeted performance levels. These commentaries are consolidated and submitted to the Board. Year to date actuals are used to guide forecasts, which are updated regularly and communicated to the Board.

#### Planning

Each reporting segment prepares a three-year business plan on an annual basis. This is presented to and approved by the Board. Performance against these plans is reviewed on a monthly basis.

#### Assurance

A description of the work of the Audit and Risk Committee is given on pages 56 to 58. Both the external auditor and Head of Internal Audit report directly to the Committee.

### 4 Remuneration

Details of the Company's remuneration policy and the remuneration of each Director are given on pages 60 to 78.

### 5 Relations with shareholders

Throughout the year the Company maintains a regular dialogue with institutional investors and market analysts, providing them with such information on the Company's progress and future plans as is permitted within the guidelines of the Listing Rules. In particular, twice a year, at the time of announcing the Company's half and full year results, they are invited to briefings given by the CEO and CFO.

The Company's major institutional shareholders have been advised by the CEO that, in line with the provisions of the Code, the Senior Independent Director and other non-executives may attend these briefings and, in any event, would attend if requested to do so.

All shareholders are given the opportunity to raise matters for discussion at the AGM, for which more than the recommended minimum 20 working days' notice is given.

Details of proxies lodged in respect of the AGM will be published on the Company's website as soon as is practicable following the meeting.

Significant interests in shares are detailed on page 79.

#### Compliance with the Code

The Board considers that the Company complied with the provisions of the Code throughout the year, with the exception of provision B.1.2, as described in section 2 above.

#### Katie Tasker-Wood

Company Secretary

25 June 2018

# Report of the Audit and Risk Committee



“The Audit and Risk Committee has an important role in ensuring the integrity of the Group’s financial reporting and reviewing the effectiveness of the Group’s internal control systems and risk management.”

**Bill Spencer** CHAIRMAN OF AUDIT AND RISK COMMITTEE

## Dear Shareholder,

I am pleased to present to you my second report as Chairman of the Audit and Risk Committee since joining the Board in June 2016. The Committee has continued to follow a detailed programme of work. We have been provided with good quality material to allow proper consideration to be given to the Committee’s responsibilities.

The Audit and Risk Committee (the Committee) has an important role in ensuring the integrity of the Group’s financial reporting and reviewing the effectiveness of the Group’s internal control systems and risk management.

The report which follows sets out details on the workings of the Committee, the work done during the year and the key issues considered in the preparation of the financial statements and the related information, judgements and assurance received.

The key accounting issue considered during the year continued to be determining appropriate depreciation rates for our vehicles. This is an area where significant judgement is required and the Committee is satisfied with the rigour applied to this issue. The Committee accepted management’s recommendation to change depreciation rates prospectively from 1 May 2018 as a result of their assessment of expected future residual values in the used vehicle market and impact of the fleet optimisation plan. The impact of this change on the financial statements is outlined on page 28.

In addition to thorough review and challenge of the significant issues affecting the financial statements, the Committee has continued to focus on improving the risk management within the Group. The Board’s risk appetite and approach towards risk is outlined in the Managing Risk report on pages 34 to 41. The Committee has approved a new internal audit methodology in the year which improves upon existing processes. Further, we have reviewed and recommended that the Board approve the Group’s published tax strategy (available on our website) and believe this demonstrates the Group’s commitment to tax transparency and its stated desire to pay the right amount of tax. Based on our ongoing review of the work of Group Internal Audit, we have concluded that this key function has the necessary resources allocated and continues to operate effectively.

I hope you find this report useful and I would welcome any comments.

**Bill Spencer**  
Chairman of Audit and Risk Committee

25 June 2018

## Role

The role of the Audit and Risk Committee is set out on page 52.

## Membership

The members of the Committee, who are all non-executive Directors of the Company, are:

|                      | Date of appointment |
|----------------------|---------------------|
| B Spencer (Chairman) | 1 June 2016         |
| J Caseberry          | 10 December 2012    |
| C Miles              | 27 November 2015    |

The Code requires that at least one member of the Committee should have recent and relevant financial experience: currently, the Chairman of the Committee fulfils this requirement. All members of the Committee are expected to be financially literate. Relevant information on the skills and experience of our Board members is outlined on pages 48 and 49.

## Meetings

The Committee is required to meet at least three times a year. Details of attendance at meetings held in the year ended 30 April 2018 are given on page 53.

Due to the cyclical nature of its agenda, which is linked to events in the Group's financial calendar, the Committee will generally meet four times a year. The other Directors, together with the Group Head of Internal Audit and the external auditor, are normally invited to attend all meetings.

## Activity

Since May 2017, the Committee has:

- Reviewed the financial statements for the years ended 30 April 2018 and 2017 and the half yearly report issued in December 2017. As part of this review process, the Committee received reports from PwC. For the full year results this included making a recommendation to the Board as to whether the Annual Report and Accounts were fair, balanced and understandable;
- Reviewed and agreed the scope of the audit work to be undertaken by PwC and agreed their fees;
- Reviewed the effectiveness of the Group's system of internal controls;
- Received regular reports from the Group Head of Internal Audit and approved an updated internal audit methodology.
- Reviewed the progress made by management in implementing the control improvements recommended by Group Internal Audit;
- Reviewed the effectiveness of external audit;

- Reviewed a management paper with regards to the Viability Statement and recommended that the Board approve the reference period of three years;
- Reviewed and confirmed endorsement of the Group's non-audit fee policy and noted that the level of non-audit work undertaken by PwC in the year was within the policy;
- Reviewed a management paper on intercompany loan agreements;
- Reviewed the Group's whistleblowing procedures;
- Reviewed the Group's depreciation policy and depreciation rates adopted within this policy;
- Reviewed the Group's corporate taxation arrangements;
- Reviewed and approved a management paper on the accounting treatment for the implementation of the new UK ERP system;
- Reviewed the Group's accounting policy for exceptional items;
- Reviewed a Group Internal Audit management paper on FCA compliance with respect to the provision of consumer credit on vehicle sales;
- Reviewed the updated external report on cyber security and the extent to which recommendations made in the previous year had been implemented;
- Reviewed the Group's response to the General Data Protection Regulations;
- Reviewed the Group's Code of Business Conduct, including the requirements of the Bribery Act 2010, and the effective monitoring of the giving and receiving of gifts and hospitality; and
- Reviewed its own effectiveness and terms of reference.

## Risk management

As part of the Committee's role to oversee the Group's approach to risk management, the Committee has monitored the Group's risk management processes and business continuity procedures.

The Committee monitored and reviewed the activities of the Group Internal Audit function including agreeing the scope of work to be performed with reference to the principal risks facing the Group. A new internal audit methodology was adopted in the year, which significantly improved the Committee's oversight of risk management. The Committee commissioned an in depth review into organisational attitudes to compliance across the Group in order to further enhance the effectiveness of risk management.

# Report of the Audit and Risk Committee

CONTINUED

## Significant issues considered in relation to the financial statements

During the year the Committee considered, discussed with the external auditor and concluded on what the significant issues were in relation to the financial statements and how these would be addressed:

- **Determining appropriate depreciation rates for vehicles available for hire** – as Board members, the Committee reviews adjustments to depreciation monthly. In addition, the Committee reviewed formal papers prepared by management at each reporting date which included a qualitative assessment of the current and forecast trends in the used vehicle market, benchmarking of the Group's depreciation policy, and recommendations for changes in depreciation rate accounting estimates. After due challenge and debate the Committee were content with the assumptions and judgements made and accepted management's recommendation to reduce depreciation rates by 0.5% in the UK, 3% in Spain and 3% in Ireland effective from 1 May 2018;
- **The recoverability of aged trade receivables** – the Committee reviewed management's judgements on the recoverability of trade receivables and concluded that they were appropriate. The Committee regularly receives KPI reports from management and ensured that sufficient resource is allocated to the mitigation of bad debt risk across the Group;
- **Provisions for uncertain tax positions** – the Committee reviewed formal papers prepared by management at each reporting date which outlined the Group's tax positions. The Committee challenged areas where significant judgement influenced the level of provision held in the balance sheet and was satisfied with the judgements made; and
- **Financial statements** – the Committee considered the presentation of the Annual Report and Accounts, including analysis between underlying and statutory disclosures. We were satisfied with management's presentation.

## External auditor

The Committee reviews and makes recommendations regarding the appointment of the external auditor. In making this recommendation, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact upon the external auditor's reappointment. PwC was first appointed in September 2015 and the Committee supports a proposed resolution at the AGM in September 2018 to re appoint them for a further year.

The Committee believes that non-audit work may only be undertaken by the external auditor in limited circumstances. Non-audit services provided by our external auditor are subject to a cumulative cap. All non-audit services are subject to the Committee's prior approval.

Non-audit fees for services provided by PwC for the year amounted to £34,000 (9% of the audit fee). Further details are included in Note 5 to the Financial Statements.

The Committee reviewed the effectiveness and independence of the external auditor, considering input from management, responses to questions from the Committee and the audit findings reported to the Committee. The Committee also conducted one to one meetings with the audit partner without management being present. Based on this information, the Committee concluded that the audit process was operating effectively. Consequently, the Committee has recommended to the Board the reappointment of PwC at the AGM.

## Internal Audit

In fulfilling its duty to monitor the effectiveness of the Internal Audit function, the Committee has:

- Reviewed the adequacy of the resources of the Internal Audit department for the UK, Spain and Ireland;
- Ensured that the Group Head of Internal Audit has direct access to the Chairman of the Board and to all members of the Committee;
- Conducted a one-to-one meeting with the Group Head of Internal Audit without management present; and
- Approved the Group Internal Audit programme and reviewed quarterly reports by the Head of Group Internal Audit.

The Chairman of the Committee will be available at the AGM to answer any questions about the work of the Committee.

## Bill Spencer

Chairman of Audit and Risk Committee

25 June 2018

# Report of the Nominations Committee



“During the year the Committee approved the appointment of an Interim CFO and commenced a recruitment process for a permanent CFO.”

Andrew Page CHAIRMAN

## Committee focus for FY2018

I am pleased to present the Nomination Committee’s report for the year ended 30 April 2018. During the year, the Committee commenced a recruitment process for the appointment of a Chief Finance Officer following Paddy Gallagher’s departure from the Board on 26 September 2017. This process was concluded post year end.

## Committee membership

The members of the Committee are shown in the table below. Details of their experience and qualifications are shown on pages 48 and 49.

|                        | Nominations |
|------------------------|-------------|
| <b>No. of meetings</b> | 3           |
| AJ Allner              |             |
| K Bradshaw             |             |
| J Caseberry            |             |
| C Miles                |             |
| A Page                 |             |
| B Spencer              |             |

## Committee purpose

The main purpose of the Committee is to monitor the balance of skills, knowledge, experience and diversity on the Board and the succession plans for the executive Directors.

## Board succession planning

During the year the CFO ceased to be a Director and employee of the Company on 26 September 2017. The Committee approved the appointment of David Tilston as an Interim CFO, whilst a recruitment process commenced for a permanent CFO. Details of David Tilston’s experience can be found on page 48. The recruitment process for a permanent CFO continued throughout the remainder of the year with assistance from executive search agencies and was concluded post year end with the appointment of Philip Vincent as CFO effective from 16 July 2018.

## Diversity

The Board recognises the benefits of diversity and having a diverse and inclusive executive leadership team, which provides a range of perspectives, insights and the challenge needed to support good decision making. As at the date of this report, 29% of the Board are female. The Board remains committed to ensuring diversity pervades not only the Board, but the entire Group.

## FY2019 priorities

In FY2019 the Committee will review succession plans for the Board more generally to ensure that the Board can continue to operate effectively.

Andrew Page  
Chairman

25 June 2018

# Remuneration report

## CHAIRMAN'S INTRODUCTION



“Northgate is committed to a transparent and open dialogue with shareholders. The objective of this report is to communicate clearly the strong link between executive pay and performance.”

**Jill Caseberry** CHAIRMAN OF THE REMUNERATION COMMITTEE

### Dear shareholder,

On behalf of the Board, I am pleased to introduce the Directors' Remuneration Report for the year ended 30 April 2018. The report is divided into three sections, namely: (i) the annual statement; (ii) the remuneration policy; and (iii) the annual remuneration report.

### Performance of the Group

FY2018 was a challenging year for the Group, with the relaunch of the minimum term product in the UK and the implementation of a new fleet optimisation strategy across the Group. Spain and UK grew vehicles on hire with self-help measures beginning to take effect in the UK. Considerable insight of our growth opportunity has been gained giving us confidence going forward.

- Underlying profit before tax £57.0m (2017 – £75.0m)
- Underlying basic earnings per share 34.8p (2017 – 47.3p);
- Underlying free cash flow generation of £29.2m (2017 – £44.1m);
- 2.3% increase in proposed full year dividend per share to 17.7p (2017 – 17.3p).

### Executive change

Paddy Gallagher left the Board in September 2017. All share awards lapsed on cessation and he received no payments for loss of office.

Philip Vincent has been appointed as Group CFO with effect from 16 July 2018. Details of his remuneration package can be found on page 77.

In accordance with Bob Contreras' service agreement, he was entitled to a payment in lieu of 12 months' notice, subject to mitigation, which concluded during the year. His EPSP awards will remain subject to performance criteria, vest pro rata and on the original dates.

### Remuneration policy

The objectives of the policy approved at the last AGM is to ensure that the policy continues to align with the Group's strategy, duly reflects investor best practice, and provides us with the ability to attract, motivate and retain high-calibre executive talent.

Key changes implemented:

- Bringing the CEO annual bonus target and threshold performance into line with that for other Directors;
- Introduction of a two year post vesting holding period for long term incentive awards granted from 2017;
- Providing discretion for the Committee to determine that dividend equivalents will be paid on deferred bonus or performance share awards;
- Increase of minimum shareholding level from 150% of salary to 200% of salary for both CEO and CFO; and
- Executive Directors' contracts to provide for equal notice periods for the executive Director and Company. Normally the notice period will be six months.

## Overall reward structure

The Committee continues to believe that the total reward available to its executives should be competitive for a company of Northgate's size, complexity and geography. In order to ensure strong alignment to the interests of shareholders, the policy provides a greater weighting to the variable elements of remuneration and for a significant proportion of the remuneration package to be paid in equity.

## Review of remuneration for 2018 and basis for 2019

### Base salary

When Kevin Bradshaw was appointed as CEO in January 2017, his salary, benefits and variable remuneration opportunities were set at the same level as the former CEO and no 'buy-out' payments were made. As stated in the 2017 report Kevin did not receive a salary increase in 2017 and the first review would be in May 2018. Since joining the Company Kevin has led a full strategic review resulting in a number of changes as set out in the strategic report. The Committee believes that Kevin is fundamental to Northgate's continuing development and growth. Following an assessment of his performance, a review of market conditions and major shareholder engagement his basic salary was increased to £450,000 from £408,000 as of 1 May 2018 (10.3% increase).

### Annual bonus

Annual bonus targets for the year ended 30 April 2018 were based on profit before tax (75% of maximum opportunity) and key strategic targets (25% of maximum opportunity) with a ROCE underpin and profit before tax threshold. As neither the ROCE underpin nor the profit before tax threshold was met, no bonus has been awarded to Kevin Bradshaw.

The maximum annual bonus opportunity and performance metrics for the coming year are the same as for the year just ended. Performance targets will be disclosed retrospectively in next year's report.

### Executive Performance Share Plan (EPSP)

On 22 February 2018, the Company provided a detailed announcement on a new fleet optimisation strategy. The implementation of the fleet optimisation strategy, whilst positive for the Company and shareholders' had an adverse impact on the EPS and in turn the EPSP awards in 2015-2018 (the 2015-2018 EPSP awards have performance criteria based on EPS growth and TSR). Consequently, the outstanding EPSP awards do not align management to the long term interests of the Company.

The Committee has agreed that while no change would be made to the 2015 awards, it would be appropriate to consider adjustments to the outstanding awards made in 2016 and 2017 under the EPSP to remove the impact of the change in

business strategy. The Committee has concluded that the fairest adjustment for the participants whilst maintaining alignment with shareholders is for the performance criteria of those awards to be amended to rely solely on Total Shareholder Return rather than a 60%:40% split EPS:Total Shareholder Return.

The Committee considers that the performance metrics of the EPSP for future awards need to be reviewed to ensure alignment with the current Company strategy and encourage and reward delivery of the strategic objectives. Consequently, the Committee has commenced a review of the performance metrics, which will apply to the awards granted in 2018, which will conclude in the forthcoming months. Further communication regarding the outcome of this review will be made in due course.

### Committee changes

There have been no changes to the Committee composition during the year.

### Other items

As previously reported, our depreciation rates were reduced on 1 May 2012, 1 May 2014 and 1 May 2018 in the UK and 1 May 2014 and 1 May 2018 in Spain. Where appropriate, when setting performance targets in future, the Committee will take this into account. With regard to outstanding unvested EPSP awards the Committee has agreed that it will review the position at the end of the performance period, for each award, when the exact impact is known and make any adjustment it considers appropriate. Any adjustment will be fully explained in the annual report on remuneration for the relevant year.

### Conclusion

The Committee remains committed to a remuneration policy and implementation, which provides the appropriate opportunity for the executives to be fairly rewarded for their contribution to the business, aligned with the interest of all stakeholders.

We value the support that shareholders have provided in the past, including the 100% vote given to approve our remuneration report at the 2017 AGM. Northgate is committed to a transparent and open dialogue with shareholders and we look forward to your continued support at our AGM in September.

### Jill Caseberry

Chairman of the Remuneration Committee

25 June 2018

# Remuneration report

## REMUNERATION POLICY REPORT

This part of the Directors' remuneration report sets out the remuneration policy for the Company and has been prepared in accordance with the Companies Act 2006, The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Corporate Governance Code and the UK Listing Rules. Our Directors' remuneration policy was approved by shareholders at our AGM on 19 September 2017 and became effective from that date. The policy outlined below is the new policy for the three years from 2017.

### How the views of shareholders are taken into account

The Committee takes seriously the views of its shareholders.

Shareholder feedback received in relation to the AGM each year, and any other meetings and communications with shareholders, is considered by the Committee as part of its annual review of remuneration policy.

When any material changes are proposed to be made to the remuneration policy, the Committee Chairman will inform major shareholders and will offer a meeting to discuss the changes.

If any shareholders raise concerns with regard to remuneration issues, we would endeavour to understand and respond to those concerns either by meetings or correspondence, as appropriate.

Details of votes cast for and against the resolution to approve last year's remuneration report and principal matters discussed with shareholders during the year are provided in the annual remuneration report.

### Consideration of employment conditions elsewhere in the Group

When setting remuneration policy for the executive Directors the Committee takes into account the overall approach to reward for and the pay and employment conditions of other employees in the Group and salary increases will ordinarily, in percentage terms, be in line with those of the wider workforce in the UK. The Committee is also provided with periodic updates on employee remuneration practices and trends across the Group which inform the Committee's discussions on executive remuneration. The Company does not formally consult with employees on the Directors' remuneration policy.

### The remuneration policy for Directors

The Committee aims to ensure that executive Directors are fairly and competitively rewarded for their individual contributions by means of basic salary, benefits in kind and pension benefits. High levels of performance are recognised by annual bonuses and the motivation to achieve the maximum benefit for shareholders in the future is provided by the allocation of long term incentives. Only basic salary is pensionable.

The Committee's policy is to apply greater weighting to the variable elements of executive remuneration and by incentivising the longer term performance of the Company, to provide greater alignment with the interests of shareholders.

It is also the Committee's policy to pay a significant proportion of the potential remuneration package in equity, to ensure that executives have a strong ongoing alignment with shareholders through the Company's share price performance.

However, when setting the levels of short term and long term variable remuneration, consideration is given to setting the right balance between equity and cash so as not to encourage unnecessary risk taking.

The Committee will seek to ensure that the incentive structure will not raise ESG risks by inadvertently motivating irresponsible behaviour and will take account of ESG matters generally in determining overall remuneration policy and structure.



The table below summarises the key aspects of the Company's remuneration policy for its Directors.

