

Ford Retail Limited

Annual Report and Financial Statements

Year Ended 31 December 2017



Registered number: 00191596

Ford Retail Limited
Annual Report and Financial Statements
For the year ended 31 December 2017

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STRATEGIC REPORT

Strategic report for the year ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017 for Ford Retail Limited ("the Company").

Principal activities

The principal activity of the company during the year was the retailing of motor vehicles and related activities in the motor trade.

Review of the business

Global economic uncertainty, the impact of Brexit on the Eurozone and a growing anti-diesel sentiment have significantly affected the automotive industry. The increasing evidence of anti-diesel sentiment from Government, cities, and customers has triggered a growing rejection of diesel fuel and a subsequent blow to consumer confidence across European markets. Bolstered by new model launches, the commercial vehicle market showed modest gains against a backdrop of lacklustre economic growth.

After a strong performance in 2016 with record profits, Ford Retail Limited remained profitable in 2017, although at levels marginally below 2016 due mainly to the impact on the market from Brexit. A strong commercial vehicle performance helped provide some offset. A refocused product strategy will add new vehicles and derivatives in segments with the highest growth and profit potential such as crossovers and SUVs, and less profitable vehicles lines will be eliminated over time. In addition, substantial investment committed to an electrification strategy which includes an all-new, fully electric, small SUV by 2020.

Five new or freshened vehicles were launched in 2017, with 2018 continuing the aggressive launch schedule, including all-new Focus, Fiesta Active and ST and freshened commercial vehicles ranges. Ford's brand image in Europe will be further enhanced through increased experiential marketing and a best-in-class dealer experience. Costs will be further reduced in all areas to lower the breakeven point and to help offset rising regulatory costs and the impact of Brexit.

With regard to its overall business performance, Ford maintained its UK market lead in 2017 while recording 41 consecutive years of car sales leadership and 52 years of UK commercial vehicle sales leadership. Ford's sales lead was continued in all sectors: total vehicle, cars and commercial vehicles.

Principal risks and uncertainties

The company benefits from close commercial relationships with a number of key customers and suppliers. The loss of any of these key customers or suppliers, or a significant worsening in commercial terms could have a material impact on the company's results.

The company devotes significant resources to supporting these relationships to ensure that they continue to operate satisfactorily. The company undertakes surveys of customer satisfaction from a majority of its customers, which are reviewed by the board.

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STRATEGIC REPORT (continued)

Key performance indicators

The company measures its financial performance by reference to profitability based on the strategies set out above. Some of the key performance indicators used by the business are set out below:

In thousands:		2017	2016
Revenues	The higher revenue results from the introduction of new models/variants with higher prices and an increase in used car and parts sales.	£1,729,307	£1,634,526
EBIT (pre-exceptionals- see note 5)	The decrease is the result of a lower margin on sales of vehicles and aftersales from the impact of Brexit on the automotive industry.	£16,630	£20,435
Net Assets	The statement of financial position net asset increase is reflective of the profitability/cash generative nature of the business during the year.	£71,900	£59,173

Results

The company's result for the year is set out in the income statement and statement of financial position on pages 10 and 11 respectively.

Employee communications

The company has continued to broadcast regularly to employees through the Trustford intranet web-based system and the new colleague smart phone app, to all employees. These are designed to keep all colleagues up to date on current issues.

Health and Safety

Health and Safety of employees continues to be a priority consideration within the company.

Environment

At Ford Retail Limited we recognise that our operation can have a negative impact on the environment, specifically finite resources. The company continues to commit to provide the best possible environment for its employees and encourage them to think of new ways to helping the environment in accordance with the long term business plan. We actively seek to reduce our impact on the environment by making changes to our behaviour and installing more efficient technology.