### Key aspects of the remuneration policy for Directors

| PURPOSE AND LINK TO STRATEGY  | OPERATION   | MAXIMUM OPPORTUNITY  |
|---|---|--|
| <b>BASE SALARY</b>  |   |  |
| <p>To recruit and reward executives of a suitable calibre for the role and duties required.</p> | <p>Reviewed annually by the Committee, taking account of Company performance, individual performance, changes in responsibility and levels of increase for the broader UK population.</p> <p>Reference is also made to remuneration levels within relevant FTSE and industry comparator companies.</p> <p>The Committee considers the impact of any basic salary increase on the total remuneration package.</p>  | <p>Salary increases for executive Directors will not normally exceed the general increase for the broader UK employee population but on occasions may need to recognise, for example, changes in the scale, scope, complexity or responsibility of the role, and/or specific retention issues, and to allow the base salary of newly appointed executives to increase in line with their experience and contribution.</p> <p>Details of the outcome of the most recent salary review are provided in the annual remuneration report.</p> |
| <b>BENEFITS</b>   |   |  |
| <p>To provide market competitive benefits to ensure the wellbeing of executives.</p>            | <p>The Company typically provides:</p> <ul style="list-style-type: none"> <li>• A car or cash allowance in lieu;</li> <li>• Medical insurance;</li> <li>• Death in service benefits;</li> <li>• Critical illness insurance; and</li> <li>• Other ancillary benefits, including relocation expenses (as required).</li> </ul> <p>Executive Directors are also entitled to 30 days' leave per annum.</p> <p>Reimbursement of all costs associated with reasonable expenses incurred for the proper performance of the role.</p> | <p>The value of benefits is based on the cost to the Company and is not predetermined. It is a relatively small part of the overall value of the total remuneration package.</p>   |

# Remuneration report

## REMUNERATION POLICY REPORT

CONTINUED

| PURPOSE AND LINK TO STRATEGY  | OPERATION  | MAXIMUM OPPORTUNITY  |
|---|--|--|
| <b>PENSION</b>  |  |  |
| To provide market competitive retirement benefits.  | A Company contribution to a Group personal pension plan or provision of cash allowance in lieu at the request of the individual.   | Up to 18% of salary.   |
| <b>ANNUAL BONUS</b>   |  |  |
| To encourage and reward delivery of the Company's operational objectives and to provide alignment with shareholders through the deferred share element. | <p>The annual bonus is based on performance against one or more financial targets. A proportion (not exceeding 25%) may also be based on non-financial strategic KPIs.</p> <p>Details of the performance measures and targets (where these are not considered commercially sensitive) set for the year under review is provided in the annual report on remuneration.</p> <p>Up to 100% of salary, half of any bonus earned is paid in shares and any bonus earned in excess of 100% of salary will be paid entirely in shares, which are available to executive Directors after three years, ordinarily subject to continued employment.</p> <p>The Remuneration Committee has the discretion to determine the payment of dividend equivalents arising over the period between grant and the vesting date. These may be paid in cash or shares.</p> <p>The Remuneration Committee has the discretion to adjust the final outcome upwards or downwards in the event that an exceptional event outside of the Directors' control occurs, which, in the Committee's opinion, materially affected the bonus out turn.</p> <p>Clawback provisions apply to all participants in the event of a restatement of the Group's accounts, error in assessing performance criteria, poor risk management, misrepresentation or such other exceptional circumstances as the Committee determines.</p> | <p>Maximum: 150% of salary for CEO; 100% of salary for other executives.</p> <p>Target: 50% of maximum.</p> <p>Threshold: 25% of maximum.</p> <p>For performance below threshold, no bonus is payable.</p> |

| PURPOSE AND LINK TO STRATEGY   | OPERATION  | MAXIMUM OPPORTUNITY  |
|--|--|--|
| <b>LONG TERM INCENTIVES</b>  |  |  |
| <p>To encourage and reward delivery of the Company's strategic objectives and provide alignment with shareholders through the use of shares.</p> | <p>Annual awards of performance shares (or nil cost options) to executive Directors.</p> <p>Awards are granted subject to continued employment and satisfaction of challenging performance conditions measured over three years.</p> <p>Between 2010 and 2014 awards were granted subject to both an EPS and a ROCE performance condition. In 2015, and subsequently, the awards have been granted subject to both EPS and TSR. Other measures and/or longer performance periods may be proposed in the future if the Committee feels that they would better support the Company's medium or long term objectives. If the Committee considers that the changes are substantive it will consult with the Company's major shareholders prior to making any changes.</p> <p>Awards will vest, subject to performance, on the third anniversary of grant and will be subject to an additional two year holding period post vesting, during which time awarded shares may not be sold (other than for tax).</p> <p>The terms of the EPSP rules provide the Committee with the discretion to grant and/or settle all or part of an EPSP award in cash. In practice this discretion would only be used in exceptional circumstances for executive Directors or to enable the Company to settle any tax or social security withholding which may apply.</p> <p>The Remuneration Committee has the discretion to determine the payment of dividend equivalents arising over the period between grant and the vesting date. These may be paid in cash or shares.</p> <p>Clawback provisions apply to all participants in the event of a restatement of the Group's accounts, error in assessing performance criteria, poor risk management, misrepresentation or such other exceptional circumstances as the Committee determines.</p> | <p>The maximum grant limit in the plan rules is 150% of salary (face value of shares at grant) although exceptionally 250% may be used, e.g. in recruitment.</p> <p>The normal grant policy is 150% of salary for each executive Director.</p> <p>25% of the grant vests for threshold performance increasing in a straight line to 100% for maximum performance.</p> <p>If performance is below threshold for a measure, then the proportion of the award subject to that measure will lapse.</p> |

# Remuneration report

## REMUNERATION POLICY REPORT

CONTINUED

| PURPOSE AND LINK TO STRATEGY   | OPERATION  | MAXIMUM OPPORTUNITY  |
|--|--|--|
| <b>ALL EMPLOYEE SHARE SCHEME</b>   |  |  |
| <p>All employees including executive Directors are encouraged to become shareholders through the operation of an all employee HMRC approved SIP. The Board believes that encouraging wider share ownership by all staff will have longer term benefits for the Company and for shareholders.</p> | <p>The SIP has standard terms under which all UK employees can participate. The rules for this plan were last approved by the shareholders at the 2011 AGM.</p>  | <p>Employees can elect to contribute up to a maximum amount determined by the Company and within the statutory limits for SIPs per month from pre-tax salary which is used to buy shares in the Company. The Company may in addition make an award of free Matching Shares at a ratio not exceeding the statutory limit for SIPs.</p> <p>The Company may also make awards of free shares to all employees including executive Directors, on an equal basis. The maximum award would not exceed the maximum limit for SIPs.</p> |
| <b>NON-EXECUTIVE DIRECTOR FEES</b>   |  |  |
| <p>To attract and retain a high calibre Chairman and non-executive Directors by offering a market competitive fee level.</p>   | <p>The Chairman is paid a single fee for all his responsibilities. The non-executives are paid a basic fee. The chairmen of the main Board Committees and the senior independent Director are paid an additional fee to reflect their extra responsibilities.</p> <p>The level of these fees is reviewed every two to three years by the Committee and CEO for the Chairman and by the Chairman and executive Directors for the non-executive Directors within the overall limit set by the Articles of Association and with reference to market levels in comparably sized FTSE companies, time commitment and responsibilities of the non-executive Directors. Fees are paid in cash.</p> <p>Reimbursement of all costs associated with reasonable expenses incurred for the proper performance of the role.</p> | <p>The maximum aggregate amount is currently £700,000 as provided in the Articles of Association.</p> <p>Details of the outcome of the most recent fee review are provided in the annual report on remuneration.</p>   |

## Choice of performance measures and approach to target setting

The annual bonus is based on performance against one or more financial measures and may also include an element of non-financial strategic KPIs if the Committee feels it appropriate, all based on the priorities for the business in the year ahead. The Committee will set stretching performance targets taking into account market and investor expectations, prevailing market conditions and the Group's business plan for the year.

The Committee may also set an overarching financial hurdle, for example and depending on the actual metrics set, ROCE or budgeted operating profit of the Group (or another appropriate measure) for the year, which, if not achieved, would result in no bonus being awarded, regardless of performance against the set targets.

Awards under the EPSP will be based on performance against one or more financial measures. The measures since 2015 have been EPS and TSR. The Committee has selected these measures to closely reflect the importance the Board places on profitability and balance sheet management. The Committee considers EPS and TSR are the most appropriate measures at the time of setting this executive Directors' remuneration policy since they incentivise the executives to both improve the earnings profile of the Group and manage balance sheet efficiency (important for a capital intensive business), both of which should flow through to superior returns for shareholders. The Committee will review the choice of performance measures and set appropriately challenging targets prior to each award being made based on market conditions and the Company's long term priorities and business plan at that time. The targets for outstanding awards are set out in the annual report on remuneration.

## Annual bonus plan and share plan policy

The Committee will operate the DABP, EPSP and SIP according to the rules of each respective plan and consistent with normal market practice and the Listing Rules, including flexibility in a number of regards. Factors over which the Committee will retain flexibility include (albeit with quantum and performance targets restricted to the descriptions detailed above):

- Who participates in the plans;
- When to make awards and payments;
- How to determine the size of an award, a payment, or when and how much of an award should vest;
- How to deal with a change of control or restructuring of the Group;
- Other than in the case of stated good leaver reasons, whether a Director is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s) as relevant;
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends); and
- What the weighting, measures and targets should be for the annual bonus plan and EPSP from year to year.

The Committee also retains the discretion within the policy to adjust targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the EPSP if events happen that cause it to determine that the conditions are unable to fulfil their original intended purpose provided that they are not in all the circumstances considered by the Committee to be materially less difficult to satisfy. All historic awards that were granted under any current or previous share schemes operated by the Company but remain outstanding (detailed on page 70), remain eligible to vest based on their original award terms.

It is proposed that the Committee be provided discretion to enable that dividend equivalents be paid on DABP and EPSP awards from date of grant to vesting.

# Remuneration report

## REMUNERATION POLICY REPORT

### CONTINUED

#### Share ownership requirements

It is proposed that executive Directors are required to accumulate, over a period of five years from the date of appointment, a holding of Ordinary shares of the Company equivalent in value to 200% of their basic annual salary, measured annually. It is intended that this should be achieved primarily through the exercise of share incentive awards and that Directors are not required to go into the market to purchase shares, although any shares so acquired would count towards meeting the guidelines. Executive Directors are required to retain all vested DABP and EPSP awards on vesting, subject to sales to meet tax obligations, and the Remuneration Committee's discretion in exceptional circumstances until the ownership requirement is met.

#### Differences in remuneration policy for executive Directors compared to other employees

The remuneration policy for the executive Directors is designed with regard to the policy for employees across the Group as a whole. For example, the Committee takes into account the general basic salary increase for the broader UK population when determining the annual salary review for the executive Directors. There are some differences in the structure of the remuneration policy for the executive Directors and other senior employees, which the Remuneration Committee believes are necessary to reflect the different levels of responsibility of employees across the Group. The key differences in remuneration policy between the executive Directors and employees across the Group are the increased emphasis on performance related pay and the inclusion of a significant share based long term incentive plan for executive Directors. Long term incentives are not provided outside of the most senior executives as they are reserved for those considered as having the greatest potential to influence Group performance.

In accordance with best practice it is proposed that the executive Directors are required to hold any awards under EPSP for two years following vesting.

#### External non-executive Director positions

Subject to Board approval, executive Directors will normally be permitted to take on one non-executive position with another company. In line with best practice it is proposed that the Director will normally be permitted to retain their fees in respect of such positions. Details of outside directorships held by the executive Directors, if any, and any fees that they received are provided in the annual remuneration report.

#### Approach to recruitment and promotions

The remuneration package for a new Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. Currently, for an executive Director, this would facilitate awards of no more than 150% of salary per annum for each of the DABP and EPSP, although exceptionally, an EPSP award of up to 250% may be made.

The salary for a new executive, particularly one with no experience at listed company main board level, may be set below the normal market rate, with phased increases over the first few years as the executive gains experience in their new role.

The Committee may offer additional cash and/or share based elements when it considers these to be in the best interests of the Company and its shareholders to take account of remuneration relinquished when leaving the former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions.

For an internal executive appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, if relevant.

For external and internal executive appointments, the Committee may agree that the Company will meet certain relocation and other incidental expenses as appropriate.

For the appointment of a new Chairman or non-executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

## Service contracts and payments for loss of office

The Remuneration Committee reviews the contractual terms for new executive Directors to ensure that these reflect best practice.

Service contracts normally continue until the Director's agreed retirement date or such other date as the parties agree. The service contracts contain provision for early termination.

Notice periods given by the employing company are limited to 12 months or less. In line with best practice it is proposed that equal notice periods will apply to the executive Directors and the Company and that these will normally be six months, although in exceptional circumstances a notice period may be agreed of up to a maximum of 12 months.

An executive Director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. If the employing company terminates the employment of an executive Director in other circumstances, compensation is limited to salary due for any unexpired notice period and any amount assessed by the Committee as representing the value of other contractual benefits (including pension) which would have been received during the period. In the event of a change of control of the Company there is no enhancement to contractual terms. Service contracts are available for inspection at the Company's registered office.

In circumstances in which a departing Director may be entitled to pursue a legal claim, the Company may negotiate settlement terms and, with the approval of the Committee on the remuneration elements therein, enter into a settlement agreement accordingly.

In summary, the proposed contractual provisions are as follows:

| PROVISION                        | DETAILED TERMS  |
|----------------------------------|---|
| <b>Notice period</b>             | Current executive Directors: six months from the executive and six months from the Company.<br>Any future executive Directors: normally a six months' notice from both the Company and the Director (up to a maximum of 12 months in exceptional circumstances).    |
| <b>Termination payment</b>       | Base salary plus benefits (including pension), subject to mitigation and paid on a phased basis for notice period.<br>In addition, any statutory entitlements or sums to settle or compromise claims in connection with the termination would be paid as necessary. |
| <b>Remuneration entitlements</b> | A pro rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below).<br>In all cases performance targets would apply.  |
| <b>Change of control</b>         | There are no enhanced terms in relation to a change of control.   |

Any share based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. The default treatment is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill health, redundancy, transfer of the employee's employing business out of the Group or other circumstances at the discretion of the Committee (taking into account the individual's performance and the reasons for their departure), 'good leaver' status can be applied. Under the EPSP, awards held by good leavers will usually be scaled back for the actual period of service and vest at the date of cessation although the Committee has the discretion to not scale back if it considers this is appropriate and also to determine that vesting should be at the usual time. DABP awards held by good leavers will usually vest on cessation or if the Committee determines at the usual vesting date. For share awards under the EPSP and held by good leavers, awards remain subject to the performance conditions.

# Remuneration report

## REMUNERATION POLICY REPORT

### CONTINUED

For all leavers, the Committee may also determine to make a payment in reimbursement of a reasonable level of outplacement and legal fees in connection with a settlement agreement as well as any statutory entitlement.

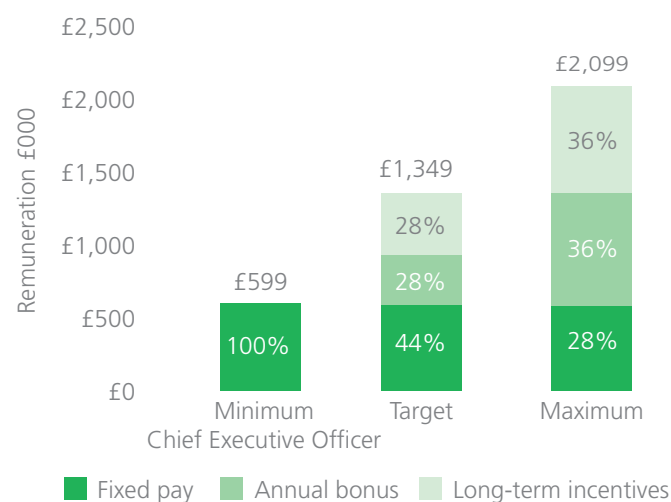
All non-executive Directors have letters of appointment with the Company for an initial period of three years, subject to annual reappointment at the AGM. The Chairman's appointment may be terminated by the Company with one month's notice. The appointment of the other non-executive Directors is terminable without notice. The appointment letters for the Chairman and non-executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses.

### Legacy arrangements

For the avoidance of doubt, in approving this remuneration policy, authority is given to the Company to honour any commitments entered into with current or former Directors (such as the payment of a pension or the vesting of share awards) that have been disclosed to shareholders in previous remuneration reports. Details of any payments to former Directors will be set out in the annual report on remuneration as they arise.

### Reward scenarios

The Company's policy results in a significant portion of remuneration received by executive Directors being dependent on Company performance. The chart opposite illustrates how the total pay opportunities for the executive Directors vary under three different performance scenarios: maximum, on-target and fixed pay only. These charts are indicative as share price movement and dividend accrual have been excluded. All assumptions made are noted below the chart.



### Executive Director total remuneration at different levels of performance

Assumptions:

**Fixed pay** = salary + benefits + pension

**On target** = Fixed plus 50% vesting of the EPSP awards and 50% of the annual bonus opportunity

**Maximum** = Fixed plus 100% of the annual bonus opportunity and 100% of the EPSP awards

Salary levels (on which other elements of the package are calculated) are based on those applying on 1 May 2017. The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the year ending 30 April 2018.

The executive Directors can participate in the SIP on the same basis as other employees. The value that may be received under this scheme is subject to tax approved limits. For simplicity and because of uncertainty over the value that may be received from participating in this scheme, it has been excluded from the above charts.



# Remuneration report

## ANNUAL REPORT ON REMUNERATION

### The Remuneration Committee

The members of the Committee are listed below. All are independent non-executive Directors, as defined in the UK Corporate Governance Code, with the exception of the Group Chairman, A Page, who was independent on appointment.

The members of the Committee during the last financial year and their attendance at the meetings of the Committee were:

|                        | Number of meetings attended out of potential maximum |
|------------------------|--|
| J Caseberry (Chairman) | 4 out of 4   |
| AJ Allner <sup>1</sup> | 4 out of 4   |
| A Page                 | 4 out of 4   |
| B Spencer              | 4 out of 4   |
| C Miles                | 4 out of 4   |

<sup>1</sup> AJ Allner is not a Committee member and has attended by invitation.

The CEO attends meetings by invitation and assists the Committee in its deliberations, except when issues relating to his remuneration are discussed. No Directors are involved in deciding their own remuneration. The Company Secretary acts as Secretary to the Committee.

The Committee is advised by NBS (part of Aon plc), which was first appointed by the Committee in 2003. NBS advises the Committee on executive remuneration matters including topical remuneration issues which are of particular relevance to the Company, on incentive arrangements for the Directors and senior staff, on all employee share plans and on remuneration reporting and compliance matters. NBS liaises with the Committee Chairman and Company Secretary and considers how best it can work with the Company to meet the Committee's needs.

The total fees paid to NBS in respect of its services to the Committee during the year were £42,720 (2017 – £32,708). The fees are predominantly charged on a time spent basis.

NBS is a signatory to the Remuneration Consultants' Code of Conduct. Neither NBS nor Aon plc overall provide any other services to the Company and the Committee is satisfied that the advice that it receives is objective and independent.

The Committee's terms of reference are available on the Company's website: [www.northgateplc.com](http://www.northgateplc.com)

The Committee is responsible for making recommendations to the Board on the remuneration packages and terms and conditions of employment of the Chairman and the executive Directors of the Company as well as the Company Secretary.

The senior executives below Board level in the UK, Spain and Ireland, also have a significant influence on the ability of the Company to achieve its goals. Accordingly, in addition to setting the remuneration of the executive Directors, the Committee also reviews the remuneration for these senior employees to ensure that their rewards are competitive with the market and that they are appropriate relative to the Board and employees generally. The Committee also reviews remuneration policy generally throughout the Group.

# Remuneration report

## ANNUAL REPORT ON REMUNERATION

### CONTINUED

### Remuneration for the year ended 30 April 2018 (audited)

The table below sets out the remuneration received by the Directors in relation to performance in the year ended 30 April 2018 (or for performance periods ending in the year ended 30 April 2017 in respect of long term incentives) and in the year ended 30 April 2017.

| £000                           |                           | Salary and fees | Taxable benefits <sup>4</sup> | Annual bonus | Long term incentive <sup>5</sup> | Pension <sup>6</sup> | Other <sup>7</sup> | Loss of office | Total |     |
|--------------------------------|---------------------------|-----------------|-------------------------------|--------------|----------------------------------|----------------------|--------------------|----------------|-------|-----|
| <b>Executive Directors</b>     |                           |                 |                               |              |                                  |                      |                    |                |       |     |
|                                | K Bradshaw <sup>1</sup>   | 2018            | 408                           | 9            | –                                | –                    | 73                 | –              | –     | 490 |
|                                |                           | 2017            | 125                           | 7            | –                                | –                    | 23                 | –              | –     | 155 |
|                                | PJ Gallagher <sup>2</sup> | 2018            | 132                           | 8            | –                                | –                    | 24                 | –              | –     | 164 |
|                                |                           | 2017            | 325                           | 18           | –                                | –                    | 59                 | –              | –     | 402 |
| <b>Chairman</b>                |                           |                 |                               |              |                                  |                      |                    |                |       |     |
|                                | A Page                    | 2018            | 163                           | –            | –                                | –                    | –                  | –              | –     | 163 |
|                                |                           | 2017            | 163                           | –            | –                                | –                    | –                  | –              | –     | 163 |
| <b>Non-executive Directors</b> |                           |                 |                               |              |                                  |                      |                    |                |       |     |
|                                | AJ Allner                 | 2018            | 55                            | –            | –                                | –                    | –                  | –              | –     | 55  |
|                                |                           | 2017            | 63                            | –            | –                                | –                    | –                  | –              | –     | 63  |
|                                | B Spencer <sup>3</sup>    | 2018            | 65                            | –            | –                                | –                    | –                  | –              | –     | 65  |
|                                |                           | 2017            | 62                            | –            | –                                | –                    | –                  | –              | –     | 62  |
|                                | J Caseberry               | 2018            | 65                            | –            | –                                | –                    | –                  | –              | –     | 65  |
|                                |                           | 2017            | 65                            | –            | –                                | –                    | –                  | –              | –     | 65  |
|                                | C Miles                   | 2018            | 55                            | –            | –                                | –                    | –                  | –              | –     | 55  |
|                                |                           | 2017            | 55                            | –            | –                                | –                    | –                  | –              | –     | 55  |

1. Kevin Bradshaw was appointed to the Board on 11 January 2017.

2. Paddy Gallagher left the Board on 26 September 2017. He received no payments for loss of office.

3. Bill Spencer was appointed to the Board on 1 June 2016.

4. Taxable benefits:

|                   | K Bradshaw<br>£000 | PJ Gallagher<br>£000 |
|-------------------|--------------------|----------------------|
| Car               | 8                  | 7                    |
| Medical insurance | 1                  | 1                    |

5. No awards are eligible for vesting under the EPSP.

6. The executive Directors are eligible for membership of a Group personal pension plan under which they are entitled to a contribution from the Company of 18% of basic salary. In view of the Annual Allowance cap, part or all of their entitlements were paid to them in cash.

7. This represents the value of Matching shares awarded under the SIP which have fully vested in the year (i.e. they are no longer subject to forfeiture), valued at the market price on the date of vesting.

As disclosed previously and in accordance with Bob Contreras' Service Agreement and his agreement with the Company relating to the termination of his employment, following the Termination Date (11 January 2017) Bob is entitled to receive a payment in lieu of his 12 month notice period. This payment is to be made in equal monthly instalments with any remuneration received during the 12 months following the Termination Date being offset against the monthly amount being paid to him by the Company, excluding the remuneration received by him from Speedy Hire Plc as a non-executive Director. His salary and benefits at Northgate as at the Termination Date equated to £499,320 per annum. The total amount paid in this financial year after he ceased to be a Director was therefore £262,700.

Kevin Bradshaw was appointed to the Board on 11 January 2017 at a basic salary of £408,000 per annum. His maximum annual bonus potential is 150% of basic salary and his maximum annual award level under the EPSP is 150% of salary. There was no buyout of incentive arrangements from his previous employer.

### Annual bonus for the year ended 30 April 2018 (audited)

#### Deferred annual bonus plan

The bonus for the executive Directors in respect of the year under review was based as to 75% on Group PBT and 25% on strategic objectives, with a ROCE underpin below which no bonus would be payable, and a minimum PBT threshold. For the year ended 30 April 2018, the PBT threshold of £76.0m was not met and no bonus has been paid to any executive Directors.

#### EPSP awards made during the year (audited)

The following EPSP awards were granted to executive Directors during the year:

|                           | Type of award   | Basis of award granted     | Share price at date of award <sup>1</sup> | Number of shares over which award was granted | Face value of award (£) | % of face value that would vest on threshold performance | Vesting determined by performance over |
|---------------------------|-----------------|----------------------------|---|---|-------------------------|--|--|
| K Bradshaw                | Nil cost option | 150% of salary of £408,000 | 454p                                      | 134,772                                       | 611,865                 | 25%  | Three financial years to 30 April 2020 |
| PJ Gallagher <sup>1</sup> | Nil cost option | 150% of salary of £325,000 | 454p                                      | 107,355                                       | 487,392                 | 25%  | As above                               |

<sup>1</sup> The grant made to Paddy Gallagher lapsed when he was removed from the Board on 26 September 2017.

This award was originally subject to EPS and TSR targets as follows:

| Performance condition | Threshold target (25% vesting) | Stretch target (100% vesting) | End measurement point   |
|-----------------------|--------------------------------|-------------------------------|---|
| EPS (60% of award)    | 47.3 p+ (CPI+3% p.a.)          | 47.3 p+ (CPI+11% p.a.)        | Final year of the performance period relative to FTSE 250 (excl. investment trusts) over the performance period |
| TSR (40% of award)    | Median                         | Upper quartile                |   |

As noted previously, on 22 February 2018, the Company provided a detailed announcement on a new fleet optimisation strategy. The implementation of the fleet optimisation strategy, whilst positive for the Company and shareholders, has an adverse impact on the EPS. Consequently, the performance criteria for both the 2016 and 2017 awards will now be solely Total Shareholder Return.

# Remuneration report

ANNUAL REPORT ON REMUNERATION

CONTINUED

## Percentage change in remuneration levels

|                             | 2017   | 2018   | % change |
|-----------------------------|--------|--------|----------|
| CEO (£000)                  |        |        |          |
| – salary                    | 408    | 408    | –        |
| – benefits                  | 21     | 9      | (57)     |
| – bonus                     | –      | –      | –        |
| Average per UK employee (£) |        |        |          |
| – salary                    | 25,676 | 26,504 | 3        |
| – benefits                  | 1,570  | 892    | (43)     |
| – bonus                     | 817    | 2,563  | 314      |

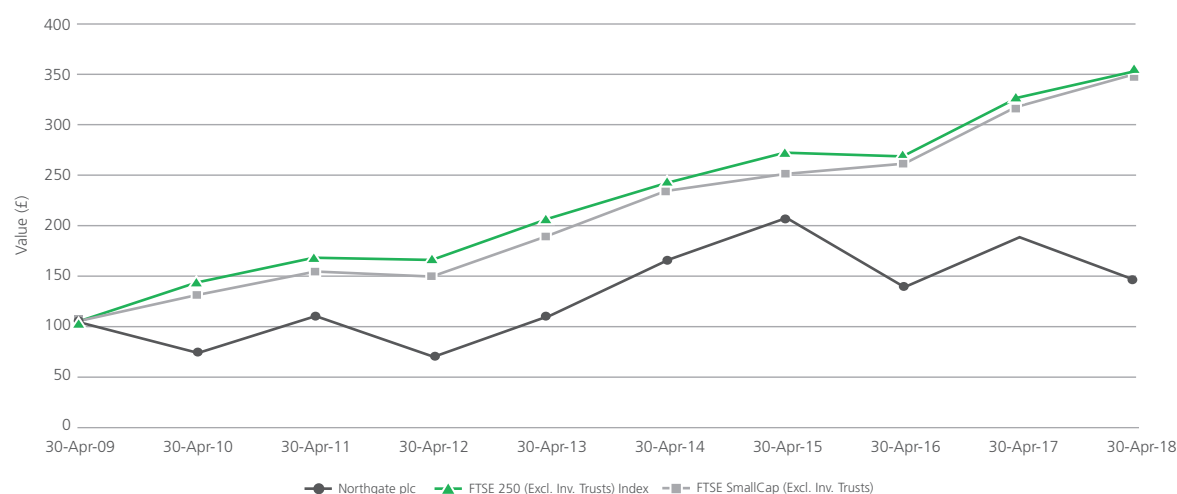
This shows the movement in the salary, benefits and annual bonus for the CEO between the year under review and the previous financial year compared to that for the average UK employee. The Committee has chosen this comparator as it feels that it provides a more appropriate reflection of the earnings of the average worker than the movement in the Group's total wage bill, which is distorted by movements in the number of employees and variations in wage practices in Spain.

## Performance graph measured by TSR

As required by the Regulations, the graph below illustrates the performance of Northgate plc measured by Total Shareholder Return (share price growth plus dividends paid) against a 'broad equity market index' over the last nine years. As the Company has been a constituent of the FTSE SmallCap index for the majority of that time, that index (excluding investment companies) is considered to be the most appropriate benchmark. Consistent with the approach adopted in previous years we show performance against both the FTSE SmallCap and FTSE 250. The mid-market price of the Company's Ordinary shares at 30 April 2018 was 371p (28 April 2017 – 535p). The range during the year was 300p to 543p.

The chart below shows the Company's TSR performance against the performance of the FTSE SmallCap index from 30 April 2009 to 30 April 2018.

## Total shareholder return



This graph shows the value, at 30 April 2018, of £100 invested in Northgate plc on 30 April 2009, compared with the value of £100 invested in the FTSE 250 (excl. investment trusts) and FTSE SmallCap (excl. investment trusts) Indices on the same date. The other points plotted are the values at intervening financial year ends.

## Total remuneration for CEO

| Year ended 30 April                        | 2010 | 2011 | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018 |
|--|------|------|-------|-------|-------|-------|-------|-------|------|
| Total remuneration                         | 831  | 821  | 1,115 | 859   | 628   | 1,138 | 1,214 | 821   | 408  |
| Annual bonus (% of maximum)                | 70%  | 100% | 100%  | 0%    | 43.6% | 90.3% | 34.1% | 0%    | 0%   |
| Long term incentive vesting (% of maximum) | 0%   | 0%   | 100%  | 33.3% | 0%    | 47.9% | 79.2% | 61.8% | 0%   |

This shows the total remuneration figure for the CEO during each of those financial years. The total remuneration figure includes the annual bonus and EPSP awards which vested based on performance periods ending in those years. The annual bonus and EPSP percentages show the payout for each year as a percentage of the maximum. In years when there was a change of CEO, the figures shown are the aggregate for the office holders during that year.

## Relative importance of spend on pay

|             | 2017   | 2018   | % (decrease) increase |
|-------------|--------|--------|-----------------------|
| Staff costs | 98,850 | 95,558 | (3.4)                 |
| Dividends   | 21,875 | 23,365 | 6.8                   |

The table above shows the movement in spend on staff costs versus that in dividends.

## Outstanding share awards

The table below sets out details of executive Directors' outstanding share awards.

### K Bradshaw (audited)

| Scheme            | Grant date | Exercise price (p) | Number of shares at 1 May 2017 | Granted during year | Vested during year | Exercised during year | Lapsed during year | Number of shares at 30 April 2018 | End of performance period | Vesting date | Exercise period     |
|-------------------|------------|--------------------|--------------------------------|---------------------|--------------------|-----------------------|--------------------|-----------------------------------|---------------------------|--------------|---------------------|
| EPSP <sup>1</sup> | 06.07.17   | Nil                | 36,107                         | 134,772             | –                  | –                     | –                  | 170,879                           | 30.04.20                  | 06.07.20     | 06.07.20 – 06.07.27 |
| EPSP <sup>1</sup> | 26.01.17   | Nil                | 36,107                         | –                   | –                  | –                     | –                  | 36,107                            | 30.04.19                  | 26.01.20     | 26.01.20 – 26.01.27 |

1. 100% of award relative TSR with 25% of award vesting at median to full vesting at upper quartile. Straight line vesting between points.

As noted previously, on 22 February 2018, the Company provided a detailed announcement on a new fleet optimisation strategy. The implementation of the fleet optimisation strategy, whilst positive for the Company and shareholders, has an adverse impact on the EPS and, in turn, the EPSP awards in 2015-2018 (the 2015-2018 EPSP awards have performance criteria based on EPS growth and TSR). Consequently, the outstanding EPSP awards do not align management to the long term interests of the Company.

The Committee has agreed that, while no change would be made to the 2015 awards, it would be appropriate to consider adjustments to the outstanding awards made in 2016 and 2017 under the EPSP to remove the impact of the change in business strategy. As outlined above, the Committee has concluded that the fairest adjustment for participants, whilst maintaining alignment with shareholders, is for the performance criteria of those awards to be amended to rely solely on Total Shareholder Return rather than a 60%:40% split EPS:Total Shareholder Return.

## SIP

The SIP, which is approved by HMRC under Schedule 8 Finance Act 2000, was introduced in 2000 to provide employees at all levels with the opportunity to acquire shares in the Company on preferential terms. The Board believes that encouraging wider share ownership by all staff will have longer term benefits for the Company and for shareholders. The SIP operates under a trust deed, the Trustees being Yorkshire Building Society Trustee (the YBS Trust).

To participate in the SIP, which operates on a yearly cycle, employees are required to make regular monthly savings (on which tax relief is obtained), by deduction from pay, for a year at the end of which these payments are used to buy shares in the Company (Partnership shares).

# Remuneration report

## ANNUAL REPORT ON REMUNERATION

### CONTINUED

For each Partnership share acquired, the employee will receive one additional free share (Matching shares). Matching shares will normally be forfeited if, within three years of acquiring the Partnership shares, the employee either sells the Partnership shares or leaves the Group. After this three year period Partnership and Matching shares may be sold, although there are significant tax incentives to continue holding the shares in the scheme for a further two years. Those employees who are most committed to the Group will therefore receive the most benefit.

The seventeenth annual cycle ended in December 2017 and resulted in 532 employees acquiring 129,219 Partnership shares at 381p each and being allocated the same number of Matching shares. As at 30 April 2018, the YBS Trust held 1,316,143 Ordinary shares that have been allocated to employees from the first 17 cycles.

The eighteenth annual cycle started in January 2018 and currently 526 employees are making contributions to the scheme at an annualised rate of £424,596.

The executive Directors are entitled to participate in this scheme and to receive both Matching and Free shares.

### Sourcing of shares

Shares to satisfy the requirements of the Group's existing share schemes are currently sourced as follows:

#### DABP and MPSP

To date, awards under these two schemes have been satisfied through open market purchases by an employee benefit trust based in Guernsey (the Guernsey Trust). During the year 880,000 (2017 – 200,000) Ordinary shares were purchased by the Guernsey Trust and 367,700 (2017 – 305,507) were used to satisfy the exercise of awards under the DABP and MPSP. At 30 April 2018, the Guernsey Trust held 1,220,251 (2017 – 708,221) Ordinary shares as a hedge against the Group's obligations under these schemes.

The rules of both these schemes also allow new issue and treasury shares to be used to satisfy the vesting and exercise of awards, but to date the Board has chosen not to do so.

#### EPSP

Shares to satisfy the vesting of awards under the EPSP may be sourced either from new issue or through open market purchases. To date, all exercises have been satisfied by open market purchase.

#### SIP

Awards may be satisfied either by new issue or market purchase or by a combination of the two. The total number of shares required to satisfy the allocation made in January 2018 was 258,438 (2017 – 236,612), of which 189,534 were transferred from the Guernsey Trust, with the balance of 68,904 (2017 – 72,557) being shares already held by the YBS Trust from forfeiture during the year.

At 30 April 2018, the YBS Trust held 72,557 (2017 – 31,479) Ordinary shares which had been forfeited as a result of early withdrawals post January 2018.

### Overall plan limits and clawback

All the above schemes operate within the following limits: in any ten calendar year period, the Company may not issue (or grant rights to issue) more than:

- 10% of the issued Ordinary share capital under all the share plans; and
- 5% of the issued Ordinary share capital under the executive share plans (EPSP, DABP and MPSP).

The dilution position as at 30 April 2018 was 1.19% under the EPSP, MPSP and DABP and 1.56% under all schemes.

In line with current best practice guidelines, the Committee has introduced recovery provisions into the rules of all discretionary schemes, which can be invoked in the event of a number of situations including error, financial misstatement or gross misconduct and which apply to all awards made from 2010 onwards.

### Directors' shareholding and share interests

The executive Directors are required to build up a shareholding equivalent to 200% of salary, to be achieved primarily through the retention, after tax, of share options exercised under the long term incentive share plans, until such time as their share ownership target has been met. Directors are not required to go into the market to purchase shares, although any shares so acquired would count towards meeting the guidelines.

The Chairman and non-executive Directors are not subject to a formal shareholding guideline. Details of the Directors' interests in shares are shown in the table opposite:

## Share interests (audited)

|             | Beneficially owned at 30 April 2018 | Vested but not exercised EPSP | Not vested EPSP | Vested but not exercised DABP | Not vested DABP | % shareholding guideline achieved at 30 April 2018 |
|-------------|-------------------------------------|-------------------------------|-----------------|-------------------------------|-----------------|--|
| K Bradshaw  | –                                   | –                             | 170,879         | –                             | –               | –  |
| A Page      | 40,000                              | –                             | –               | –                             | –               | N/A  |
| AJ Allner   | 13,090                              | –                             | –               | –                             | –               | N/A  |
| J Caseberry | 5,000                               | –                             | –               | –                             | –               | N/A  |
| C Miles     | 5,000                               | –                             | –               | –                             | –               | N/A  |
| B Spencer   | 8,000                               | –                             | –               | –                             | –               | N/A  |

No changes in the above interests have occurred between 30 April 2018 and the date of this report.

## Remuneration for FY2019

Salary as at 1 May 2018 is as follows:

|            | Salary as at 1 May 2017 | Salary as at 1 May 2018 | Increase |
|------------|-------------------------|-------------------------|----------|
| K Bradshaw | £408,000                | £450,000                | 10.3%    |

Under the leadership of Kevin, Northgate is progressing well toward delivering on the strategic initiatives previously announced. He has not had a salary increase since joining the Company and the Committee believes he is fundamental to Northgate's continuing development and future growth. Following a detailed review, the Committee decided to increase Kevin's salary to £450,000, representing a 10.3% increase.

## New CFO appointment

Philip Vincent has been appointed on an annual salary of £330,000, effective from 16 July 2018. He will receive an annual pension contribution equivalent to 18% of his base salary. Philip's maximum annual bonus opportunity is 100% of base salary and Executive Performance Share Plan (EPSP) award will be 150% of base salary. His annual bonus and EPSP award will be prorated for the first year of employment. All elements of remuneration are in line with the Company's Executive Director Remuneration Policy. There are no buy out awards to compensate for forfeiture of remuneration from a previous employer.

## Fees for the Chairman and non-executive Directors

As detailed in the remuneration policy, the Company's approach to setting non-executive Directors' remuneration is with reference to market levels in comparably sized FTSE companies, levels of responsibility and time commitments. A summary of current fees is as follows:

|                                 | Salary as at 1 May 2017 | Salary as at 1 May 2018 | Increase |
|---------------------------------|-------------------------|-------------------------|----------|
| Chairman                        | £163,200                | £166,464                | 2%       |
| Base fee                        | £55,000                 | £55,000                 | 0%       |
| Senior Independent Director     | £10,000                 | £10,000                 | 0%       |
| Audit Committee Chairman        | £10,000                 | £10,000                 | 0%       |
| Remuneration Committee Chairman | £10,000                 | £10,000                 | 0%       |

Fees were last reviewed at 1 May 2018.

# Remuneration report

ANNUAL REPORT ON REMUNERATION

CONTINUED

## Performance targets for the annual bonus and EPSP awards to be granted in 2018

For 2018, the annual bonus will be based on 75% PBT and a range of strategic and operational objectives for the remaining 25%, with a ROCE underpin.

The Committee has chosen not to disclose, in advance, the performance targets for the annual bonus for the forthcoming year as these include items which the Committee considers commercially sensitive. Full retrospective disclosure of the targets and performance against them will be seen in next year's annual report on remuneration.

The Committee considers that the performance metrics of the EPSP for future awards need to be reviewed to ensure alignment with the current Company strategy and encourage and reward delivery of the strategic objectives. Consequently, the Committee has commenced a review of the performance metrics, which will apply to the awards granted in 2018, which will conclude in the forthcoming months. Further communication regarding the outcome of this review will be made in due course.

Award levels for 2018 will be 150% of salary for the EPSP for the CEO. Annual bonus opportunity will be 150% of salary for the CEO.

## Statement of shareholder voting and shareholder feedback

The following tables set out the votes received from shareholders for the Directors' report on remuneration and the Directors' remuneration policy report at the 2017 AGM:

| <b>Directors' report on remuneration</b>     | <b>Total number of votes</b> | <b>Approve the report on remuneration % of votes cast</b> |
|--|------------------------------|---|
| For  | 114,030,958                  | 99.99%  |
| Against                                      | 15,212                       | 0.01%   |
| Total votes cast (excluding votes withheld)  | 114,046,170                  | 100%  |
| Votes withheld                               | 610,582                      |   |
| Total votes cast (including votes withheld)  | 114,656,752                  |   |
| <b>Directors' remuneration policy report</b> | <b>Total number of votes</b> | <b>Approve the report on remuneration % of votes cast</b> |
| For  | 114,075,112                  | 99.49%  |
| Against                                      | 579,857                      | 0.51%   |
| Total votes cast (excluding votes withheld)  | 114,654,969                  | 100%  |
| Votes withheld                               | 1,783                        |   |
| Total votes cast (including votes withheld)  | 114,656,752                  |   |

Votes withheld are not included in the final proxy figures as they are not recognised as a vote in law.

## Approval

This Annual Report on Remuneration has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

### Jill Caseberry

Chairman of the Remuneration Committee

25 June 2018



# Report of the Directors

The Directors present their report and the audited consolidated accounts for the year ended 30 April 2018.

## Results

Details on financial performance and dividends can be found in the Strategic Report from pages 18 to 33.

## Close company status

So far as the Directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

## Capital structure

Details of the issued share capital, together with details of any movements during the year, are shown in Note 23. The Company has one class of Ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

The cumulative Preference shares of 50p each entitle the holder to receive a cumulative preferential dividend at the rate of 5% on the paid up capital and the right to a return of capital at either winding up or a repayment of capital. The cumulative Preference shares do not entitle the holders to any further or other participation in the profits or assets of the Company.

The percentage of the issued nominal value of the Ordinary shares is 99.255% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association (the Articles) and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in the Remuneration Report. Shares held by the YBS Trust are voted on the instructions of the employees on whose behalf they are held. Shares in the Guernsey Trust are voted at the discretion of the Trustees.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regards to the appointment and replacement of Directors, the Company is governed by the Articles, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are set out in the Articles.

The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a change of control.

## Interests in shares

The following interests in the issued Ordinary share capital of the Company have been notified to the Company in accordance with the provisions of Chapter 5 of the Disclosure and Transparency Rules:

|                                      | 30 April<br>2018 | %     |
|--------------------------------------|------------------|-------|
| HSBC Global Custody Nominee (UK) Ltd | 6,676,191        | 5.01  |
| Crystal Amber Fund Ltd               | 8,076,672        | 6.06  |
| JO Hambro Capital Management Ltd     | 13,331,542       | 10.01 |
| Norges Bank                          | 6,642,155        | 4.99  |

Since 30 April 2018 no changes in interests have been notified to the Company.

## Directors

Details of the present Directors are listed on pages 48 and 49.

Resolutions to reappoint each of the Directors in office at the date of this report will be proposed at the AGM.

Termination provisions in respect of executive Directors' contracts can be found in the Remuneration policy, starting on page 60.

## Directors' indemnities

As permitted by the Company's Articles of Association, qualifying third party indemnities for each Director of the Company were in place throughout their periods of office during the year and, for those currently in office, remained in force as at the date of signing of this report.

The Company's Articles of Association are available on the Company's website: [www.northgateplc.com](http://www.northgateplc.com)

# Report of the Directors

CONTINUED

## Employee consultation

Employees are kept informed on matters affecting them as employees and on various issues affecting the performance of the Group through CEO briefing updates, announcements on the Group's intranet, formal and informal meetings at local level and direct written communications. All employees are eligible to participate on an equal basis in the Group's SIP, which has been running successfully since its inception in 2000.

## Disabled employees

Applications for employment by disabled persons are given full consideration, taking into account the aptitudes of the applicant concerned. Every effort is made to try to ensure that employees who become disabled whilst already employed are able to continue in employment by making reasonable adjustments in the workplace, arranging appropriate training or providing suitable alternative employment. It is Group policy that the training, career development and promotion of disabled persons should, as far as possible, be the same as that of other employees.

The Group's equal opportunity policy is available on the Company's website: [www.northgateplc.com](http://www.northgateplc.com)

## Political donations

No political donations were made by any Group company in the year.

## Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations are included in the CSR section of the Strategic Report on pages 42 to 45.

## Remuneration report

The Directors' Remuneration report contains:

- A statement by Jill Caseberry, Chairman of the Company's Remuneration Committee;
- The Directors' remuneration policy; and
- The Annual report on remuneration, which sets out payments made in the financial year ended 30 April 2018.

The statement by the Chairman and Annual report on remuneration will be put to an advisory shareholder vote by ordinary resolution.

The remuneration policy was approved at the AGM in September 2017 and is in place for three financial years.

The Directors' remuneration report can be found on pages 60 to 78.

## Power to allot shares

The present authority of the Directors to allot shares was granted at the AGM held in September 2017 and expires at the forthcoming AGM. A resolution to renew that authority for a period expiring at the conclusion of the AGM to be held in 2019 will be proposed at the AGM. The authority will permit the Directors to allot up to an aggregate nominal amount of £22m of share capital which represents approximately 33% of the present issued Ordinary share capital and is within the limits approved by the Investment Association and the National Association of Pension Funds.

The Directors have no present intention of exercising such authority and no issue of shares which would effectively alter the control of the Company will be made without the prior approval of shareholders in a general meeting.

A special resolution will be proposed to renew the authority of the Directors to allot Ordinary shares for cash other than to existing shareholders on a proportionate basis in accordance with the best practice guidance set out in the Statement of Principles issued by The Pre-Emption Group and which has been endorsed by the Investment Association. This authority will be limited to:

- Firstly, an aggregate nominal amount of £3,330,000, representing approximately 5% of the current issued Ordinary share capital (Resolution 14b); and
- Secondly, a further 5% of the Company's share capital, provided that this additional power is only used in connection with acquisitions and specified capital investments which are announced contemporaneously with the issue or which have taken place in the preceding six-month period and are disclosed in the announcement of the issue (Resolution 15).

The 2015 Statement of Principles defines a 'specified capital investment' as "one or more specific capital investment related uses for the proceeds of an issuance of equity securities, in respect of which sufficient information regarding the effect of the transaction on the listed company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable

them to reach an assessment of the potential return". Items that are regarded as operating expenditure rather than capital expenditure will not typically be regarded as falling within the term 'specified capital investment'.

The Directors have no present intention of exercising this authority and confirm their intention to follow the provisions of The Pre-Emption Group's Statement of Principles regarding cumulative use of such authorities within a rolling three year period. The Principles provide that companies should not issue shares for cash representing more than 7.5% of the Company's issued share capital in any rolling three year period, other than to existing shareholders, without prior consultation with shareholders. This limit excludes any Ordinary shares issued pursuant to a general disapplication of pre-emption rights in connection with an acquisition or specified capital investment.

#### Disclosure of information under Listing Rule 9.8.4

Dividend waiver arrangements are in place for the employee trusts as shown on page 76.

#### Length of notice of general meetings

The minimum notice period permitted by the Companies Act 2006 for general meetings of listed companies is 21 days, but the Act provides that companies may reduce this period to 14 days (other than for AGMs) provided that two conditions are met. The first condition is that the Company offers a facility for shareholders to vote by electronic means. This condition is met if the Company offers a facility, accessible to all shareholders, to appoint a proxy by means of a website. Please refer to Note 6 to the Notice of AGM on page 132 for details of the Company's arrangements for electronic proxy appointment. The second condition is that there is an annual resolution of shareholders approving the reduction of the minimum notice period from 21 days to 14 days.

A resolution to approve 14 days as the minimum period of notice for all general meetings of the Company other than AGMs will be proposed at the AGM. The approval will be effective until the Company's next AGM, when it is intended that the approval be renewed.

It is the Board's intention that this authority would not be used as a matter of routine but only when merited by the circumstances of the meeting and in the best interests of shareholders.

#### Authority for the Company to purchase its own shares

There is no present intention to buy back any of the Company's own shares and, if granted, the authority would only be exercised if to do so would result in an improvement in earnings per share for remaining shareholders.