As a result of Ford Motor Company's commitment to the environment Ford Retail Limited sells vehicles with leading technological advances in vehicle efficiency. EConetic technology provides features such as Automatic Start/Stop, Smart Regenerative Charging, Active Grille Shutters, ECOmode and other fuel saving ideas. Ford offers one of the broadest low CO2 vehicle portfolios in Europe.

On behalf of the Board



S Mustoe
Director
5 June 2018

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DIRECTORS' REPORT

Directors' report for the year ended 31 December 2017

The Directors present their report and the audited, financial statements of Ford Retail Limited ("the Company") for the year ended 31 December 2017.

Directors

The directors who held office during the year and up to the date of signing the financial statements were:

S. Foulds (appointed 18 September 2017)

S. Mustoe

N. Jason (appointed 18 September 2017)

S. Hood (resigned 18 September 2017)

Principal activities and future developments

As noted in the Strategic Review, the principal activity of the company during the year was the retailing of motor vehicles and related activities in the motor trade.

The company is to continue investing in training all staff for the purpose of meeting its long term goal of growth by providing excellent customer service.

The financial risk management policy of the company is shown below.

Results and dividends

The results for the year are set out in the income statement and statement of financial position on pages 10 and 11 respectively.

During the year the company paid no dividends (2016: £5,192,000). No final dividend is to be declared in respect of the financial year.

Land and buildings

In the opinion of the directors the present market value of the company's properties is in excess of its net book value, but in the absence of a recent valuation, the excess is not quantified.

Employees equal opportunities and diversity

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible be identical to that of a person who does not suffer from a disability.

Consultation is undertaken on a regular basis with employees, so that their views can be taken into account in making decisions affecting their interests through the use of appraisals and that all employees are aware of the financial and economic performance of their business units and of the company as a whole by holding quarterly cascade and town hall meetings chaired by senior management. The company encourages the involvement of employees in business performance by providing incentives such as discounts on vehicle purchases and other product and service discounts.

Directors' indemnity

Directors qualifying third party indemnity insurance in force during the financial year and at the date of approval of the financial statements, is arranged by related parties in the same group of companies.

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DIRECTORS' REPORT (*continued*)

Political donations

No political donations were made in the year (2016: £nil).

Financial risk management

Competitor risk

The company operates in highly competitive markets. Significant product innovations, technical advances or the intensification of price competition could all adversely affect the company's results. Ford Retail Limited invests in significant training for its staff in order to ensure that the company is well placed within each community it operates, that the customer has the choice, is aware of their options and as a result of provision of our service, is satisfied. The company also continually works to streamline its cost base to ensure that it remains competitive. The directors realise the importance of excellent customer service to remain ahead of competition and the business has been rewarded for its efforts in providing a high level of training in this area under the 'PPA' initiative (our purpose, principles and ambition).

Credit risk

The company has well established policies and procedures that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counter party is subject to a limit, which is reassessed annually by the management of the company.

Liquidity risk

Effective management of cash and working capital is a key ongoing priority. The company has an inter-company facility in place that is sufficient to ensure available funds for its operations.

Price risk

The company is exposed to commodity price risk as a result of its operations. The company mitigates this risk by constant management of stock levels and by keeping lines of communication with related parties open throughout the year.

Interest rate risk

Profits are exposed to erosion due to the relative risk of interest rate rises, particularly on stocking charges. These risks are managed by regular discussions with our suppliers and financiers.

Post balance sheet events

There were no post balance sheet events to report.

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DIRECTORS' REPORT *(continued)*

Statement of directors' responsibilities

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 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 company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have expressed a willingness to remain as independent auditors of the Company.

On behalf of the Board



S Mustoe
Director
5 June 2018

Registered office:
2 Charter Court
Newcomen Way
Colchester
Essex CO4 9YA

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORD RETAIL LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Ford Retail Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when: the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 Directors' Report, 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, ISAs (UK) require us also to report certain opinions and matters as described below.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORD RETAIL LIMITED (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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 7, 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 company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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. 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Neil Philpott (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, Birmingham
5 June 2018

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INCOME STATEMENT
(in thousands)

	Note	For the years ended December 31,	
		2017	2016
Revenues	4	£ 1,729,307	£ 1,634,526
Cost of sales and other expenses			
Cost of sales		1,588,224	1,490,152
Selling, administrative, and other expenses		146,802	145,294
Total costs and expenses	5	1,735,026	1,635,446
Other operating income	6	24,615	24,090
Other interest expense and finance cost, net	7	3,496	4,867
Profit before income tax		15,400	18,303
Income tax expense	8	2,673	4,049
Net profit		£ 12,727	£ 14,254

All results are from continuing operations.

The profit for the financial year is the only recognised gain or loss for the year. A separate statement of comprehensive income has therefore not been presented.

The accompanying notes are part of the financial statements.

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STATEMENT OF FINANCIAL POSITION

(in thousands)

	Note	December 31, 2017	December 31, 2016
ASSETS			
Cash and cash equivalents		£ 19	£ 2,894
Trade and other receivables	9	61,361	57,233
Inventories	10	413,928	374,488
Assets held for sale	11	911	911
Total current assets		<u>476,219</u>	<u>435,526</u>
Property, plant, and equipment	12	37,228	40,048
Investment in subsidiaries	13	8,427	8,427
Deferred income taxes	14	89	219
Total non-current assets		<u>45,744</u>	<u>48,694</u>
Total assets		<u>£ 521,963</u>	<u>£ 484,220</u>
LIABILITIES			
Trade and other payables	16	£ 447,994	£ 423,145
Provisions	17	1,113	1,455
Total current liabilities		<u>449,107</u>	<u>424,600</u>
Deferred revenue and other liabilities		25	37
Provisions	17	931	410
Total non-current liabilities		<u>956</u>	<u>447</u>
Total liabilities		<u>450,063</u>	<u>425,047</u>
EQUITY			
Called up share capital	18	2,453	2,453
Retained earnings		59,085	46,358
Other reserves		10,362	10,362
Total equity		<u>71,900</u>	<u>59,173</u>
Total liabilities and equity		<u>£ 521,963</u>	<u>£ 484,220</u>

The accompanying notes are part of the financial statements.

The financial statements on pages 10 to 32 were approved by the board of directors on 5 June 2018 and were signed on its behalf by:



S Mustoe
Finance Director

Date: 5 June 2018

Registered number: 00191596

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STATEMENT OF CHANGES IN EQUITY
(in thousands)

	Called up share capital	Retained Earnings	Other reserves	Total Equity
Balance at January 1, 2016	£ 2,453	£ 37,296	£ 10,362	£ 50,111
Comprehensive income				
Net profit	-	14,254	-	14,254
	<hr/>	<hr/>	<hr/>	<hr/>
Comprehensive income	-	14,254	-	14,254
Transactions with shareholders				
Dividends	-	(5,192)	-	(5,192)
	<hr/>	<hr/>	<hr/>	<hr/>
Total transactions with shareholders	-	(5,192)	-	(5,192)
Balance at December 31, 2016	<u>£ 2,453</u>	<u>£ 46,358</u>	<u>£ 10,362</u>	<u>£ 59,173</u>
Balance at January 1, 2017	£ 2,453	£ 46,358	£ 10,362	£ 59,173
Comprehensive income				
Net profit	-	12,727	-	12,727
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at December 31, 2017	<u>£ 2,453</u>	<u>£ 59,085</u>	<u>£ 10,362</u>	<u>£ 71,900</u>

The other reserve was the result of a gift by Ford Retail Group Limited of shares in Lindsay Cars Limited on 10 February 2012.

The accompanying notes are part of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1. BACKGROUND AND BASIS OF PREPARATION

Background

The principal activity of the company during the year was the retailing of motor vehicles and related activities in the motor trade.