The Directors propose to renew the general authority of the Company to make market purchases of its own shares to a total of 13,300,000 Ordinary shares (representing approximately 10% of the issued Ordinary share capital) and within the price constraints set out in the special resolution to be proposed at the AGM.

#### Financial instruments

Details of the Group's use of financial instruments are given in the Financial review on pages 26 to 33 and in Note 29 to the accounts.

#### Auditor

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each of the Directors has taken all the steps that they ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 Companies Act 2006.

A resolution for the appointment of PwC as auditor of the Company will be proposed at the forthcoming AGM. This proposal is supported by the Audit and Risk Committee.

The Directors' Report, comprising the Corporate Governance Report and the Reports of the Audit and Remuneration Committees, has been approved by the Board and signed on its behalf.

By order of the Board

**Katie Tasker-Wood**  
Company Secretary

25 June 2018

# Statement of Directors' responsibilities

## IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Parent Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Annual Report and Accounts confirm that, to the best of their knowledge:

- the Parent Company financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Parent Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Parent Company's auditors are aware of that information.

By order of the Board

**Kevin Bradshaw**  
Chief Executive Officer

25 June 2018

# Independent auditors' report

TO THE MEMBERS OF NORTHGATE PLC

## Report on the audit of the financial statements

### Opinion

In our opinion, Northgate plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 30 April 2018 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the group and company balance sheets as at 30 April 2018; the consolidated income statement and the group and company statements of comprehensive income, the group and company cash flow statements, the group and company notes to the cash flow statements, and the group and company statements of changes in equity for the year then ended; and the notes to the accounts, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

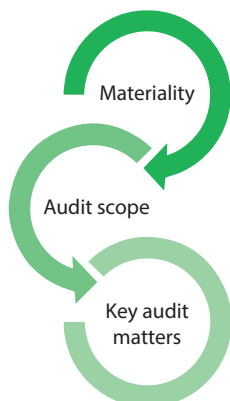
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 May 2017 to 30 April 2018.

## Our audit approach

### Overview



- Overall group materiality: £2.6m (2017: £3.6m), based on 5% of profit before tax.
- Overall company materiality: £2.5m (2017: £3.0m), based on 1% of total assets, limited to less than group materiality.
- In aggregate, full scope audits of the UK, Spain and Ireland components provided us with the evidence required to form an opinion on the financial statements. Collectively the scope of our work covered 99% of revenue, 96% of total assets and 98% of profit before tax.
- Determining appropriate depreciation rates for vehicles available for hire.
- Provisions for uncertain tax positions.

# Independent auditors' report

TO THE MEMBERS OF NORTHGATE PLC

CONTINUED

## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, UK tax legislation and equivalent laws and regulations applicable to significant component teams. Our tests included, but were not limited to, the review of financial statement disclosures to underlying supporting documentation, review of correspondence with legal advisors, enquiries of management, review of significant component auditors' work and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

## Key audit matter

### Determining appropriate depreciation rates for vehicles available for hire (Group)

The net book value of vehicle assets for hire at 30 April 2018 is £897.3m (2017: £731.7m) with a depreciation charge for the year of £176.6m (2017: £149.7m), being the largest expense for the group. The group adopts an accounting policy that uses depreciation rates and estimated useful lives to ensure that the net book value of these vehicle assets approximates to their market value at the time of disposal. This policy seeks to minimise any significant gains or losses upon disposal of the vehicle assets.

This policy requires management to make an estimate of what the residual value and sale proceeds will be at the time of disposal. Determining likely sales proceeds for future vehicle disposals is judgemental and requires a number of judgments and estimates to be made, including the age, condition and mileage of each vehicle, the method of selling a vehicle and expected future market conditions, such as forecast levels of supply and demand. The complexity of these judgments makes this area a key audit matter for our audit.

Further explanation is included in the group's critical accounting judgements and key sources of estimation uncertainty in note 3 and the Audit Committee report on page 58.

### Provisions for uncertain tax positions (Group)

The group carries out tax planning and has made judgements in respect of tax relief and deductions that have been taken in preparation of its tax computations. In preparation of the financial statements management have made further judgements in respect of the likelihood of future challenge by tax authorities.

We focused on this area due to the judgement required in assessing the need for provisions to cover the risk of challenge of certain of the group's tax positions, which have been taken as current tax deductions in the current and previous years. This requires significant audit attention as there is judgement involved in assessing those uncertain tax positions that require provision or not and the related tax items are significant.

Uncertain tax provisions at the year-end totalled £17.1m (2017: £14.3m).

## How our audit addressed the key audit matter

We examined management's assumptions of expected future market values of hire vehicles used in the calculation by comparison to external third party industry data for expected future market prices.

We performed detailed testing of the calculations supporting the estimates and judgements taken by management, including comparison to recent actual market prices achieved on disposal of similar vehicles.

We recalculated the impact on disposal profits of a reasonable change in the estimated useful life of the vehicle fleet.

Based on the procedures we have performed above, we were able to obtain sufficient audit evidence in respect of the judgements and estimates applied by management in determining the depreciation rates used.

We tested the actual deductions taken by the company to examine that they exist and were a valid exposure for management to apply judgement against with respect to challenge.

We evaluated and challenged management's rationale for the level of provisions held, including assessing the judgements that management have taken and validating to corroborating evidence.

We considered the status of recent and current tax audits and enquiries, inspected correspondence with relevant tax authorities, the outturn of previous claims and the tax environment in each territory. We also considered any penalty regimes that could apply should any of the group's tax positions be challenged successfully.

We used a tax specialist to assist us in assessing the appropriateness of the provisions in light of the current tax environment.

Based on the procedures we performed above the provisions for uncertain tax positions were supported by the evidence we obtained during our audit.

# Independent auditors' report

TO THE MEMBERS OF NORTHGATE PLC

CONTINUED

We determined that there were no key audit matters applicable to the company to communicate in our report.

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Northgate plc has two principal trading components in the UK and Spain, a smaller trading component in Ireland and a non-trading component in Malta, overseen by a group function in the UK.

The subsidiary businesses in the UK and Spain were financially significant components for the group audit, and full scope audits were performed. Whilst Ireland was not a financially significant component the statutory audit was completed at the time of the group audit.

We performed the audit of Northgate's UK and Ireland businesses and received an audit opinion from the PwC member firm in Spain on Northgate Spain.

We ensured that appropriate further audit work was undertaken for Northgate plc as the parent company. This included audit work on, for example, centrally held tax provisions, accounting for financial hedging instruments, the consolidation of the group's results, the preparation of the financial statements, assessing the appropriate classification of exceptional items and work on certain disclosures within the Directors' remuneration report.

We were in active dialogue throughout the year with the team responsible for the audit of Northgate Spain; this included consideration of how they planned and performed their work, visiting the business once during the year and attending the audit closing meeting, which was also attended by the Northgate Spain Finance Director.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

|  | Group financial statements  | Company financial statements  |
|--|---|---|
| <b>Overall materiality</b>             | £2.6m (2017: £3.6m).  | £2.5m (2017: £3.0m).  |
| <b>How we determined it</b>            | 5% of profit before tax.  | 1% of total assets, limited to less than group materiality.   |
| <b>Rationale for benchmark applied</b> | We believe a standard benchmark of 5% of profit before tax is an appropriate quantitative indicator of materiality, although of course an item could also be material for qualitative reasons. We selected profit before tax as it is a primary indicator of performance of the group and is a generally accepted auditing benchmark. | We believe a standard benchmark of 1% of total assets is an appropriate quantitative indicator of materiality due to the company being a holding company. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £0.2m and £2.5m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £130,000 (Group audit) (2017: £150,000) and £125,000 (Company audit) (2017: £150,000) as well as misstatements below those amounts



that, in our view, warranted reporting for qualitative reasons.

### Going concern

In accordance with ISAs (UK) we report as follows:

| Reporting obligation  | Outcome   |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. |
| We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.  | We have nothing to report.  |

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 30 April 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors. (CA06)

# Independent auditors' report

TO THE MEMBERS OF NORTHGATE PLC

CONTINUED

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## The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 35 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 40 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

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## Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 82, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 58 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

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## Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 82, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditors' responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### **Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Other required reporting**

#### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

### **Appointment**

Following the recommendation of the audit committee, we were appointed by the members on 17 June 2015 to audit the financial statements for the year ended 30 April 2016 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 30 April 2016 to 30 April 2018.

#### **Ian Morrison**

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

25 June 2018

# ***OUR SYSTEMS***

STRATEGY IN ACTION





## Financials

In the financials you will find the financial statements for both the Group and the Parent Company, along with the accompanying notes.

**Our solutions CONTROL and CONTROL+** provide the data our customers need to manage their fleet, deliver better customer service, and control costs.

Providing powerful real-time information about vehicles ensuring they are productive, operationally efficient and safe with instant reports to help manage costs.

Telematic data, especially in real-time, helps the customer understand the behaviour of both the vehicle and drivers. They can set standards and objectives, and then measure how they are being met during each trip and each day.



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# Consolidated income statement

FOR THE YEAR ENDED 30 APRIL 2018

|   | Notes | Underlying<br>2018<br>£000 | Statutory<br>2018<br>£000 | Underlying<br>2017<br>£000 | Statutory<br>2017<br>£000 |
|---|-------|----------------------------|---------------------------|----------------------------|---------------------------|
| Revenue: hire of vehicles   | 4     | 471,187                    | 471,187                   | 456,120                    | 456,120                   |
| Revenue: sale of vehicles   | 4     | 230,485                    | 230,485                   | 211,309                    | 211,309                   |
| <b>Total revenue</b>  | 4     | <b>701,672</b>             | <b>701,672</b>            | 667,429                    | 667,429                   |
| Cost of sales   |       | (563,232)                  | (563,232)                 | (514,446)                  | (514,446)                 |
| <b>Gross profit</b>   |       | <b>138,440</b>             | <b>138,440</b>            | 152,983                    | 152,983                   |
| Administrative expenses (excluding exceptional items and certain intangible amortisation) |       | (70,097)                   | (70,097)                  | (68,378)                   | (68,378)                  |
| Exceptional administrative expenses   | 26    | –                          | (2,499)                   | –                          | (1,293)                   |
| Certain intangible amortisation   | 13    | –                          | (1,767)                   | –                          | (1,830)                   |
| Total administrative expenses   |       | (70,097)                   | (74,363)                  | (68,378)                   | (71,501)                  |
| <b>Operating profit</b>   | 4, 5  | <b>68,343</b>              | <b>64,077</b>             | 84,605                     | 81,482                    |
| Interest income   |       | 1                          | 1                         | 2                          | 2                         |
| Finance costs (excluding exceptional items)   | 7     | (11,340)                   | (11,340)                  | (9,601)                    | (9,601)                   |
| Exceptional finance credit  | 7, 26 | –                          | –                         | –                          | 339                       |
| <b>Profit before taxation</b>   |       | <b>57,004</b>              | <b>52,738</b>             | 75,006                     | 72,222                    |
| Taxation  | 8     | (10,651)                   | (9,506)                   | (12,007)                   | (11,321)                  |
| <b>Profit for the year</b>  |       | <b>46,353</b>              | <b>43,232</b>             | 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 26, 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   | 10 | 34.8p | 32.4p | 47.3p | 45.7p |
| Diluted | 10 | 34.3p | 32.0p | 46.7p | 45.1p |

# Statements of comprehensive income

FOR THE YEAR ENDED 30 APRIL 2018

|  | Notes | GROUP         |               | COMPANY       |               |
|--|-------|---------------|---------------|---------------|---------------|
|  |       | 2018<br>£000  | 2017<br>£000  | 2018<br>£000  | 2017<br>£000  |
| <b>Amounts attributable to the owners of the Parent Company</b>                        |       |               |               |               |               |
| Profit attributable to the owners  |       | 43,232        | 60,901        | 60,911        | 38,138        |
| <b>Other comprehensive income (expense)</b>  |       |               |               |               |               |
| 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                                     | 25    | 46            | 85            | –             | –             |
| Net fair value gains on cash flow hedges   |       | 1,105         | 659           | 1,105         | 659           |
| Deferred tax charge recognised directly in equity relating to cash flow hedges         |       | (210)         | (157)         | (210)         | (157)         |
| <b>Total other comprehensive income</b>  |       | <b>5,036</b>  | <b>4,746</b>  | <b>895</b>    | <b>502</b>    |
| <b>Total comprehensive income for the year</b>   |       | <b>48,268</b> | <b>65,647</b> | <b>61,806</b> | <b>38,640</b> |

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

# Balance sheets

AS AT 30 APRIL 2018

|  | Notes | GROUP            |              | COMPANY          |              |
|--|-------|------------------|--------------|------------------|--------------|
|  |       | 2018<br>£000     | 2017<br>£000 | 2018<br>£000     | 2017<br>£000 |
| <b>Non-current assets</b>                        |       |                  |              |                  |              |
| Goodwill   | 12    | 3,589            | 3,589        | –                | –            |
| Other intangible assets                          | 13    | 5,205            | 3,309        | 12               | –            |
| Property, plant and equipment: vehicles for hire | 14    | 897,323          | 731,657      | –                | –            |
| Other property, plant and equipment              | 15    | 67,979           | 65,262       | –                | 2,141        |
| Total property, plant and equipment              |       | 965,302          | 796,919      | –                | 2,141        |
| Deferred tax assets                              | 22    | 10,791           | 13,730       | 1,245            | 1,306        |
| Investments                                      | 16    | –                | –            | 120,893          | 120,893      |
| <b>Total non-current assets</b>                  |       | <b>984,887</b>   | 817,547      | <b>122,150</b>   | 124,340      |
| <b>Current assets</b>                            |       |                  |              |                  |              |
| Inventories                                      | 17    | 31,828           | 33,666       | –                | –            |
| Trade and other receivables                      | 18    | 76,091           | 62,656       | 986,780          | 883,455      |
| Derivative financial instrument assets           | 21    | –                | 213          | –                | 213          |
| Current tax assets                               | 8     | 4,745            | –            | –                | –            |
| Cash and bank balances                           |       | 21,382           | 41,166       | 7,211            | –            |
| <b>Total current assets</b>                      |       | <b>134,046</b>   | 137,701      | <b>993,991</b>   | 883,668      |
| <b>Total assets</b>                              |       | <b>1,118,933</b> | 955,248      | <b>1,116,141</b> | 1,008,008    |
| <b>Current liabilities</b>                       |       |                  |              |                  |              |
| Trade and other payables                         | 19    | 97,671           | 64,913       | 348,084          | 381,156      |
| Derivative financial instrument liabilities      | 21    | 112              | –            | 112              | –            |
| Current tax liabilities                          | 8     | 15,246           | 18,568       | –                | 1,604        |
| Short term borrowings                            | 20    | 17,952           | 32,585       | –                | 19,492       |
| <b>Total current liabilities</b>                 |       | <b>130,981</b>   | 116,066      | <b>348,196</b>   | 402,252      |
| <b>Net current assets</b>                        |       | <b>3,065</b>     | 21,635       | <b>645,795</b>   | 481,416      |
| <b>Non-current liabilities</b>                   |       |                  |              |                  |              |
| Derivative financial instrument liabilities      | 21    | 1,277            | 2,706        | 1,277            | 2,706        |
| Long term borrowings                             | 20    | 442,751          | 318,439      | 442,751          | 318,439      |
| Deferred tax liabilities                         | 22    | 4,796            | 1,420        | –                | –            |
| <b>Total non-current liabilities</b>             |       | <b>448,824</b>   | 322,565      | <b>444,028</b>   | 321,145      |
| <b>Total liabilities</b>                         |       | <b>579,805</b>   | 438,631      | <b>792,224</b>   | 723,397      |
| <b>Net assets</b>                                |       | <b>539,128</b>   | 516,617      | <b>323,917</b>   | 284,611      |
| <b>Equity</b>                                    |       |                  |              |                  |              |
| Share capital                                    | 23    | 66,616           | 66,616       | 66,616           | 66,616       |
| Share premium account                            | 24    | 113,508          | 113,508      | 113,508          | 113,508      |
| Own shares reserve                               | 25    | (3,238)          | (1,659)      | –                | –            |
| Hedging reserve                                  | 25    | (1,125)          | (2,020)      | (1,125)          | (2,020)      |
| Translation reserve                              | 25    | (1,146)          | (5,241)      | –                | –            |
| Other reserves                                   | 25    | 68,660           | 68,614       | 64,570           | 64,570       |
| Retained earnings                                |       |                  |              |                  |              |
| At 1 May   |       | 276,799          | 242,451      | 41,937           | 23,740       |
| Profit for the financial year                    |       | 43,232           | 60,901       | 60,911           | 38,138       |
| Other changes in retained earnings               |       | (24,178)         | (26,553)     | (22,500)         | (19,941)     |
| At 30 April                                      |       | 295,853          | 276,799      | 80,348           | 41,937       |
| <b>Total equity</b>                              |       | <b>539,128</b>   | 516,617      | <b>323,917</b>   | 284,611      |

Total equity is wholly attributable to the owners of the Parent Company. The financial statements on pages 92 to 131 were approved by the Board of Directors and authorised for issue on 25 June 2018.

They were signed on its behalf by:

**Kevin Bradshaw**  
Director

**David Tilston**  
Interim CFO



# Cash flow statements

FOR THE YEAR ENDED 30 APRIL 2018

|  | Notes | GROUP           |              | COMPANY         |              |
|--|-------|-----------------|--------------|-----------------|--------------|
|  |       | 2018<br>£000    | 2017<br>£000 | 2018<br>£000    | 2017<br>£000 |
| <b>Net cash (used in) generated from operations</b>            | (a)   | <b>(81,797)</b> | 47,818       | <b>(11,178)</b> | (10,425)     |
| <b>Investing activities</b>                                    |       |                 |              |                 |              |
| Interest received  |       | 1               | 2            | 1               | 2            |
| Dividends received from subsidiary undertakings                |       | –               | –            | –               | 53,013       |
| Loans (from) to subsidiary undertakings                        |       | –               | –            | <b>(51,298)</b> | 17,002       |
| Proceeds from disposals of other property, plant and equipment |       | <b>2,374</b>    | 1,222        | <b>2,141</b>    | –            |
| Purchases of other property, plant and equipment               |       | <b>(9,292)</b>  | (4,878)      | –               | (149)        |
| Purchases of intangible assets                                 |       | <b>(4,073)</b>  | (1,133)      | <b>(12)</b>     | –            |
| <b>Net cash (used in) generated from investing activities</b>  |       | <b>(10,990)</b> | (4,787)      | <b>(49,168)</b> | 69,868       |
| <b>Financing activities</b>                                    |       |                 |              |                 |              |
| Dividends paid   |       | <b>(23,365)</b> | (21,875)     | <b>(23,365)</b> | (21,875)     |
| Receipt of bank loans and other borrowings                     |       | <b>113,902</b>  | –            | <b>114,931</b>  | –            |
| Repayments of bank loans and other borrowings                  |       | –               | (21,369)     | –               | (21,151)     |
| Net payments to acquire own shares for share schemes           |       | <b>(3,257)</b>  | (114)        | <b>(3,257)</b>  | (114)        |
| <b>Net cash generated from (used in) financing activities</b>  |       | <b>87,280</b>   | (43,358)     | <b>88,309</b>   | (43,140)     |
| <b>Net (decrease) increase in cash and cash equivalents</b>    |       | <b>(5,507)</b>  | (327)        | <b>27,963</b>   | 16,303       |
| Cash and cash equivalents at 1 May                             |       | <b>19,637</b>   | 18,748       | <b>(19,492)</b> | (34,347)     |
| Effect of foreign exchange movements                           |       | <b>(3)</b>      | 1,216        | <b>(1,260)</b>  | (1,448)      |
| <b>Cash and cash equivalents at 30 April</b>                   | (b)   | <b>14,127</b>   | 19,637       | <b>7,211</b>    | (19,492)     |

# Notes to the cash flow statements

FOR THE YEAR ENDED 30 APRIL 2018

## (a) Net cash (used in) generated from operations

|   | GROUP           |                | COMPANY         |                 |
|---|-----------------|----------------|-----------------|-----------------|
|   | 2018<br>£000    | 2017<br>£000   | 2018<br>£000    | 2017<br>£000    |
| Operating profit (loss)   | 64,077          | 81,482         | 96              | (593)           |
| Adjustments for:  |                 |                |                 |                 |
| Depreciation of property, plant and equipment                   | 182,185         | 156,291        | –               | 63              |
| Net impairment of property, plant and equipment                 | (380)           | 131            | –               | 343             |
| 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          | 865             | 1,934           |
| <b>Operating cash flows before movements in working capital</b> | <b>249,333</b>  | <b>241,928</b> | <b>961</b>      | <b>1,747</b>    |
| (Increase) decrease in non-vehicle inventories                  | (1,190)         | 525            | –               | –               |
| (Increase) decrease in receivables                              | (14,641)        | 4,801          | 3,277           | 68              |
| Increase (decrease) in payables                                 | 6,899           | (8,952)        | (687)           | (492)           |
| <b>Cash generated from operations</b>                           | <b>240,401</b>  | <b>238,302</b> | <b>3,551</b>    | <b>1,323</b>    |
| Income taxes paid, net  | (11,451)        | (12,602)       | (1,603)         | –               |
| Interest paid   | (10,707)        | (8,552)        | (13,126)        | (11,748)        |
| <b>Net cash generated from (used in) operations</b>             | <b>218,243</b>  | <b>217,148</b> | <b>(11,178)</b> | <b>(10,425)</b> |
| Purchases of vehicles   | (486,943)       | (346,305)      | –               | –               |
| Proceeds from disposals of vehicles                             | 186,903         | 176,975        | –               | –               |
| <b>Net cash (used in) generated from operations</b>             | <b>(81,797)</b> | <b>47,818</b>  | <b>(11,178)</b> | <b>(10,425)</b> |

## (b) Cash and cash equivalents

|  | GROUP         |               | COMPANY      |                 |
|--|---------------|---------------|--------------|-----------------|
|  | 2018<br>£000  | 2017<br>£000  | 2018<br>£000 | 2017<br>£000    |
| <b>Cash and cash equivalents comprise:</b> |               |               |              |                 |
| Cash and bank balances                     | 21,382        | 41,166        | 7,211        | –               |
| Bank overdrafts                            | (7,255)       | (21,529)      | –            | (19,492)        |
| <b>Cash and cash equivalents</b>           | <b>14,127</b> | <b>19,637</b> | <b>7,211</b> | <b>(19,492)</b> |

# Statements of changes in equity

FOR THE YEAR ENDED 30 APRIL 2018

| Group   | Share capital and share premium<br>£000 | Own shares reserve<br>£000 | Hedging reserve<br>£000 | Translation reserve<br>£000 | Other reserves<br>£000 | Retained earnings<br>£000 | Total<br>£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          |
| <b>Total equity at 1 May 2017</b>                   | <b>180,124</b>                          | <b>(1,659)</b>             | <b>(2,020)</b>          | <b>(5,241)</b>              | <b>68,614</b>          | <b>276,799</b>            | <b>516,617</b> |
| 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          |
| <b>Total equity at 30 April 2018</b>                | <b>180,124</b>                          | <b>(3,238)</b>             | <b>(1,125)</b>          | <b>(1,146)</b>              | <b>68,660</b>          | <b>295,853</b>            | <b>539,128</b> |

| Company   | Share capital and share premium<br>£000 | Hedging reserve<br>£000 | Other reserves<br>£000 | Retained earnings<br>£000 | Total<br>£000  |
|---|---|-------------------------|------------------------|---------------------------|----------------|
| Total equity at 1 May 2016                          | 180,124                                 | (2,522)                 | 64,570                 | 23,740                    | 265,912        |
| Share options fair value charge                     | –                                       | –                       | –                      | 1,934                     | 1,934          |
| Profit attributable to owners of the Parent Company | –                                       | –                       | –                      | 38,138                    | 38,138         |
| Dividends paid                                      | –                                       | –                       | –                      | (21,875)                  | (21,875)       |
| Other comprehensive income                          | –                                       | 502                     | –                      | –                         | 502            |
| <b>Total equity at 1 May 2017</b>                   | <b>180,124</b>                          | <b>(2,020)</b>          | <b>64,570</b>          | <b>41,937</b>             | <b>284,611</b> |
| Share options fair value charge                     | –                                       | –                       | –                      | 865                       | 865            |
| Profit attributable to owners of the Parent Company | –                                       | –                       | –                      | 60,911                    | 60,911         |
| Dividends paid                                      | –                                       | –                       | –                      | (23,365)                  | (23,365)       |
| Other comprehensive income                          | –                                       | 895                     | –                      | –                         | 895            |
| <b>Total equity at 30 April 2018</b>                | <b>180,124</b>                          | <b>(1,125)</b>          | <b>64,570</b>          | <b>80,348</b>             | <b>323,917</b> |

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

# Notes to the accounts

## 1 General information

Northgate plc is a company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page 136. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 8 to 45.

The accounts are presented in UK Sterling because this is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in Note 2.

## 2 Principal accounting policies

### Statement of compliance

The accounts have been prepared in accordance with IFRS adopted by the EU and therefore the Group accounts comply with Article 4 of the EU IAS Regulation.

### Basis of preparation

The financial information has been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The accounts have been prepared in accordance with International Financial Reporting Standards (IFRS), Interpretations Committee (IFRS-IC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

### Going concern

Having assessed the principal risks and the other matters discussed in connection with the viability statement on page 40 the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

### Changes in accounting policy

Amendments to IAS 7 (Statement of cash flows on disclosure initiative), Amendments to IAS 12 (income taxes), Annual improvements 2014–2016, and IFRS 12 (Disclosure of interests in other entities regarding clarification of the scope of the accounting standard) became effective or were amended during the year but had no material impact on the financial statements. Various new accounting standards and amendments were endorsed during the year, none of which have had or are expected to have any significant impact on the Group. IFRS 9 (Financial instruments) and IFRS 15 (Revenue from contracts with customers) will be effective from 1 May 2018 but neither is expected to have a significant impact on the Group's reported results. IFRS 16 will become effective from 1 May 2020 and the Group is currently assessing the expected impact on its reported results. This is estimated to have a material impact on property plant and equipment and borrowings based on our current lease commitments.

### Basis of consolidation

Subsidiary undertakings are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The consolidated accounts include the accounts of the Company and its subsidiary undertakings made up to 30 April 2017 and 30 April 2018.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary undertaking are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

Where necessary, adjustments are made to the accounts of subsidiary undertakings to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

### Revenue recognition

Group revenue is measured at the fair value of the consideration received or receivable in respect of the hire of vehicles, sale of used vehicles and the supply of related goods and services in the normal course of business, net of value added tax and discounts.

Revenue from vehicle hire is recognised evenly over the hire period. Revenue from sales of other related goods and services is recognised at the point at which the goods or services are provided.

Revenue from the sale of used vehicles is recognised at the point of sale, which is usually represented by the point at which the customer takes possession of the vehicle. Where cash is received in advance of customers collecting or taking delivery of vehicles, revenue is recognised subject to the bill and hold criteria of IAS 18 (Revenue) being met. Where bill and hold criteria are not met revenue is deferred.

### Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents amounts arising on acquisition of subsidiary undertakings and is the difference between the cost of the acquisition and the fair value of the net identifiable assets and liabilities acquired.

Goodwill is stated at cost less any accumulated impairment losses identified through annual or other tests for impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

### Intangible assets – arising on business combinations

Amortisation of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of each intangible asset. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

|                        |               |
|------------------------|---------------|
| Customer relationships | 5 to 13 years |
|------------------------|---------------|

### Intangible assets – other

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Software assets are amortised on a straight-line basis over their estimated useful lives, which range from three to ten years.

Intangible assets in the course of construction are stated at cost. Development costs are capitalised after the technical and commercial feasibility of the asset has been established. Amortisation is not charged on assets in the course of construction. Amortisation commences when the asset is brought into use.

### Property, plant and equipment

Property, plant and equipment is stated at historical cost, less accumulated depreciation and any provision for impairment. Certain properties were revalued prior to the adoption of IFRS. These valuations were treated as deemed cost at the time of adopting IFRS for the first time. Depreciation is provided so as to write off the cost of assets to residual values on a straight-line basis over the assets' useful estimated lives as follows:

|                             |  |
|-----------------------------|--|
| Freehold buildings          | 50 years   |
| Leasehold buildings         | 50 years or over the life of the lease, whichever is shorter |
| Plant, equipment & fittings | 3 to 10 years  |
| Vehicles for hire           | 3 to 12 years  |
| Motor vehicles              | 3 to 6 years   |

Vehicles for hire are depreciated on a straight-line basis using depreciation rates that reflect economic lives of between three and 12 years, averaging around six years. These depreciation rates have been determined with the anticipation that the net book values at the point the vehicles are transferred into inventories is in line with the open market values for those vehicles. The Group is required to review its depreciation rates and estimated useful lives regularly to ensure that the net book value of disposals of tangible assets are broadly equivalent to their market value.

Freehold land is not depreciated.

On the subsequent sale or retirement of properties revalued prior to the adoption of IFRS, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. The residual value, if not insignificant, is reassessed annually.

### Investments in subsidiaries

Investments in subsidiaries are shown at cost less any provision for impairment.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less selling costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

Where an impairment loss has been recognised in an earlier period, the Group reassesses whether there are any indications that such impairment has decreased or no longer exists. If an impairment has decreased or no longer exists, an impairment reversal is recognised in the income statement to the extent required.

### Non-current assets held for sale

Non-current assets are classified as 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.

### Inventories

Used vehicles held for resale are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in marketing, selling and distribution.

Other inventories comprise spare parts and consumables and are valued at the lower of cost and net realisable value.

# Notes to the accounts

CONTINUED

## 2 Principal accounting policies CONTINUED

### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year and any amounts outstanding in relation to previous years. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current and deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also dealt with in equity.

### Financial instruments and hedge accounting

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provision of the instrument.

Trade receivables are non-interest bearing and are initially stated at their fair value and subsequently at amortised cost less any appropriate provision for irrecoverable amounts. Trade payables are non-interest bearing and are stated initially at their fair value and subsequently at amortised cost.

The Group uses derivative financial instruments to hedge its exposure to interest and foreign exchange rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold nor issue derivative financial instruments for trading purposes.

Derivative financial instruments are stated at fair value. Any gain or loss on remeasurement to fair value is recognised immediately in the income statement except where derivatives qualify for hedge accounting, where recognition of the resultant gain or loss depends on the nature of the items being hedged.

The fair value of interest rate derivatives is the estimated amount that the Group would receive or pay to terminate the derivative at the balance sheet date, taking into account current interest rates and the current creditworthiness of the derivative counterparties.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income and the ineffective portion is recognised in the income statement. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting for cash flow hedges is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement as a net profit or loss for the period.

Changes in the fair value of derivative financial instruments that are designated and effective as net investment hedges are recognised directly in equity and the ineffective portion is recognised in the income statement. Exchange differences arising on the net investment hedges are transferred to the translation reserve.

No derivative assets and liabilities are offset. Certain customer rebates, which will be settled in cash, are offset against the trade receivables balance until such time as these are settled.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash at bank and in hand and bank overdrafts. Cash at bank and in hand and bank overdrafts are shown gross irrespective of where accounts have a right of offset within the same banking facility.

#### **Bank loans, other loans, loan notes and issue costs**

Bank loans, other loans and loan notes are stated initially at fair value – the amount of proceeds after deduction of issue costs – and then subsequently at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for in the income statement on an accruals basis.

#### **Foreign currencies**

Transactions in foreign currencies other than UK Sterling are recorded at the rate prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

The net assets of overseas subsidiary undertakings are translated into UK Sterling at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is recognised directly in equity. The results of overseas subsidiary undertakings are translated into UK Sterling using average exchange rates for the financial period and variances compared with the exchange rate at the balance sheet date are recognised directly in equity. All other translation differences are taken to the income statement with the exception of exchange differences on foreign currency borrowings that provide a hedge against Group equity investments in foreign enterprises, which are recognised directly in equity, together with the exchange difference on the net investment in these enterprises.

Goodwill and fair value adjustments arising on acquisition of a foreign entity are treated as assets and liabilities of the foreign entity. They are denominated in the functional currency of the foreign entity and translated at the exchange rate prevailing at the balance sheet date, with any variances reflected directly in equity.

All foreign exchange differences reflected directly in equity are shown in the translation reserve component of equity.

#### **Leasing**

##### **As Lessee:**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

##### **As Lessor:**

Motor vehicles and equipment hired to customers under operating leases are included within property, plant and equipment. Income from such leases is taken to the income statement evenly over the period of the operating lease agreement.

#### **Retirement benefit costs**

The Group operates defined contribution pension schemes. Contributions in respect of defined contribution arrangements are charged to the income statement in the period they fall due. Pension contributions in respect of one of these arrangements are held in trustee administered funds, independently of the Group's finances.

The Group also operates Group personal pension plans. The costs of these plans are charged to the income statement as they fall due.

#### **Employee share schemes and share based payments**

The Group issues equity settled payments to certain employees.

Equity settled employee schemes, including employee share options and deferred annual bonuses, provide employees with the option to acquire shares of the Company. Employee share options and deferred annual bonuses are generally subject to performance or service conditions.

The fair value of equity-settled payments is measured at the date of grant and charged to the income statement over the period during which performance or service conditions are required to be met or immediately where no performance or service criteria exist. The fair value of equity-settled payments granted is measured using the Black-Scholes or the Monte Carlo model. At the end of each reporting period, the Group revises its estimate of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to the original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The Group also operates a share incentive plan under which employees each have the option to purchase an amount of shares annually and receive an equivalent number of free shares. The Group recognises the free shares as an expense evenly throughout the period over which the employees must remain in the employ of the Group in order to receive the free shares.

# Notes to the accounts

CONTINUED

## 2 Principal accounting policies CONTINUED

### Interest income and finance costs

Interest income and finance costs are recognised in the income statement using the effective interest rate method.

### Exceptional items

Items are classified as exceptional gains or losses where they are considered to be material or which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the accounts are to be properly understood. Restructuring and exceptional costs are considered on a case by case basis as to whether they meet the exceptional criteria. The presentation is consistent with the way financial performance is measured by management and reported to the Board.

### Dividends

Dividends on Ordinary shares are recognised in the period in which they are either paid or formally approved, whichever is earlier.

### Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Own shares

The Group makes open market purchases of its own shares in order to satisfy the requirements of the Group's existing share schemes. Own shares are recognised at cost as a reduction in shareholder equity. The carrying values of own shares are compared to their market values at each reporting date and adjustments are made to write down the carrying value of own shares when, in the opinion of the Directors, there is a significant market value reduction.

## 3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in Note 2, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the accounts.

### Depreciation

Vehicles for hire are depreciated on a straight-line basis using depreciation rates that reflect economic lives of between three and 12 years. These depreciation rates have been determined with the anticipation that the net book values at the point the vehicles are transferred into inventories is in line with the open

market values for those vehicles, after taking account of costs required to sell the vehicles.

Under IAS 16 (Property, plant and equipment), the Group is required to review its depreciation rates and estimated useful lives regularly to ensure that the net book value of disposals of tangible assets are broadly equivalent to their market value.

Depreciation charges reflect adjustments made as a result of differences between expected and actual residual values of used vehicles, taking into account the further directly attributable costs to sell the vehicles.

The Directors apply judgement in determining the appropriate method of depreciation (straight-line) and are required to estimate the future residual value of vehicles with due consideration of variables including age, mileage and condition.

The impact of changes in these estimates impact the accounts prospectively from 1 May 2018 and are outlined in the financial review.

### Provision for bad and doubtful debts

Trade receivables are stated in the balance sheet at their nominal value less any appropriate provision for irrecoverable amounts. In determining whether provision is required against any trade receivable, the Directors are required to make a judgement regarding the overall recoverability of the debtor. In exercising this judgement, consideration is given to both the overall economic environment in which a debtor operates as well as specific indicators that the recovery of the nominal balance may be in doubt. For example, days' sales outstanding in excess of agreed credit terms or other qualitative information in respect of a customer. See Note 29 for further information.

Calculating the appropriate level of provision against doubtful debts involves a key source of estimation uncertainty, namely estimating the quantum of balances irrecoverable.

### Taxation

The Group carries out tax planning consistent with a group of its size and makes appropriate provision, based on best estimates, until tax computations are agreed with the tax authorities. Certain judgements have been made with respect to uncertain tax positions, including the likelihood of future outflows as a result of recent changes in regulation.

These judgements primarily relate to tax relief taken in the current and previous years in respect of the vehicle fleet and the Group financing structure. To the extent that tax estimates result in the recognition of deferred tax assets, those assets are only carried in the balance sheet to the extent that it is considered probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Key sources of estimation uncertainty include the timing or quantum of future outflows.



## 4 Segmental reporting

Management has determined the operating segments based upon the information provided to the Board of Directors which is considered to be the chief operating decision maker. The Group is managed and reports internally on a basis consistent with its three main operating divisions, UK, Spain and Ireland. The principal activities of these divisions are set out in the Strategic Report.

|   | 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 | Total<br>2018<br>£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               |
| <b>Total revenue</b>                        | <b>412,919</b>     | <b>261,192</b>        | <b>28,421</b>           | <b>–</b>                  | <b>(860)</b>                 | <b>701,672</b>        |
| <b>Underlying operating profit (loss)*</b>  | <b>30,571</b>      | <b>38,960</b>         | <b>2,543</b>            | <b>(3,731)</b>            | <b>–</b>                     | <b>68,343</b>         |
| Exceptional items                           |                    |                       |                         |                           |                              | (2,499)               |
| Certain intangible amortisation             |                    |                       |                         |                           |                              | (1,767)               |
| <b>Operating profit</b>                     |                    |                       |                         |                           |                              | <b>64,077</b>         |
| Interest income                             |                    |                       |                         |                           |                              | 1                     |
| Finance costs                               |                    |                       |                         |                           |                              | (11,340)              |
| <b>Profit before taxation</b>               |                    |                       |                         |                           |                              | <b>52,738</b>         |
| <b>Other information</b>                    |                    |                       |                         |                           |                              |                       |
| Capital expenditure                         | 288,926            | 214,364               | 20,600                  | –                         | –                            | 523,890               |
| Depreciation                                | 95,076             | 76,675                | 10,434                  | –                         | –                            | 182,185               |
| Reportable segment assets                   | 612,689            | 441,782               | 48,926                  | –                         | –                            | 1,103,397             |
| Income tax assets                           |                    |                       |                         |                           |                              | 15,536                |
| <b>Total assets</b>                         |                    |                       |                         |                           |                              | <b>1,118,933</b>      |
| Reportable segment liabilities              | 313,946            | 206,437               | 37,991                  | –                         | –                            | 558,374               |
| Derivative financial instrument liabilities |                    |                       |                         |                           |                              | 1,389                 |
| Income tax liabilities                      |                    |                       |                         |                           |                              | 20,042                |
| <b>Total liabilities</b>                    |                    |                       |                         |                           |                              | <b>579,805</b>        |

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

The Ireland segment will be integrated into the UK segment during the year ending 30 April 2019 and will therefore be reported as part of the UK segment going forward.

# Notes to the accounts

CONTINUED

## 4 Segmental reporting CONTINUED

|   | 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 | Total<br>2017<br>£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               |
| <b>Total revenue</b>                        | <b>416,211</b>     | <b>226,660</b>        | <b>25,553</b>           | <b>–</b>                  | <b>(995)</b>                 | <b>667,429</b>        |
| <b>Underlying operating profit (loss)*</b>  | <b>43,886</b>      | <b>42,607</b>         | <b>3,233</b>            | <b>(5,121)</b>            | <b>–</b>                     | <b>84,605</b>         |
| Restructuring costs                         |                    |                       |                         |                           |                              | (1,293)               |
| Certain intangible amortisation             |                    |                       |                         |                           |                              | (1,830)               |
| <b>Operating profit</b>                     |                    |                       |                         |                           |                              | <b>81,482</b>         |
| Interest income                             |                    |                       |                         |                           |                              | 2                     |
| Finance costs (excluding exceptional items) |                    |                       |                         |                           |                              | (9,601)               |
| Exceptional finance credit                  |                    |                       |                         |                           |                              | 339                   |
| <b>Profit before taxation</b>               |                    |                       |                         |                           |                              | <b>72,222</b>         |
| <b>Other information</b>                    |                    |                       |                         |                           |                              |                       |
| Capital expenditure                         | 192,382            | 163,559               | 14,420                  | 149                       | –                            | 370,510               |
| Depreciation                                | 90,079             | 56,005                | 10,145                  | 62                        | –                            | 156,291               |
| Reportable segment assets                   | 540,935            | 359,430               | 40,940                  | –                         | –                            | 941,305               |
| Derivative financial instrument assets      |                    |                       |                         |                           |                              | 213                   |
| Income tax assets                           |                    |                       |                         |                           |                              | 13,730                |
| <b>Total assets</b>                         |                    |                       |                         |                           |                              | <b>955,248</b>        |
| Reportable segment liabilities              | 229,202            | 155,798               | 30,937                  | –                         | –                            | 415,937               |
| Derivative financial instrument liabilities |                    |                       |                         |                           |                              | 2,706                 |
| Income tax liabilities                      |                    |                       |                         |                           |                              | 19,988                |
| <b>Total liabilities</b>                    |                    |                       |                         |                           |                              | <b>438,631</b>        |

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

Segment assets and liabilities exclude derivative financial instrument assets and liabilities and current and deferred tax assets and liabilities, since these balances are not included in the segments' assets and liabilities as reviewed by the chief operating decision maker.

## Geographical information

Revenues are attributed to countries on the basis of the Company's location.

|                     | Revenue<br>2018<br>£000 | Non-current<br>assets<br>2018<br>£000 | Revenue<br>2017<br>£000 | Non-current<br>assets<br>2017<br>£000 |
|---------------------|-------------------------|---------------------------------------|-------------------------|---------------------------------------|
| United Kingdom      | 412,919                 | 521,527                               | 416,211                 | 440,910                               |
| Spain               | 261,192                 | 412,117                               | 226,660                 | 328,540                               |
| Republic of Ireland | 28,421                  | 40,452                                | 25,553                  | 34,367                                |
| Eliminations        | (860)                   | –                                     | (995)                   | –                                     |
|                     | <b>701,672</b>          | <b>974,096</b>                        | 667,429                 | 803,817                               |

There are no external customers from whom the Group derives more than 10% of total revenue.

## 5 Operating profit

|   | 2018<br>£000 | 2017<br>£000 |
|---|--------------|--------------|
| <b>Operating profit is stated after charging:</b>               |              |              |
| Depreciation of property, plant and equipment (Notes 14 and 15) | 182,185      | 156,291      |
| Amortisation of intangible assets (Note 13)                     | 2,171        | 1,891        |
| Staff costs (Note 6)  | 95,558       | 93,850       |
| Cost of inventories recognised as an expense                    | 264,408      | 241,064      |
| Net impairment of trade receivables (Note 29)                   | 6,955        | 3,498        |
| Operating Lease rentals (Note 27)                               | 8,147        | 7,163        |
| Exceptional Costs (Note 26)                                     | 2,499        | 1,293        |
| Auditors' remuneration for audit services (below)               | 362          | 356          |
| Auditors' remuneration for non-audit services (below)           | 34           | 40           |

The above cost of inventories recognised as an expense includes movements in stock provisions which are considered immaterial.

|   | 2018<br>£000 | 2017<br>£000 |
|---|--------------|--------------|
| Fees payable to the Company's auditors for the audit of the Company's annual accounts   | 218          | 218          |
| Fees payable to the Company's auditors and its associates for the audit of the Company's subsidiaries pursuant to legislation | 144          | 138          |
| <b>Total audit fees</b>   | <b>362</b>   | <b>356</b>   |
| Other services pursuant to legislation  | 21           | 21           |
| Other services  | 13           | 19           |
| <b>Total non-audit fees</b>   | <b>34</b>    | <b>40</b>    |

Fees payable to PwC and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

A description of the work of the Audit and Risk Committee is set out on pages 56 to 58 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

# Notes to the accounts

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## 6 Staff costs

|  | 2018<br>Number | 2017<br>Number |
|--|----------------|----------------|
| The average number of persons employed by the Group:     |                |                |
| <b>United Kingdom:</b>                                   |                |                |
| Direct operations  | 1,256          | 1,313          |
| Administration   | 453            | 485            |
|  | 1,709          | 1,798          |
| <b>Spain:</b>  |                |                |
| Direct operations  | 924            | 870            |
| Administration   | 162            | 162            |
|  | 1,086          | 1,032          |
| <b>Republic of Ireland:</b>                              |                |                |
| Direct operations  | 87             | 71             |
| Administration   | 18             | 16             |
|  | 105            | 87             |
|  | 2,900          | 2,917          |
|  | 2018<br>£000   | 2017<br>£000   |
| The aggregate remuneration of Group employees comprised: |                |                |
| Wages and salaries                                       | 81,466         | 80,569         |
| Social security costs                                    | 11,926         | 11,376         |
| Other pension costs – defined contribution plans         | 2,166          | 1,905          |
|  | 95,558         | 93,850         |

Wages and salaries include £1,801,000 (2017 – £2,562,000) in respect of redundancies and loss of office.

Details of Directors' remuneration, pension contributions and share options are provided in the Remuneration report on pages 60 to 78.

## 7 Finance costs

|   | 2018<br>£000 | 2017<br>£000 |
|---|--------------|--------------|
| Interest on bank overdrafts and loans                           | 10,581       | 8,940        |
| Amortisation of arrangement fees                                | 636          | 636          |
| Preference share dividends                                      | 25           | 25           |
| Other interest  | 98           | –            |
| Finance costs (excluding exceptional items)                     | 11,340       | 9,601        |
| Interest refunded in relation to Spain tax settlement (Note 26) | –            | (339)        |
| Exceptional finance credit                                      | –            | (339)        |
|   | 11,340       | 9,262        |

## 8 Taxation

|  | 2018<br>£000 | 2017<br>£000 |
|--|--------------|--------------|
| <b>Current tax:</b>                            |              |              |
| UK corporation tax                             | 3,119        | 8,172        |
| Adjustment in respect of prior years           | (2,845)      | 1,234        |
| Foreign tax                                    | 2,586        | 1,136        |
|  | <b>2,860</b> | 10,542       |
| <b>Deferred tax:</b>                           |              |              |
| Origination and reversal of timing differences | 3,119        | 701          |
| Adjustment in respect of prior years           | 3,527        | 127          |
| Rate adjustments in UK and Spain               | –            | (49)         |
|  | <b>6,646</b> | 779          |
|  | <b>9,506</b> | 11,321       |

UK corporation tax is calculated at 19.00% (2017 – 19.92%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in those respective jurisdictions.