The company is domiciled in the United Kingdom as a Limited Company (limited by shares) and the country of incorporation is the United Kingdom.

Basis of Preparation

Statement of Compliance

The financial statements of the company have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The company is itself a subsidiary company of Ford Retail Group Limited, a company incorporated in the United Kingdom, and is exempt from the requirement to prepare group financial statements by virtue of Section 401 of the Companies Act 2006. Copies of the ultimate parent company's financial statements can be obtained from the address outlined in note 23.

The principal accounting policies are set out in note 2 and have been applied consistently throughout the year.

Presentation

The financial statements are presented in Pounds Sterling. All financial information has been rounded to the nearest thousand, except where otherwise indicated.

The statement of financial position differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they mature within one year.

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NOTE 1. BACKGROUND AND BASIS OF PREPARATION (*continued*)

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern

The directors consider the company has adequate resources to continue in operational existence for the foreseeable future and there are no scenarios which might cause doubt about our ability to continue as a going concern for the next year and so we have prepared the financial statements on that basis.

Revenue Recognition

Revenue is generated primarily by sales of vehicles, parts and accessories. Revenue is recorded when obligations under the terms of a contract with our customer are satisfied; generally, this occurs with the transfer of control of our vehicles, parts or accessories. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, items recognised directly in equity, or items recognised in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and,
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Presentation of Sales and Sales-Related Taxes

We collect and remit taxes assessed by the governmental authorities that are both imposed on and concurrent with a revenue-producing transaction between us and our customers. These taxes may include, but are not limited to, sales, use, value-added, and some excise taxes. We report the collection of these taxes on a net basis (excluded from revenues).

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of parts inventories is determined by methods approximating the weighted average cost principle and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Leases

We determine the classification of leases as operating or finance at the inception of the lease. A lease that transfers substantially all risks and rewards of ownership of the asset to the lessee is classified as a finance lease. All other leases are classified as operating leases. Operating leases are charged to the income statement on a straight line basis over the period of the lease.

Finance leases are where the company enters into a lease which entails taking substantially all of the risks and rewards of ownership of the asset. Assets leased under finance leases are included in property, plant and equipment at the present value of minimum lease payments and are depreciated over the shorter of the lease term and the useful economic lives of equivalent owned assets. Obligations under finance leases are initially recognised at the present value of minimum lease payments and are included in creditors net of finance charges in respect of future periods. The interest element of the rental is allocated to accounting periods so as to produce a constant periodic rate of charge on the remaining balance of the obligation.

Assets Held for Sale

Assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable within the next 12 months. They are stated at the lower of carrying amount and fair value less costs to sell.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and impairments. Routine maintenance and repair costs are expensed when incurred.

We recognise the gain or loss on disposal of an item of property, plant and equipment within Selling, administrative, and other expenses in our income statement.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of the property, plant and equipment, taking into consideration our best estimate of its residual value. We generally depreciate leased assets over the shorter of the lease term and their useful lives.

Property, improvements and equipment are depreciated primarily using the straight-line method over the estimated useful life of the asset. Useful lives range from 3 years to 25 years. The estimated useful lives are generally 3 to 10 years for machinery and equipment, 5 to 10 years for fixtures and fittings and 25 years for buildings. Land is not depreciated as it is treated as having an infinite life.

Assets under construction are not depreciated until they have been completed and in use.

Provisions

A provision is recognised if, as a result of a past event, we have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. We record provisions for vehicle write offs, lease exit costs and dilapidation claims by landlords.

Due to the inherent uncertainty of the amount and timing of expected payments, we measure our provisions using patterned estimation models that take into consideration historical experience with similar matters, recent facts and circumstances, as well as assumptions about current trends. Each measurement reflects our best assumptions at each reporting period but the ultimate outcome of any matter could result in an amount different than the amount we have accrued and/or disclosed.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less provisions for impairment. Investments are impaired only if there is objective evidence of impairment as a result of one or more events that occurred.