The net charge for the year can be reconciled to the profit before taxation as stated in the income statement as follows:

|  | 2018<br>£000  | %           | 2017<br>£000 | %     |
|--|---------------|-------------|--------------|-------|
| <b>Profit before taxation</b>  | <b>52,738</b> |             | 72,222       |       |
| Tax at the UK corporation tax rate of 19.00% (2017 – 19.92%)                 | 10,020        | 19.0        | 14,387       | 19.9  |
| Tax effect of expenses that are not deductible in determining taxable profit | 656           | 1.2         | 236          | 0.3   |
| Tax effect of income not taxable in determining taxable profit               | (1,003)       | (1.9)       | (3,643)      | (5.0) |
| Difference in taxation in overseas subsidiary undertakings                   | (543)         | (1.0)       | (971)        | (1.3) |
| Reduction in tax rate  | –             | –           | (49)         | (0.1) |
| Adjustment to tax charge in respect of prior years                           | 376           | 0.7         | 1,361        | 1.9   |
| <b>Tax charge and effective tax rate for the year</b>                        | <b>9,506</b>  | <b>18.0</b> | 11,321       | 15.7  |

In addition to the amount charged to the income statement, a net deferred tax amount of £210,000 has been debited (2017 – £157,000) directly to equity (Note 22).

The underlying tax charge of £10,651,000 (2017 – £12,007,000) excludes exceptional tax credits of £471,000 (2017 – £95,000) as set out in Note 26, and tax credits on brand royalty charges and certain intangible amortisation of £674,000 (2017 – £591,000). There has been no recognition of deferred tax assets previously derecognised.

In March 2017 it was announced that for the fiscal year starting 1 April 2020 the UK rate would reduce to 17%. This change has not been substantively enacted at the balance sheet date and deferred tax balances have therefore not been revalued to this rate. Based on the expected timing of the reversal of temporary differences, the tax disclosures reflect deferred tax measured at 19% in the UK and 25% in Spain.

Current tax assets of £4,745,000 (2017: £nil) arose as a result of payments on account in excess of tax liabilities.

Current tax liabilities of £15,246,000 (2017: £18,568,000) arose as a result of the trading activities of the Group.

# Notes to the accounts

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## 9 Dividends

An interim dividend of 6.1p per Ordinary share was paid in January 2018 (2017 – 5.7p). The Directors propose a final dividend for the year ended 30 April 2018 of 11.6p per Ordinary share (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. No dividends have been paid between 30 April 2018 and the date of signing the Accounts.

## 10 Earnings per share

|   | Underlying<br>2018<br>£000 | Statutory<br>2018<br>£000 | Underlying<br>2017<br>£000 | Statutory<br>2017<br>£000 |
|---|----------------------------|---------------------------|----------------------------|---------------------------|
| <b>Basic and diluted earnings per share</b>   |                            |                           |                            |                           |
| The calculation of basic and diluted earnings per share is based on the following data:   |                            |                           |                            |                           |
| <b>Earnings</b>   |                            |                           |                            |                           |
| Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to the owners of the Parent Company | 46,353                     | 43,232                    | 62,999                     | 60,901                    |
|   |                            |                           |                            |                           |
|   | Underlying<br>2018         | Statutory<br>2018         | Underlying<br>2017         | Statutory<br>2017         |
| <b>Number of shares</b>   |                            |                           |                            |                           |
| 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                     |

## 11 Result of the Parent Company

A profit of £60,911,000 (2017 – £38,138,000) is dealt with in the accounts of the Company. The Directors have taken advantage of the exemption available under s408(3) of the Companies Act 2006 and not presented an income statement for the Company alone.

## 12 Goodwill

|                 | £000 |
|-----------------|------|
| Carrying value: |      |

|  |              |
|--|--------------|
| <b>At 1 May 2016, 1 May 2017 and 30 April 2018</b> | <b>3,589</b> |
|--|--------------|

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from the business combination. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The goodwill balance all relates to the UK. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth rates forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

In addition to the annual test of impairment, and as required by IAS 36, there has also been an assessment as to whether there has been any indication that an impairment loss of other non-current assets recognised in an earlier year has decreased or no longer exists.

The impairment assessment was based on risk-adjusted cash flow forecasts derived from a business plan approved by the Directors in March 2018 using growth rates of 1% over a five year period, including terminal values, using a discount rate of 9.5% for the UK CGU, 9.5% for the Spain CGU and 9.2% for the Ireland CGU. The projected terminal value is calculated based on the Gordon Growth Model assuming cash flows are generated into perpetuity. It was concluded that there were no indicators of additional impairment or reversal of impairment of other non-current assets previously charged for the UK CGU, Spain CGU and Ireland CGU.

In the prior year, the impairment assessment was based on risk-adjusted cash flow forecasts derived from a business plan approved by the Directors in May 2017 using growth rates of 1% over a ten year period, including terminal values, using a discount rate of 8.6% for the UK CGU, 9.0% for the Spain CGU and 8.2% for the Ireland CGU. The projected terminal value is calculated based on the Gordon Growth Model assuming cash flows are generated into perpetuity. It was concluded that there were no indicators of additional impairment or reversal of impairment of other non-current assets previously charged for the UK CGU, Spain CGU and Ireland CGU.

The value in use assessment is sensitive to changes in the key assumptions used, most notably the discount rate and growth rates. A sensitivity analysis has been performed on the UK CGU, Spain CGU and Ireland CGU. Based on this sensitivity analysis, no reasonably possible changes to the assumptions used for either the UK CGU, Spain CGU or Ireland CGU resulted in an additional impairment charge being required.

# Notes to the accounts

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## 13 Other intangible assets

|   | GROUP                          |                        |                      | COMPANY                |
|---|--------------------------------|------------------------|----------------------|------------------------|
|   | Customer relationships<br>£000 | Other software<br>£000 | Total<br>£000        | Other software<br>£000 |
| <b>Cost:</b>                                |                                |                        |                      |                        |
| At 1 May 2016                               | 14,764                         | 15,869                 | 30,633               | 90                     |
| Additions                                   | –                              | 1,133                  | 1,133                | –                      |
| Exchange differences                        | 630                            | 111                    | 741                  | –                      |
| At 1 May 2017                               | 15,394                         | 17,113                 | 32,507               | 90                     |
| Additions                                   | –                              | 4,073                  | 4,073                | 12                     |
| Disposals                                   | –                              | (2,536)                | (2,536)              | –                      |
| Exchange differences                        | (109)                          | 75                     | (34)                 | –                      |
| <b>At 30 April 2018</b>                     | <b>15,285</b>                  | <b>18,725</b>          | <b>34,010</b>        | <b>102</b>             |
| <b>Amortisation:</b>                        |                                |                        |                      |                        |
| At 1 May 2016                               | 12,628                         | 13,951                 | 26,579               | 90                     |
| Charge for the year                         | 775                            | 1,116                  | 1,891                | –                      |
| Exchange differences                        | 629                            | 99                     | 728                  | –                      |
| At 1 May 2017                               | 14,032                         | 15,166                 | 29,198               | 90                     |
| Charge for the year                         | 775                            | 1,396                  | 2,171                | –                      |
| Disposals                                   | –                              | (2,511)                | (2,511)              | –                      |
| Exchange differences                        | (109)                          | 56                     | (53)                 | –                      |
| <b>At 30 April 2018</b>                     | <b>14,698</b>                  | <b>14,107</b>          | <b>28,805</b>        | <b>90</b>              |
| <b>Carrying amount:</b>                     |                                |                        |                      |                        |
| <b>At 30 April 2018</b>                     | <b>587</b>                     | <b>4,618</b>           | <b>5,205</b>         | <b>12</b>              |
| At 30 April 2017                            | 1,362                          | 1,947                  | 3,309                | –                      |
|   |                                |                        | <b>2018<br/>£000</b> | 2017<br>£000           |
| <b>Intangible amortisation:</b>             |                                |                        |                      |                        |
| Included within underlying operating profit |                                |                        | <b>404</b>           | 61                     |
| Excluded from underlying operating profit*  |                                |                        | <b>1,767</b>         | 1,830                  |
|   |                                |                        | <b>2,171</b>         | 1,891                  |

Other software includes assets in the course of construction with a net book value of £2,520,393 (2017 – £Nil). No amortisation has been charged on these assets. Amortisation will be charged when the assets become available for use.

At 30 April 2018, the Group had entered into contractual commitments for the acquisition of software assets amounting to £1,029,000 (2017 – £Nil).

\* Amortisation of intangible assets excluded from underlying operating profit relates to intangible assets recognised on previous business combinations and other non-recurring items.



## 14 Property, plant and equipment: vehicles for hire

| Group                        | £000             |
|------------------------------|------------------|
| <b>Cost:</b>                 |                  |
| At 1 May 2016                | 997,126          |
| Additions                    | 364,499          |
| Exchange differences         | 33,330           |
| Transfer from motor vehicles | 22               |
| Transfer to inventories      | (360,729)        |
| At 1 May 2017                | 1,034,248        |
| Additions                    | 510,525          |
| Exchange differences         | 19,122           |
| Transfer from motor vehicles | 236              |
| Transfer to inventories      | (342,408)        |
| <b>At 30 April 2018</b>      | <b>1,221,723</b> |
| <b>Depreciation:</b>         |                  |
| At 1 May 2016                | 312,627          |
| Charge for the year          | 149,742          |
| Exchange differences         | 11,944           |
| Transfer from motor vehicles | 57               |
| Transfer to inventories      | (171,779)        |
| At 1 May 2017                | 302,591          |
| Charge for the year          | 176,600          |
| Exchange differences         | 5,950            |
| Transfer from motor vehicles | 242              |
| Transfer to inventories      | (160,983)        |
| <b>At 30 April 2018</b>      | <b>324,400</b>   |
| <b>Carrying amount:</b>      |                  |
| <b>At 30 April 2018</b>      | <b>897,323</b>   |
| At 30 April 2017             | 731,657          |

At 30 April 2018, the Group had entered into contractual commitments for the acquisition of vehicles for hire amounting to £28,368,000 (2017 – £19,397,000).

# Notes to the accounts

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## 15 Other property, plant and equipment

| Group                         | Land & buildings<br>£000 | Plant,<br>equipment<br>& fittings<br>£000 | Motor<br>vehicles<br>£000 | Total<br>£000  |
|-------------------------------|--------------------------|---|---------------------------|----------------|
| <b>Cost:</b>                  |                          |   |                           |                |
| At 1 May 2016                 | 78,631                   | 21,893                                    | 3,801                     | 104,325        |
| Additions                     | 1,380                    | 2,308                                     | 1,190                     | 4,878          |
| Exchange differences          | 3,085                    | 932                                       | –                         | 4,017          |
| Transfer to vehicles for hire | –                        | –   | (22)                      | (22)           |
| Disposals                     | (1,704)                  | (117)                                     | (1,208)                   | (3,029)        |
| At 1 May 2017                 | 81,392                   | 25,016                                    | 3,761                     | 110,169        |
| Additions                     | 4,211                    | 4,341                                     | 740                       | 9,292          |
| Exchange differences          | 1,603                    | 547                                       | –                         | 2,150          |
| Transfer to vehicles for hire | –                        | –   | (236)                     | (236)          |
| Disposals                     | (3,610)                  | (1,193)                                   | (508)                     | (5,311)        |
| <b>At 30 April 2018</b>       | <b>83,596</b>            | <b>28,711</b>                             | <b>3,757</b>              | <b>116,064</b> |
| <b>Depreciation:</b>          |                          |   |                           |                |
| At 1 May 2016                 | 22,779                   | 14,617                                    | 1,164                     | 38,560         |
| Charge for the year           | 2,516                    | 3,307                                     | 726                       | 6,549          |
| Net impairment                | 131                      | –   | –                         | 131            |
| Exchange differences          | 717                      | 615                                       | –                         | 1,332          |
| Transfer to vehicles for hire | –                        | –   | (57)                      | (57)           |
| Disposals                     | (870)                    | (44)                                      | (694)                     | (1,608)        |
| At 1 May 2017                 | 25,273                   | 18,495                                    | 1,139                     | 44,907         |
| Charge for the year           | 2,178                    | 2,672                                     | 735                       | 5,585          |
| Impairment reversal           | (380)                    | –   | –                         | (380)          |
| Exchange differences          | 386                      | 376                                       | –                         | 762            |
| Transfer to vehicles for hire | –                        | –   | (242)                     | (242)          |
| Disposals                     | (1,441)                  | (831)                                     | (275)                     | (2,547)        |
| <b>At 30 April 2018</b>       | <b>26,016</b>            | <b>20,712</b>                             | <b>1,357</b>              | <b>48,085</b>  |
| <b>Carrying amount:</b>       |                          |   |                           |                |
| <b>At 30 April 2018</b>       | <b>57,580</b>            | <b>7,999</b>                              | <b>2,400</b>              | <b>67,979</b>  |
| At 30 April 2017              | 56,119                   | 6,521                                     | 2,622                     | 65,262         |

|  | 2018<br>£000  | 2017<br>£000 |
|--|---------------|--------------|
| <b>Land and buildings by category:</b> |               |              |
| Freehold and long leasehold            | 51,128        | 50,218       |
| Short leasehold                        | 6,452         | 5,901        |
|  | <b>57,580</b> | 56,119       |

At 30 April 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £72,000 (2017 – £35,000).

Land and buildings in the Group include £593,000 (2017 – £2,141,000 Group and Company) of assets held for sale. The carrying value of these assets equates to the estimated sale value net of attributable costs to sell.

| Company                 | Land & buildings<br>£000 |
|-------------------------|--------------------------|
| <b>Cost:</b>            |                          |
| At 1 May 2016           | 3,239                    |
| Additions               | 149                      |
| At 1 May 2017           | 3,388                    |
| Disposals               | (3,388)                  |
| <b>At 30 April 2018</b> | <b>–</b>                 |
| <b>Depreciation:</b>    |                          |
| At 1 May 2016           | 841                      |
| Charge for the year     | 63                       |
| Impairment              | 343                      |
| At 1 May 2017           | 1,247                    |
| Disposals               | (1,247)                  |
| <b>At 30 April 2018</b> | <b>–</b>                 |
| <b>Carrying amount:</b> |                          |
| <b>At 30 April 2018</b> | <b>–</b>                 |
| At 30 April 2017        | 2,141                    |

# Notes to the accounts

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## 16 Investments

| Company                                | Shares in subsidiary undertakings<br>£000 | Loans in subsidiary undertakings<br>£000 | Total<br>£000  |
|--|---|--|----------------|
| <b>Cost:</b>                           |   |  |                |
| At 1 May 2016 and 1 May 2017           | 76,328                                    | 47,000                                   | 123,328        |
| Disposals                              | (2,435)                                   | –  | (2,435)        |
| <b>At 30 April 2018</b>                | <b>73,893</b>                             | <b>47,000</b>                            | <b>120,893</b> |
| <b>Accumulated provisions:</b>         |   |  |                |
| At 1 May 2016 and 1 May 2017           | 2,435                                     | –  | 2,435          |
| Disposals                              | (2,435)                                   | –  | (2,435)        |
| <b>At 30 April 2018</b>                | <b>–</b>                                  | <b>–</b>                                 | <b>–</b>       |
| <b>Carrying amount:</b>                |   |  |                |
| <b>At 1 May 2017 and 30 April 2018</b> | <b>73,893</b>                             | <b>47,000</b>                            | <b>120,893</b> |

At 30 April 2018, a full list of subsidiaries of the Group, for all of which the ordinary shares were wholly owned, was as follows:

| Name                                      | Registered office   |
|---|---|
| Northgate (CB) Limited*                   | Northgate Centre, Lingfield Way, Darlington, DL1 4PZ  |
| Northgate (CB2) Limited*                  | Northgate Centre, Lingfield Way, Darlington, DL1 4PZ  |
| Northgate España Renting Flexible S.A.*   | Avd Isaac Newton, 3 Parque Empresarial La Carpetania, 28906 Getafe, Madrid, Spain                 |
| Northgate (Europe) Limited                | Northgate Centre, Lingfield Way, Darlington, DL1 4PZ  |
| Northgate (Malta) Limited*                | Office 1, Verdala Business Centre, LM Complex, Brewery Street, Mriehel, Birkirkara BKR3000, Malta |
| Northgate (MT) Limited*                   | Office 1, Verdala Business Centre, LM Complex, Brewery Street, Mriehel, Birkirkara BKR3000, Malta |
| Northgate Vehicle Hire (Ireland) Limited* | One Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland  |
| Northgate Vehicle Hire Limited            | Northgate Centre, Lingfield Way, Darlington, DL1 4PZ  |
| NGMalta Finance Limited*                  | One Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland  |
| Northgate Vehicle Sales Limited*          | Northgate Centre, Lingfield Way, Darlington, DL1 4PZ  |
| Goode Durrant Administration Limited*     | Northgate Centre, Lingfield Way, Darlington, DL1 4PZ  |

\* Interest held indirectly by the Company.

## 17 Inventories

| Group                       | 2018<br>£000  | 2017<br>£000  |
|-----------------------------|---------------|---------------|
| Vehicles held for resale    | 25,622        | 28,733        |
| Spare parts and consumables | 6,206         | 4,933         |
|                             | <b>31,828</b> | <b>33,666</b> |

Replacement cost is considered to be materially equal to carrying value.

## 18 Trade and other receivables

|  | GROUP         |              | COMPANY        |              |
|--|---------------|--------------|----------------|--------------|
|  | 2018<br>£000  | 2017<br>£000 | 2018<br>£000   | 2017<br>£000 |
| Trade receivables                        | 59,043        | 53,675       | –              | –            |
| Amounts due from subsidiary undertakings | –             | –            | 986,570        | 883,224      |
| Other taxes                              | 6,322         | –            | 110            | 112          |
| Other receivables and prepayments        | 10,726        | 8,981        | 100            | 119          |
|  | <b>76,091</b> | 62,656       | <b>986,780</b> | 883,455      |

Allowances for estimated irrecoverable amounts and the Group's credit risk are considered in Note 29.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value due to their short term nature.

## 19 Trade and other payables

|  | GROUP         |              | COMPANY        |              |
|--|---------------|--------------|----------------|--------------|
|  | 2018<br>£000  | 2017<br>£000 | 2018<br>£000   | 2017<br>£000 |
| Trade payables                         | 65,056        | 35,566       | 168            | 77           |
| Amounts due to subsidiary undertakings | –             | –            | 344,803        | 378,570      |
| Social security and other taxes        | 2,054         | 4,646        | 202            | 196          |
| Accruals and deferred income           | 30,561        | 24,701       | 2,911          | 2,313        |
|  | <b>97,671</b> | 64,913       | <b>348,084</b> | 381,156      |

The Directors consider that the carrying amount of trade and other payables approximates to their fair value due to their short term nature.

## 20 Borrowings

The Directors consider that the carrying amounts of the Group's borrowings approximate to their fair value.

|                              | GROUP          |              | COMPANY        |              |
|------------------------------|----------------|--------------|----------------|--------------|
|                              | 2018<br>£000   | 2017<br>£000 | 2018<br>£000   | 2017<br>£000 |
| Bank loans and overdrafts    | 372,005        | 265,765      | 354,361        | 253,038      |
| Loan notes                   | 87,890         | 84,393       | 87,890         | 84,393       |
| Cumulative Preference shares | 500            | 500          | 500            | 500          |
| Confirming facilities        | 308            | 366          | –              | –            |
|                              | <b>460,703</b> | 351,024      | <b>442,751</b> | 337,931      |

# Notes to the accounts

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## 20 Borrowings CONTINUED

The borrowings are repayable as follows:

|   | GROUP          |              | COMPANY        |              |
|---|----------------|--------------|----------------|--------------|
|   | 2018<br>£000   | 2017<br>£000 | 2018<br>£000   | 2017<br>£000 |
| <b>On demand or within one year (shown within current liabilities)</b>              |                |              |                |              |
| Bank loans and overdrafts   | 17,644         | 32,219       | –              | 19,492       |
| Confirming facilities   | 308            | 366          | –              | –            |
|   | <b>17,952</b>  | 32,585       | –              | 19,492       |
| <b>In the third to fifth years</b>  |                |              |                |              |
| Bank loans  | 357,076        | 235,499      | 357,076        | 235,499      |
| Loan notes  | 87,960         | –            | 87,960         | –            |
|   | <b>445,036</b> | 235,499      | <b>445,036</b> | 235,499      |
| <b>Due after more than five years</b>   |                |              |                |              |
| Loan notes  | –              | 84,473       | –              | 84,473       |
| Cumulative Preference shares  | 500            | 500          | 500            | 500          |
|   | <b>500</b>     | 84,973       | <b>500</b>     | 84,973       |
| Unamortised finance fees relating to the bank loans and loan notes                  | (2,785)        | (2,033)      | (2,785)        | (2,033)      |
| <b>Total borrowings</b>   | <b>460,703</b> | 351,024      | <b>442,751</b> | 337,931      |
| Less: Amounts due for settlement within one year (shown within current liabilities) | 17,952         | 32,585       | –              | 19,492       |
| <b>Amounts due for settlement after more than one year</b>                          | <b>442,751</b> | 318,439      | <b>442,751</b> | 318,439      |

The UK syndicated bank loans, totalling £357,076,000 (gross of unamortised fees) at 30 April 2018, would become repayable in full in the event of a change in control of the Group. The holders of the loan notes, totalling £87,960,000 (gross of unamortised fees) at 30 April 2018, would have to be offered full repayment in the event of a change in control of the Group.

### Bank loans and overdrafts

Bank loans and overdrafts are unsecured and bear interest at rates of 0.70% to 2.00% (2017 – 0.70% to 1.75%) above the relevant interest rate index, being LIBOR for Sterling denominated debt and EURIBOR for Euro denominated debt.

### Loan notes

The Company has €100,000,000 of private placement loan notes which bear interest at 2.38%. These are unsecured and mature in August 2022.

### Cumulative Preference shares

The cumulative Preference shares of 50p each entitle the holder to receive a cumulative preferential dividend at the rate of 5% on the paid up capital and the right to a return of capital at either winding up or a repayment of capital. The cumulative Preference shares do not entitle the holders to any further or other participation in the profits or assets of the Company. These shares have no voting rights other than in exceptional circumstances.

The total number of authorised cumulative Preference shares of 50p each is 1,300,000 (2017 – 1,300,000), of which 1,000,000 (2017 – 1,000,000) were allotted and fully paid at the balance sheet date.

### Confirming facilities

Spanish confirming facilities of £308,000 (2017 – £366,000) are unsecured and all fall due within one year. The Group pays no interest on confirming.

### Total borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities at the balance sheet date, in respect of which all conditions precedent had been met at that date, are as follows:

|                           | 2018<br>£000 | 2017<br>£000 |
|---------------------------|--------------|--------------|
| Less than one year        | 11,733       | 25,416       |
| In one year to five years | 92,793       | 215,000      |
|                           | 104,526      | 240,416      |

The total amount permitted to be borrowed by the Company and its subsidiary undertakings in terms of the Articles of Association shall not exceed six times the aggregate of the issued share capital of the Company and Group reserves, as defined in those Articles.

### Analysis of consolidated net debt

An analysis of movements in the Group's consolidated net debt is as follows:

|                              | At 1 May<br>2017<br>£000 | Cash<br>flow<br>£000 | Other<br>non-cash<br>changes<br>£000 | Foreign<br>exchange<br>movements<br>£000 | At 30 April<br>2018<br>£000 |
|------------------------------|--------------------------|----------------------|--------------------------------------|--|-----------------------------|
| Bank loans                   | 244,236                  | 113,902              | (761)                                | 7,373                                    | 364,750                     |
| Bank overdrafts              | 21,529                   | (15,534)             | –                                    | 1,260                                    | 7,255                       |
| Loan notes                   | 84,393                   | –                    | 10                                   | 3,487                                    | 87,890                      |
| Cumulative Preference shares | 500                      | –                    | –                                    | –  | 500                         |
| Confirming facilities        | 366                      | –                    | (74)                                 | 16                                       | 308                         |
|                              | 351,024                  | 98,368               | (825)                                | 12,136                                   | 460,703                     |
| Cash at bank and in hand     | (41,166)                 | 21,041               | –                                    | (1,257)                                  | (21,382)                    |
| Consolidated net debt        | 309,858                  | 119,409              | (825)                                | 10,879                                   | 439,321                     |

The Group calculates gearing to be net borrowings as a percentage of shareholders' funds less goodwill and the net book value of intangible assets, where net borrowings comprise borrowings less cash and bank balances. At 30 April 2018, the gearing of the Group amounted to 82.8% (2017 – 60.8%) where net borrowings are £439,321,000 (2017 – £309,858,000) and shareholders' funds less goodwill and the net book value of intangible assets are £530,334,000 (2017 – £509,719,000). In April the Group successfully extended the maturity date on its core banking facilities by one year.

### Financial instruments (see also Note 29)

#### Financial assets

The Group's principal financial assets are cash and bank balances, and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has credit insurance policies in place to partially mitigate this risk.

#### Treasury policies and the management of risk

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.

# Notes to the accounts

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## 20 Borrowings CONTINUED

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 policy to avoid using more complex financial instruments. Further details regarding derivative financial instruments are shown in Note 21.

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 rating agencies. Deals for material deposits are authorised only with banks with which dealing mandates have been agreed and which maintain an A rating. Individual aggregate credit exposures are limited accordingly.

### Financing and interest rate risk

The Group's policy is to finance operating subsidiary undertakings by a combination of retained earnings and medium term bank loans and loan notes.

Cash at bank, and on deposit, yields interest based principally on interest rate indices applicable to periods of less than three months, those indices being LIBOR for Sterling denominated cash and EURIBOR for Euro denominated cash. The Group's exposure to interest rate fluctuations on its borrowings is managed through the use of interest rate derivatives as detailed in Note 21. These derivatives are also used to manage the Group's desired mix of fixed and floating rate debt. The policy is to fix or cap a substantial element of the interest cost on outstanding debt. At 30 April 2018 74.9% (2017 – 102.9%) of net borrowings were at fixed rates of interest comprising interest rate swaps of £75,000,000 and €190,000,000, loan notes of €100,000,000, £500,000 of Preference shares and £308,000 of confirming facilities (30 April 2017 – interest rate swaps of £75,000,000 and €190,000,000, loan notes of €100,000,000, £500,000 of Preference shares and £366,000 of confirming facilities).

### Foreign currency exchange risk

The Group maintains borrowings in the same currency as its cash requirements, with the exception of borrowings maintained in Euros as net investment hedges against its Euro denominated investments (Note 21).

An analysis of the Group's borrowings by currency is given below:

| Group                        | Sterling<br>£000         | Euro<br>£000         | Total<br>£000         |
|------------------------------|--------------------------|----------------------|-----------------------|
| <b>At 30 April 2018</b>      |                          |                      |                       |
| Bank loans                   | 126,702                  | 238,048              | 364,750               |
| Bank overdrafts              | 7,255                    | –                    | 7,255                 |
| Cumulative Preference shares | 500                      | –                    | 500                   |
| Confirming facilities        | –                        | 308                  | 308                   |
| Loan notes                   | –                        | 87,890               | 87,890                |
|                              | <b>134,457</b>           | <b>326,246</b>       | <b>460,703</b>        |
| <b>Group</b>                 | <b>Sterling<br/>£000</b> | <b>Euro<br/>£000</b> | <b>Total<br/>£000</b> |
| At 30 April 2017             |                          |                      |                       |
| Bank loans                   | 74,523                   | 169,713              | 244,236               |
| Bank overdrafts              | 2,038                    | 19,491               | 21,529                |
| Cumulative Preference shares | 500                      | –                    | 500                   |
| Confirming facilities        | –                        | 366                  | 366                   |
| Loan notes                   | –                        | 84,393               | 84,393                |
|                              | <b>77,061</b>            | <b>273,963</b>       | <b>351,024</b>        |



## 21 Derivative financial instruments

The Group's derivative financial instruments at the balance sheet date comprise interest rate swaps. Their net estimated fair values are as follows:

|   | GROUP        |              | COMPANY      |              |
|---|--------------|--------------|--------------|--------------|
|   | 2018<br>£000 | 2017<br>£000 | 2018<br>£000 | 2017<br>£000 |
| Interest rate derivatives                               | (1,389)      | (2,706)      | (1,389)      | (2,706)      |
| Cross-currency derivatives                              | –            | 213          | –            | 213          |
|   | (1,389)      | (2,493)      | (1,389)      | (2,493)      |
| They are represented in the balance sheet as follows:   |              |              |              |              |
| Current derivative financial instrument assets          | –            | 213          | –            | 213          |
| Current derivative financial instrument liabilities     | (112)        | –            | (112)        | –            |
| Non-current derivative financial instrument liabilities | (1,277)      | (2,706)      | (1,277)      | (2,706)      |
|   | (1,389)      | (2,493)      | (1,389)      | (2,493)      |

### Interest rate derivatives

The Group's exposure to interest fluctuations on its borrowings is managed through the use of interest rate derivatives. These derivatives are also used to manage the Group's desired mix of fixed and floating rate debt. The policy is to fix a substantial element of the interest cost on outstanding debt. The interest rate derivatives to which the Group was party as at 30 April 2018 are summarised below:

| Group                        | Total<br>nominal<br>values | Weighted<br>average fixed<br>contract net<br>pay rates | Weighted<br>average<br>remaining<br>life |
|------------------------------|----------------------------|--|--|
| <b>At 30 April 2018</b>      |                            |  |  |
| Sterling interest rate swaps | £75,000,000                | 1.17%  | 1.4 years                                |
| Euro interest rate swaps     | €190,000,000               | 0.06%  | 2.2 years                                |
| <b>At 30 April 2017</b>      |                            |  |  |
| Sterling interest rate swaps | £75,000,000                | 1.17%  | 2.4 years                                |
| Euro interest rate swaps     | €190,000,000               | 0.06%  | 3.2 years                                |

All the Group's interest rate swaps are designated as cash flow hedges and their fair value to the point of either maturity or termination, along with changes in fair value in the current year, has been deferred in equity. There was no hedge ineffectiveness during the year (2017 – £Nil).

### Cross-currency derivatives

Market values were used to determine the fair values of the cross-currency derivatives. The estimated fair values are as follows:

|   | 2018<br>£000 | 2017<br>£000 |
|---|--------------|--------------|
| <b>Euro/Sterling cross-currency swaps</b> | –            | 213          |

In April 2017 a cross-currency swap with a principal value of €25,000,000 commenced. The Group had interest cash in flows in Sterling and interest cash outflows in Euros over the life of the contract. On the termination date of the contract, the Group paid a principal amount in Euros and received a principal amount in Sterling. The interest rate that the Group paid in Euros was 2.15% and the interest rate the Group received in Sterling was 2.92%. The swap had a life of 0.5 years and matured on 31 October 2017.

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## 21 Derivative financial instruments CONTINUED

### Net investment hedges

The Group manages its exposure to currency fluctuations on retranslation of the balance sheets of those subsidiary undertakings whose functional currency is in Euros by maintaining a proportion of its borrowings in the same currency. The hedging objective is to reduce the risk of spot retranslation of the Euro subsidiaries from Euros to Sterling at each reporting date. Exchange differences arising on the borrowings and net investment hedges have been recognised directly within equity along with the exchange differences on retranslation of the net assets of the Euro subsidiaries.

The hedges are considered highly effective in the current and prior year.

## 22 Deferred tax

The following are the major deferred tax liabilities and (assets) recognised by the Group and movements thereon during the current and prior year:

| Group  | Accelerated capital allowances<br>£000 | Revaluation of buildings<br>£000 | Share based payments<br>£000 | Intangible assets<br>£000 | Losses<br>£000 | Other temporary differences<br>£000 | Total<br>£000  |
|--|--|----------------------------------|------------------------------|---------------------------|----------------|-------------------------------------|----------------|
| At 1 May 2016  | (1,395)                                | 1,149                            | (873)                        | 406                       | (7,807)        | (3,552)                             | (12,072)       |
| (Credit) charge to income  | (2,425)                                | 4                                | 476                          | (154)                     | 2,862          | (62)                                | 701            |
| Charge to equity   | –                                      | –                                | –                            | –                         | –              | 132                                 | 132            |
| Exchange differences   | (357)                                  | 26                               | –                            | (2)                       | (653)          | (188)                               | (1,174)        |
| Adjustment to tax rate (credited) charged to income                | (57)                                   | (42)                             | 34                           | (14)                      | –              | 30                                  | (49)           |
| Adjustment to tax rate charged to equity                           | –                                      | –                                | –                            | –                         | –              | 25                                  | 25             |
| Adjustments in respect of prior years charged (credited) to income | 325                                    | –                                | (343)                        | –                         | –              | 145                                 | 127            |
| At 1 May 2017  | (3,909)                                | 1,137                            | (706)                        | 236                       | (5,598)        | (3,470)                             | (12,310)       |
| Charge (credit) to income  | 1,639                                  | (25)                             | (161)                        | (147)                     | 1,338          | 475                                 | 3,119          |
| Charge to income in respect of adjustment to prior year            | 3,261                                  | –                                | –                            | –                         | –              | 266                                 | 3,527          |
| Charge to equity   | –                                      | –                                | –                            | –                         | –              | 210                                 | 210            |
| Exchange differences   | (214)                                  | 14                               | –                            | –                         | (238)          | (103)                               | (541)          |
| <b>At 30 April 2018</b>  | <b>777</b>                             | <b>1,126</b>                     | <b>(867)</b>                 | <b>89</b>                 | <b>(4,498)</b> | <b>(2,622)</b>                      | <b>(5,995)</b> |

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The analysis of the deferred tax balances after offset is as follows:

|                                | Total<br>£000   |
|--------------------------------|-----------------|
| <b>At 30 April 2018</b>        |                 |
| Deferred tax assets            | (10,791)        |
| Deferred tax liabilities       | 4,796           |
| <b>Net deferred tax assets</b> | <b>(5,995)</b>  |
| <b>At 30 April 2017</b>        |                 |
| Deferred tax assets            | (13,730)        |
| Deferred tax liabilities       | 1,420           |
| <b>Net deferred tax assets</b> | <b>(12,310)</b> |

In the current year, the net charge to equity of £210,000 (2017 – £157,000) in respect of other temporary differences relates to derivative financial instruments which has been reflected in the hedging reserve (Note 25).

There are no deferred tax assets which are not recognised in the balance sheet.

Net deferred tax assets classified as other temporary differences are £2,622,000 (2017 – £3,470,000). The following are the major deferred tax assets recognised by the Company and movements thereon during the current and prior year:

|                           | Share based<br>payments<br>£000 | Other<br>temporary<br>differences<br>£000 | Total<br>£000  |
|---------------------------|---------------------------------|---|----------------|
| <b>Company</b>            |                                 |   |                |
| At 1 May 2016             | (873)                           | (815)                                     | (1,688)        |
| Charge to income          | 167                             | 58  | 225            |
| Charge to equity          | –                               | 157                                       | 157            |
| At 1 May 2017             | (706)                           | (600)                                     | (1,306)        |
| (Credit) charge to income | (161)                           | 12  | (149)          |
| Charge to equity          | –                               | 210                                       | 210            |
| <b>At 30 April 2018</b>   | <b>(867)</b>                    | <b>(378)</b>                              | <b>(1,245)</b> |

## 23 Share capital

|  | 2018<br>£000  | 2017<br>£000 |
|--|---------------|--------------|
| <b>Group and Company</b>                                     |               |              |
| Allotted and fully paid:                                     |               |              |
| 133,232,518 (2017 – 133,232,518) Ordinary shares of 50p each | <b>66,616</b> | 66,616       |

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## 24 Share premium account

| Group and Company                           | £000    |
|---|---------|
| At 1 May 2016, 1 May 2017 and 30 April 2018 | 113,508 |

## 25 Other reserves

| Group                        | Capital redemption reserve<br>£000 | Revaluation reserve<br>£000 | Merger reserve<br>£000 |
|------------------------------|------------------------------------|-----------------------------|------------------------|
| At 1 May 2016                | 40                                 | 1,026                       | 67,463                 |
| Foreign exchange differences | –                                  | 85                          | –                      |
| At 1 May 2017                | 40                                 | 1,111                       | 67,463                 |
| Foreign exchange differences | –                                  | 46                          | –                      |
| <b>At 30 April 2018</b>      | <b>40</b>                          | <b>1,157</b>                | <b>67,463</b>          |

| Company                                     | Capital redemption reserve<br>£000 | Revaluation reserve<br>£000 | Merger reserve<br>£000 |
|---|------------------------------------|-----------------------------|------------------------|
| At 1 May 2016, 1 May 2017 and 30 April 2018 | 40                                 | 1,371                       | 63,159                 |

The above shows the movements on the reserves classified as 'Other reserves' on the Group's statement of changes in equity. Movements on the own shares reserve, hedging reserve and translation reserve are shown in the Statements of changes in equity, which can be seen on page 97.

Further information on certain of these reserves is given below:

### Own shares

The own shares reserve represents shares held by employee trusts in order to meet commitments under the Group's various share schemes (Note 28). At 30 April 2018 the Guernsey Trust held 1,220,521 (2017 – 708,221) 50p Ordinary shares and the YBS Trust held 22,474 (2017 – Capita Trust 31,479) 50p Ordinary shares. The total number of shares held by these employee trusts represents 0.9% (2017 – 0.6%) of the allotted and fully paid share capital of the Group.

The results of the trusts are consolidated into the results of the Group in accordance with IFRS 10 (Consolidated Financial Statements).

### Hedging reserve

The hedging reserve represents the cumulative amounts of changes in fair values of hedged interest rate derivatives that are deferred in equity, as explained in Note 2 and Note 21, less amounts transferred to the income statement and other components of equity.

### Translation reserve

The translation reserve represents the aggregate of the cumulative exchange differences arising from the retranslation of the balance sheets of the Euro based subsidiary undertakings and the cumulative exchange differences arising from long term borrowings held as hedges and the foreign exchange element of fair value movements of hedged derivatives.

The management of the Group's foreign exchange translation risks is detailed in Note 21.

## 26 Exceptional items

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

Details of exceptional items recognised in the income statement are as follows:

### Restructuring costs

The Group incurred total exceptional restructuring costs of £2,499,000 (2017 – £2,189,000), of which £2,447,000 arose in the United Kingdom and £52,000 arose in Ireland (2017 – all £2,189,000 arose in United Kingdom). 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.

### Spain tax settlement

The Spain tax settlement followed the resolution of an historic tax case with the Spanish tax authorities.

### Interest refunded in relation to Spain tax settlement

This relates to interest refunded by the Spanish tax authorities on the settlement of the case disclosed above.

## 27 Operating lease arrangements

### As lessee

| Group   | 2018<br>£000 | 2017<br>£000 |
|---|--------------|--------------|
| Lease payments under operating leases recognised in the income statement for the year | 8,147        | 7,163        |

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| Group                                  | 2018<br>£000  | 2017<br>£000  |
|--|---------------|---------------|
| Within one year                        | 7,683         | 7,011         |
| In the second to fifth years inclusive | 23,882        | 20,347        |
| After five years                       | 25,986        | 21,731        |
|  | <b>57,551</b> | <b>49,089</b> |

Operating lease payments represent rentals payable by the Group for certain of its operating sites as well as rentals for certain equipment.

Leases are negotiated for an average term of 12 years (2017 – 9 years) and rentals are fixed for an average term of 11 years (2017 – 9 years).

### As lessor

The revenue of the Group is principally generated from the hire of vehicles under operating lease arrangements. For the majority of vehicles hired there is no minimum contracted rental period. The revenue of the Group under these arrangements is as shown in the income statement. There are no contingent rentals recognised in income.

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## 28 Share based payments

The Group's and Company's various share incentive plans are explained in the Remuneration report on pages 60 to 78.

The Group and Company recognised total expenses of £865,000 (2017 – £1,934,000) related to equity-settled share based payment transactions in the year.

All options granted under the DABP, MPSP and EPSP are nil cost options.

The All Employee Share Scheme (AESS) has a 12 month accumulation period. Partnership Shares are purchased by the employee at the end of the accumulation period from the amount contributed by the employee during that period. The Company allocates an amount of free matching shares equivalent to the number of partnership shares purchased. The vesting period for matching shares is three years.

Matching shares are forfeited if the employee either sells the related partnership shares or leaves the Group before the three years have elapsed.

The Board may make discretionary awards of free shares to eligible employees. Employees must remain in the employ of the Group during the vesting period of three years in order to receive the free shares.

Details regarding the plans in the year ended 30 April 2018 are outlined below:

|                                    | DABP<br>Number of<br>share options | MPSP<br>Number of<br>share options | EPSP<br>Number of<br>share options | AESS<br>Number of<br>matching<br>shares | Free Shares<br>Number of<br>free shares |
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---|---|
| At 1 May 2017                      | 221,984                            | 98,676                             | 877,910                            | 239,577                                 | 346,600                                 |
| Granted/allocated during the year  | 66,398                             | –                                  | 966,606                            | 128,786                                 | –                                       |
| Exercised/vested during the year   | (33,456)                           | (25,151)                           | (103,534)                          | (67,635)                                | (97,420)                                |
| Forfeited/lapsed during the year   | (34,122)                           | (6,136)                            | (443,851)                          | (25,034)                                | (32,395)                                |
| <b>At 30 April 2018</b>            | <b>220,804</b>                     | <b>67,389</b>                      | <b>1,297,131</b>                   | <b>275,694</b>                          | <b>216,785</b>                          |
| Exercisable at the end of the year | 37,031                             | 67,389                             | –                                  | –                                       | –                                       |

|   | DABP<br>2018 | MPSP<br>2018 | EPSP<br>2018                  | AESS<br>2018    | Free Shares<br>2018 |
|---|--------------|--------------|-------------------------------|-----------------|---------------------|
| Weighted average remaining contractual life at the end of the year          | 7.6 years    | 4.2 years    | 8.7 years                     | 1.9 years       | 1.0 years           |
| Weighted average share price at the date of exercise of options in the year | £4.10        | £4.10        | £4.10                         | £4.17           | £4.32               |
| Date options granted/allocated during the year                              | July 2017    | –            | July 2017/<br>January<br>2018 | January<br>2018 | –                   |
| Aggregate estimated fair value of options at the date of grant              | £207,000     | –            | £2,636,000                    | £478,000        | –                   |
| The inputs into the Black–Scholes/Monte Carlo model were as follows:        |              |              |                               |                 |                     |
| Weighted average share price  | £4.35        | –            | £4.36                         | £4.17           | –                   |
| Weighted average exercise price   | £Nil         | –            | £Nil                          | £Nil            | –                   |
| Expected volatility   | 49.6%        | –            | 49.7%                         | 48.3%           | –                   |
| Expected life   | 3 years      | –            | 3 years                       | 3 years         | –                   |
| Risk free rate  | 0.53%        | –            | 0.67%                         | 0.88%           | –                   |
| Expected dividends  | 3.7%         | –            | 3.7%                          | 4.0%            | –                   |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years.

Details regarding the plans in the year ended 30 April 2017 are outlined below:

|                                    | DABP<br>Number of<br>share options | MPSP<br>Number of<br>share options | EPSP<br>Number of<br>share options | AESS<br>Number of<br>matching shares | Free Shares<br>Number of<br>free shares |
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|--------------------------------------|---|
| At 1 May 2016                      | 595,521                            | 184,174                            | 882,433                            | 234,044                              | 288,750                                 |
| Granted/allocated during the year  | 107,625                            | –                                  | 485,209                            | 118,306                              | 223,355                                 |
| Exercised/vested during the year   | (467,993)                          | (85,498)                           | (426,665)                          | (76,198)                             | (115,385)                               |
| Forfeited/lapsed during the year   | (13,169)                           | –                                  | (63,067)                           | (36,575)                             | (50,120)                                |
| <b>At 30 April 2017</b>            | <b>221,984</b>                     | <b>98,676</b>                      | <b>877,910</b>                     | <b>239,577</b>                       | <b>346,600</b>                          |
| Exercisable at the end of the year | 18,744                             | 98,676                             | –                                  | –                                    | –                                       |

|   | DABP<br>2017 | MPSP<br>2017 | EPSP<br>2017                   | AESS<br>2017    | Free Shares<br>2017 |
|---|--------------|--------------|--------------------------------|-----------------|---------------------|
| Weighted average remaining contractual life at the end of the year          | 8.0 years    | 5.1 years    | 8.6 years                      | 2.0 years       | 1.6 years           |
| Weighted average share price at the date of exercise of options in the year | £4.58        | £4.58        | £4.58                          | £5.05           | £4.50               |
| Date options granted/allocated in the year                                  | July 2016    | –            | July 2016/<br>January<br>2017* | January<br>2017 | August<br>2016      |
| Aggregate estimated fair value of options at the date of grant              | £221,000     | –            | £1,017,000                     | £535,000        | £648,000            |
| The inputs into the Black–Scholes/Monte Carlo model were as follows:        |              |              |                                |                 |                     |
| Weighted average share price  | £3.46        | –            | £3.46                          | £5.17           | £4.10               |
| Weighted average exercise price   | £0.52        | –            | £Nil                           | £Nil            | £Nil                |
| Expected volatility   | 48.5%        | –            | 48.5%                          | 47.9%           | 48.8%               |
| Expected life   | 3 years      | –            | 3 years                        | 3 years         | 3 years             |
| Risk free rate  | 0.39%        | –            | 0.39%                          | 0.63%           | 0.17%               |
| Expected dividends  | 4.0%         | –            | 4.0%                           | 4.5%            | 4.1%                |

\* 36,107 share options were granted in January 2017 under the EPSP scheme on the appointment of the new CEO.

# Notes to the accounts

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## 29 Financial instruments

The following disclosures and analysis relate to the Group's financial instruments.

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20, cash and cash equivalents and equity attributable to equity holders of the Parent, comprising issued share capital, reserves and retained earnings as disclosed in Notes 23 to 25.

### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters as discussed in Notes 20 and 21.

### Foreign currency sensitivity analysis

During the year, the Group has been exposed to movements in the exchange rate between Euro and Sterling, where Sterling is the functional currency of the Group.

The following tables detail the Group's sensitivity to a €0.20 (2017 – €0.20) increase and decrease in the Euro/Sterling exchange rate.

A €0.20 (2017 – €0.20) movement in the rate in either direction is management's assessment of the reasonably possible change in foreign exchange rates in the near term. The sensitivity analysis includes only any outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a €0.20 (2017 – €0.20) change in foreign currency rates.

|                        | As stated in<br>annual report<br>£000 | As would be<br>stated if<br>€0.20<br>increase<br>£000 | As would be<br>stated if<br>€0.20<br>decrease<br>£000 |
|------------------------|---------------------------------------|---|---|
| <b>2018</b>            |                                       |   |   |
| Profit before taxation | 52,738                                | 47,681  | 59,968  |
| Total equity           | 539,128                               | 517,661   | 567,757   |
|                        |                                       | As would be<br>stated if<br>€0.20<br>increase<br>£000 | As would be<br>stated if<br>€0.20<br>decrease<br>£000 |
| <b>2017</b>            |                                       |   |   |
| Profit before taxation | 72,222                                | 66,510  | 80,265  |
| Total equity           | 516,617                               | 495,570   | 546,228   |

### Interest rate risk management

The Group is exposed to interest rate risk, as entities within the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts. Hedging activities are reviewed regularly to align with interest rate views and defined risk appetite, ensuring optimal hedging strategies are applied.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

### Interest rate sensitivity analysis

The sensitivity analyses below have been determined on the exposure to interest rates for floating rate liabilities and related derivatives. For the floating rate liabilities, the analysis is prepared on the basis of both the average liability outstanding over the year and the average rate applicable for the year. In all instances it is assumed that any derivatives designated in hedging relationships are 100% effective.

A 1.0% (2017 – 1.0%) increase or decrease has been used in the analyses and represents management's best estimate of a reasonably possible change in interest rates in the near term.



|                        | As stated in<br>annual report<br>£000 | As would be<br>stated if 1.0%<br>increase<br>£000 | As would be<br>stated if 1.0%<br>decrease<br>£000 |
|------------------------|---------------------------------------|---|---|
| <b>2018</b>            |                                       |   |   |
| Profit before taxation | 52,738                                | 52,158  | 53,318  |
| Total equity           | 539,128                               | 538,659   | 539,599   |
|                        | As stated in<br>annual report<br>£000 | As would be<br>stated if 1.0%<br>increase<br>£000 | As would be<br>stated if 1.0%<br>decrease<br>£000 |
| <b>2017</b>            |                                       |   |   |
| Profit before taxation | 72,222                                | 72,002  | 72,443  |
| Total equity           | 516,617                               | 516,442   | 516,795   |

### Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the reporting date:

|   | Average contract<br>fixed interest rate |           | Notional<br>principal amount |             | Fair value   |              |
|---|---|-----------|------------------------------|-------------|--------------|--------------|
|   | 2018<br>%                               | 2017<br>% | 2018<br>000                  | 2017<br>000 | 2018<br>£000 | 2017<br>£000 |
| <b>Outstanding receive floating pay fixed contracts</b> |   |           |                              |             |              |              |
| <b>Sterling</b>   |   |           |                              |             |              |              |
| Within one year   | 1.17                                    | —         | £25,000                      | —           | (112)        | —            |
| In the second to fifth years inclusive                  | 1.17                                    | 1.17      | £50,000                      | £75,000     | (223)        | (1,377)      |
| <b>Euro</b>   |   |           |                              |             |              |              |
| In the second to fifth years inclusive                  | 0.06                                    | 0.06      | €190,000                     | €190,000    | (1,054)      | (1,329)      |

### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities. Included in Note 20 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

# Notes to the accounts

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## 29 Financial instruments CONTINUED

### Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. All interest cash flows and the weighted average effective interest rate have been calculated using interest rate conditions prevailing at the balance sheet date.

| 2018                               | Weighted average effective interest rate | <1 year<br>£000 | 2nd year<br>£000 | 3–5 years<br>£000 | >5 years<br>£000 | Total<br>£000 |
|------------------------------------|--|-----------------|------------------|-------------------|------------------|---------------|
| Non-interest bearing               | 0.00%                                    | 72,619          | –                | –                 | –                | 72,619        |
| Fixed interest rate instruments    | 2.40%                                    | 2,118           | 2,118            | 92,751            | 500              | 97,487        |
| Variable interest rate instruments | 1.91%                                    | 17,466          | 6,943            | 365,706           | –                | 390,115       |
|                                    |  | 92,203          | 9,061            | 458,457           | 500              | 560,221       |

| 2017                               | Weighted average effective interest rate | <1 year<br>£000 | 2nd year<br>£000 | 3–5 years<br>£000 | >5 years<br>£000 | Total<br>£000 |
|------------------------------------|--|-----------------|------------------|-------------------|------------------|---------------|
| Non-interest bearing               | 0.00%                                    | 57,461          | –                | –                 | –                | 57,461        |
| Fixed interest rate instruments    | 2.40%                                    | 2,035           | 2,035            | 6,106             | 87,492           | 97,668        |
| Variable interest rate instruments | 1.54%                                    | 14,518          | 3,714            | 239,838           | –                | 258,070       |
|                                    |  | 74,014          | 5,749            | 245,944           | 87,492           | 413,199       |

The following tables detail the Group's liquidity analysis for its derivative financial instruments. It includes both liabilities and assets to illustrate how the cash flows are matched in each period. The table has been drawn up based on the undiscounted net cash inflows (outflows) on the derivative instruments that settle on a net basis and the undiscounted gross cash inflows (outflows) on those derivatives that require gross settlement.

| 2018                | <1 year<br>£000 | 2nd year<br>£000 | 3–5 years<br>£000 | Total<br>£000 |
|---------------------|-----------------|------------------|-------------------|---------------|
| <b>Liabilities</b>  |                 |                  |                   |               |
| Net settled:        |                 |                  |                   |               |
| Interest rate swaps | 1,128           | 967              | 147               | 2,242         |

| 2017                       | <1 year<br>£000 | 2nd year<br>£000 | 3–5 years<br>£000 | Total<br>£000 |
|----------------------------|-----------------|------------------|-------------------|---------------|
| <b>Liabilities</b>         |                 |                  |                   |               |
| Net settled:               |                 |                  |                   |               |
| <b>Interest rate swaps</b> | 1,377           | 1,324            | 1,253             | 3,954         |
| Gross settled:             |                 |                  |                   |               |
| Cross-currency derivatives | 21,345          | –                | –                 | 21,345        |
| <b>Assets</b>              |                 |                  |                   |               |
| Gross settled:             |                 |                  |                   |               |
| Cross-currency derivatives | 21,573          | –                | –                 | 21,573        |

### Fair value of financial instruments

The Group is required to analyse financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All the financial instruments below are categorised as Level 2.

The fair values of financial assets and financial liabilities are determined as follows:

- Derivative financial instruments are measured at the present value of future cash flows estimated and discounted based on applicable yield curves derived from quoted interest rates; and
- The fair value of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values or, in the case of interest rate and cross currency swaps, are held at fair value.

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group's credit risk is primarily attributable to its trade receivables. The trade receivables amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

|   | 2018<br>£000 | 2017<br>£000 |
|---|--------------|--------------|
| <b>Trade receivables</b>                                    |              |              |
| Trade receivables (maximum exposure to credit risk)         | 74,854       | 67,623       |
| Allowance for doubtful receivables                          | (15,811)     | (13,948)     |
|   | 59,043       | 53,675       |
| <b>Ageing of trade receivables not impaired</b>             |              |              |
| Not overdue   | 43,784       | 41,369       |
| Past due not more than two months                           | 13,204       | 10,624       |
| Past due more than two months but not more than four months | 54           | (235)        |
| Past due more than four months but not more than six months | 2,001        | 1,917        |
|   | 59,043       | 53,675       |

Before accepting any new customers, the Group will perform credit analysis to assess the credit risk on an individual basis. This enables the Group only to deal with creditworthy customers therefore reducing the risk of financial loss from defaults. Of the trade receivables balance at the end of the year, £646,000 (2017 – £936,000) is due from the Group's largest customer. There are no customers who represent more than 5% of the total balance of trade receivables.

The Group has no significant concentration of credit risk as trade receivables consist of a large number of customers, spread across diverse industries and geographical areas in the UK, Spain and Ireland.

Included in the Group's trade receivables balance are debtors with a carrying amount of £15,258,000 (2017 – £12,306,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

# Notes to the accounts

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## 29 Financial instruments CONTINUED

|   | 2018<br>£000  | 2017<br>£000  |
|---|---------------|---------------|
| <b>Movement in the allowance for doubtful receivables</b> |               |               |
| At 1 May  | 13,948        | 12,873        |
| Impairment losses recognised                              | 8,911         | 4,483         |
| Amounts written off as uncollectible                      | (5,519)       | (3,178)       |
| Impaired losses reversed                                  | (1,956)       | (985)         |
| Exchange differences                                      | 427           | 755           |
| <b>At 30 April</b>  | <b>15,811</b> | <b>13,948</b> |

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and mainly unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful receivables.

Included in the allowance for doubtful receivables are trade receivables with customers which have been placed under liquidation of £983,000 (2017 – £448,000).

|   | 2018<br>£000  | 2017<br>£000  |
|---|---------------|---------------|
| <b>Ageing of impaired trade receivables</b>                 |               |               |
| Not overdue   | 63            | 3             |
| Past due not more than two months                           | 826           | 449           |
| Past due more than two months but not more than four months | 4,613         | 4,130         |
| Past due more than four months but not more than six months | 513           | 554           |
| Past due more than six months but not more than one year    | 9,796         | 8,812         |
|   | <b>15,811</b> | <b>13,948</b> |

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. The Company has no trade receivables and no intercompany receivables past due date.

### 30 Related party transactions

#### Transactions with subsidiary undertakings

Transactions between the Company and its subsidiary undertakings, which are related parties, are £3,295,000 (2017 – £3,067,000) interest payable and £6,292,000 (2017 – £6,204,000) royalty charges receivable.

Balances with subsidiary undertakings at the balance sheet date are shown in Notes 18 and 19.

#### Transactions with other related parties

In the year ended 30 April 2018, the Group transacted with Moloney Search Limited for the provision of recruitment services. Moloney Search Limited is a related party of the Group as one of the directors of Moloney Search Limited is a close family member of the Group CEO. The total value of transactions is £217,000, of which £29,000 is a creditor balance in the Group accounts.

In the year ended 30 April 2018, the Group transacted with Hexameter Services Limited for the provision of professional services. Hexameter Services Limited is a related party of the Group as one of the members of the key management personnel of the Group is also a director of Hexameter Services Limited. The total value of transactions is £282,000, of which £31,000 is a creditor balance in the Group accounts.

The transactions were conducted on an arm's length basis on commercial terms and no balances are secured.

No written or verbal guarantees in relation to the transactions have been given or received

#### Remuneration of key management personnel

In the current and prior year, the Directors of Northgate plc are determined to be the key management personnel of the Group. In addition, the Interim CFO who is not a Director of the Company is also considered to be key management personnel of the Group in the current year. There are other senior executives in the Group who are able to influence the Company in the achievement of its goals. However, in the opinion of the Directors, only the Directors of the Company have significant authority for planning, directing and controlling the activities of the Group.

In respect of the compensation of key management personnel, the short term employee benefits, post-employment (pension) benefits, termination benefits and details of share options granted are set out in the Remuneration report on pages 60 to 78. The Interim CFO is contracted through a professional services company (Hexameter Services Limited) as disclosed above. The fair value charged to the income statement in respect of equity-settled share based payment transactions with the Directors is £25,000 (2017 – £247,000). There are no other long term benefits accruing to key management personnel, other than as set out in the Remuneration report.

# Notice of annual general meeting

Notice is hereby given that the one hundred and twentieth Annual General Meeting of Northgate plc ('the Company') will be held at 10 Paternoster Square, London EC4 at 11.30 a.m. on 18 September 2018 for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13 to 17 will be proposed as special resolutions:

1. To receive the Directors' Report and audited accounts of the Company for the year ended 30 April 2018.
2. To declare a final dividend of 11.6p per Ordinary share.
3. To approve the Directors' Remuneration Report in the form set out on pages 60 to 78 of the 2018 Annual Report and Accounts.
4. To appoint PricewaterhouseCoopers LLP as auditor of the Company to hold office until the conclusion of the next Annual General Meeting.
5. To authorise the Audit and Risk Committee to determine the remuneration of the auditor.
6. To re-elect Mr A Page as a Director.
7. To re-elect Mr AJ Allner as a Director.
8. To re-elect Miss J Caseberry as a Director.
9. To re-elect Mrs C Miles as a Director.
10. To re-elect Mr B Spencer as a Director.
11. To re-elect Mr K Bradshaw as a Director.
12. To elect Mr P Vincent as a Director.
13. That the Board be and it is hereby generally and unconditionally authorised pursuant to s551 of the Companies Act 2006 ('the Act') to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £22,000,000 provided that this authority shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Board may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
14. That, subject to the passing of Resolution 13, the Board be authorised to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be limited:
  - a. to the allotment of equity securities in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all Ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary shares held by them; and
  - b. to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) above) up to a nominal amount of £3,330,000, such authority to expire at the end of the next Annual General Meeting of the Company (or, if earlier, at the close of business on 19 December 2018) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.
15. That, subject to the passing of Resolution 13, the Board be authorised in addition to any authority granted under Resolution 13 to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be:
  - a. limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £3,330,000; and
  - b. used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,such authority to expire at the end of the next Annual General Meeting of the Company (or, if earlier, at the close of business on 18 December 2019) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

16. That a general meeting, other than an Annual General Meeting, may be called on not less than 14 clear days' notice.
17. That the Company be generally and unconditionally authorised to make market purchases (within the meaning of s693(4) of the Companies Act 2006) of Ordinary shares of 50p each of the Company on such terms and in such manner as the Directors may from time to time determine, provided that:
  - a. the maximum number of Ordinary shares hereby authorised to be acquired is 13,300,000, representing approximately 10% of the issued Ordinary share capital of the Company as at 26 June 2018;
  - b. the minimum price which may be paid for any such Ordinary share is 50p;
  - c. the maximum price (excluding expenses) which may be paid for any such Ordinary share is an amount equal to 105% of the average of the middle market quotations for an Ordinary share in the Company as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased;
  - d. the authority hereby conferred shall expire at the end of the next Annual General Meeting of the Company after the passing of this resolution unless previously renewed, varied or revoked by the Company in general meeting; and
  - e. the Company may make a contract to purchase its Ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contract will or may be executed wholly or partly after the expiry of such authority, and may purchase its Ordinary shares in pursuance of any such contract.

By Order of the Board  
**Katie Tasker-Wood**  
 Company Secretary  
 26 June 2018

Registered office:  
 Northgate Centre, Lingfield Way, Darlington, DL1 4PZ.

## Notes

1. A member entitled to attend and vote at the Annual General Meeting ('the Meeting') may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Your proxy must vote as you instruct and must attend the Meeting for your vote to be counted. Appointing a proxy does not preclude you from attending the Meeting and voting in person.
3. A proxy form which may be used to make this appointment and give proxy instructions accompanies this notice. Details of how to appoint a proxy are set out in the notes to the proxy form. As an alternative to completing a hard copy proxy form, proxies may be appointed by using the electronic proxy appointment service in accordance with the procedures set out in Note 6 below. CREST members may appoint proxies using the CREST electronic proxy appointment service (see Note 7 below). In each case the appointment must be received by the Company not less than 48 hours, excluding non business days, before the time of the Meeting.
4. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under section 146 of the Act ('a Nominated Person'). The rights to appoint a proxy cannot be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
5. To be entitled to attend and vote, whether in person or by proxy, at the Meeting, members must be registered in the register of members of the Company at close of business on Friday 14 September 2018 or, in the case of an adjourned meeting, at close of business on the day which is two days before the meeting (excluding days which are not working days). Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote (and the number of votes they may cast) at the Meeting or adjourned meeting.

# Notice of annual general meeting

CONTINUED

6. Shareholders wishing to appoint a proxy online should visit [www.signalshares.com](http://www.signalshares.com) and follow the instructions on screen. If you have not already registered with The Share Portal you will need to identify yourself with your personal Investor Code (see Attendance Card). To be valid your proxy appointment(s) and instructions should reach Link Asset Services no later than 48 hours, excluding non business days, before the time set for the Meeting.
7. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual on the Euroclear website ([www.euroclear.com](http://www.euroclear.com)/CREST). CREST Personal Members or other CREST sponsored members and those members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message ('a CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
8. A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the Meeting. In accordance with the provisions of the Act, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is no longer necessary to nominate a designated corporate representative.
9. Members satisfying the thresholds in section 527 of the Act can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting, that the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's auditor no later than the time it makes its statement available on the website. The business which may be dealt with at the Meeting includes any statement that the Company has been required to publish on its website.
10. The Company must cause to be answered at the Meeting any question relating to the business being dealt with at the Meeting which is put by a member attending the Meeting, except in certain circumstances, including if it would interfere unduly with the preparation for the Meeting or if it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered or if to do so would involve the disclosure of confidential information.
11. As at 26 June 2018 (being the latest practicable date prior to the publication of this notice), the Company's issued share capital consists of 133,232,518 Ordinary shares of 50 pence each, carrying one vote each and 1,000,000 preference shares of 50 pence each, which do not carry any rights to vote on the above resolutions. Therefore, the total voting rights in the Company are 133,232,518.
12. The contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the Meeting, the total voting rights that members are entitled to exercise at the Meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website: [www.northgateplc.com/investor-relations](http://www.northgateplc.com/investor-relations).
13. You may not use any electronic address provided in this notice of meeting to communicate with the Company for any purposes other than those expressly stated.
14. Under sections 338 and 338A of the Act, members meeting the threshold requirements in those sections (i) have the right to require the Company to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business, unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authenticated by the person(s) making it and must be received by the Company not later than 8 August 2017, being the date six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.



# Glossary

| Term                                 | Definition  |
|--------------------------------------|---|
| <b>ABI</b>                           | Association of British Insurers   |
| <b>AGM</b>                           | Annual General Meeting  |
| <b>Annual Report on Remuneration</b> | That section of the Remuneration report which is subject to an advisory shareholder vote  |
| <b>CEO</b>                           | Chief Executive Officer   |
| <b>CFO</b>                           | Chief Financial Officer   |
| <b>CPI</b>                           | Consumer Price Index  |
| <b>CSR</b>                           | Corporate Social Responsibility   |
| <b>DABP</b>                          | Deferred Annual Bonus Plan  |
| <b>Disposals Profit</b>              | 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)                                       |
| <b>Defra</b>                         | The Department for Environment, Food and Rural Affairs  |
| <b>EBIT</b>                          | Earnings before interest and taxation (equivalent to operating profit)  |
| <b>EBITDA</b>                        | Earnings before interest, taxation, depreciation and amortisation   |
| <b>EPS</b>                           | Basic earnings per share  |
| <b>EPSP</b>                          | Executive Performance Share Plan  |
| <b>ESG</b>                           | Environment, social and governance  |
| <b>ESOS</b>                          | Energy Savings Opportunity Scheme   |
| <b>EU</b>                            | European Union  |
| <b>Facility headroom</b>             | 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 |
| <b>FCA</b>                           | Financial Conduct Authority   |
| <b>Free cash flow</b>                | Net cash generated before the payment of dividends  |
| <b>FY2017</b>                        | The year ended 30 April 2017  |
| <b>FY2018</b>                        | The year ended 30 April 2018  |
| <b>FY2019</b>                        | The year ending 30 April 2019   |
| <b>GAAP</b>                          | Generally Accepted Accounting Practice: meaning compliance with International Financial Reporting Standards   |
| <b>Gearing</b>                       | Calculated as net debt divided by net tangible assets (as defined below)  |
| <b>GHG</b>                           | Greenhouse Gas  |

| Term                             | Definition  |
|----------------------------------|---|
| <b>Growth Capex</b>              | 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                   |
| <b>HMRC</b>                      | Her Majesty's Revenue & Customs   |
| <b>IFRS</b>                      | International Financial Reporting Standards   |
| <b>ISO</b>                       | International Organisation for Standardisation  |
| <b>ISS</b>                       | Institutional Shareholder Services  |
| <b>KPIs</b>                      | Key Performance Indicators  |
| <b>LCV</b>                       | 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 |
| <b>Listing Rules</b>             | The Listing Rules of the Financial Conduct Authority  |
| <b>MPSP</b>                      | Management Performance Share Plan (closed to new awards from 2013)  |
| <b>NBS</b>                       | New Bridge Street, a trading name of Aon plc  |
| <b>Net tangible assets</b>       | Net assets less goodwill and other intangible assets  |
| <b>Partnership Shares</b>        | Shares purchased by the Company on behalf of employees who participate in the All Employee Share Scheme   |
| <b>PBT</b>                       | Underlying profit before tax  |
| <b>PPU</b>                       | 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.                 |
| <b>PwC</b>                       | PricewaterhouseCoopers LLP  |
| <b>ROCE</b>                      | Underlying return on capital employed: calculated as underlying operating profit (see non-GAAP reconciliation) divided by average capital employed                  |
| <b>SIP</b>                       | The Company's HMRC approved share incentive plan, also known as the All Employee Share Scheme   |
| <b>SMEs</b>                      | Small and medium sized enterprises  |
| <b>The Code</b>                  | The UK Corporate Governance Code  |
| <b>The Company</b>               | Northgate plc   |
| <b>The Group</b>                 | The Company and its subsidiaries  |
| <b>TSR</b>                       | Total Shareholder Return  |
| <b>Underlying free cash flow</b> | Free cash flow (as defined) excluding growth capex (as defined)   |
| <b>Utilisation</b>               | Calculated as the average number of vehicles on hire divided by average rentable fleet in any period  |

# Shareholder information

## Classification

Information concerning day-to-day movements in the price of the Company's Ordinary shares can be found on the Company's website at:

 [www.northgateplc.com](http://www.northgateplc.com)

The Company's listing symbol on the London Stock Exchange is NTG.

The Company's joint corporate brokers are Barclays Bank plc and Numis Securities Limited and the Company's Ordinary shares are traded on SETSmm.

## Financial calendar

### December

Publication of interim statement

### January

Payment of interim dividend

### June

Announcement of year end results

### July

Report and accounts posted to shareholders

### September

Annual General Meeting  
Payment of final dividend

## Secretary and registered office

Katie Tasker-Wood  
Northgate Centre  
Lingfield Way  
Darlington  
DL1 4PZ  
Tel: 01325 467558

## Registrars

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

Tel: 0871 664 0300  
(calls cost 10p per minute plus network extras)  
Overseas: (+44) 208 639 3399



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