Other

Litigation and claims are accrued when losses are deemed probable and reasonably estimable. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, and the severity of any potential loss. We re-evaluate and update our provisions and accruals as matters progress over time.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Foreign currency translation

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

Other operating income

The company sells third party finance and insurance products for which commission is received and recognised at the point when the product is officially sold to the customer.

Other interest expense and finance cost

Interest income / expense is recognised on a time-proportion basis using the effective interest method.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide a further understanding of the financial performance of the company. They are items that are material either because of their size or their nature, are considered as exceptional items and are presented within the line items to which they best relate.

New standards and interpretations not yet adopted

IFRS 15 - Revenue from Contracts with Customers. On January 1, 2017, we early adopted the new accounting standard IFRS 15, Revenue from Contracts with Customers and all the related clarifications ("new revenue standard") to all contracts using the modified retrospective method. This has not resulted in any cumulative effect in respect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. We do not expect the adoption of the new revenue standard to have a material impact to our net income on an ongoing basis. The majority of our sales revenue continues to be recognized at the point at which the customer obtains control of the product, having obtained the ability to direct the use of and obtain substantially all of the remaining benefits from that product.

Leases. In January 2016, the IASB issued International Financial Reporting Standards (IFRS) 16 Leases, which provides guidance on the recognition, measurement, presentation and disclosure of leases. The new standard supersedes present IFRS guidance on leases and requires substantially all leases to be reported on the statement of financial position as right-of-use assets and lease obligations. We plan to adopt the new standard on its effective date of 1 January 2019. We anticipate adoption of the standard will add between £60 million and £65 million in right-of-use assets and lease obligations to our statement of financial position. We are in the process of cataloguing our existing lease contracts and implementing changes to our systems.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The International Accounting Standards Board ("IASB") has also issued the following amendments, which are not expected to have a material impact to our financial statements or financial statement disclosures:

Amendments	Effective Date (a)
Transfers of Investment Property (Amendments to IAS 40 Investment Property)	January 1, 2018
Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)	January 1, 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4 Insurance Contracts)	January 1, 2018
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	January 1, 2020

(a) Early adoption for each of the standards is permitted.

NOTE 3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of financial statements in conformity with FRS101 requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

We consider an accounting estimate to be significant if: 1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and 2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

There are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements.

Inventory provision

Inventory is valued at the lower of cost (or weighted average cost) and net realisable value. Cost is arrived at as follows:

- Raw materials, consumables and goods for resale: purchase cost (or weighted average cost).
- Work in progress and finished goods: cost of materials and labour together with attributable overheads.
- Net realisable value is based on estimated selling price less further costs to completion and disposal.

Used cars are revalued to CAP value (average private sale price) after a period of 60 days and commercial vehicles after a period of 90 days.

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NOTE 3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS (*Continued*)

Other provisions

Provisions are held for lease exit costs relating to commitments that are expected to arise on leases where the respective properties are no longer used within the business. Provision is made for the estimated dilapidation costs where payable on leases. Estimated future costs have not been discounted because the underlying costs are not considered material.

Income Taxes

Nature of Estimates Required. We must make estimates and apply judgment in determining the provision for income taxes for financial reporting purposes. We make these estimates and judgments primarily in the calculation of differences in the timing of recognition of revenue and expense for tax and financial statement purposes that will ultimately be reported in tax returns.

We must assess the likelihood that we will be able to recover our deferred tax assets against future sources of taxable income. IFRS recognises deferred tax assets to the extent that it is more likely than not (defined as a likelihood of more than 50%) that sufficient taxable profits will be available to utilise the deductible temporary difference or unused tax losses. For additional information regarding income taxes, see Note 8 and 14.

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NOTE 4. REVENUES

Amounts included in *Revenues* on our income statement were as follows (in thousands):

	For the years ended December 31,	
	2017	2016
Sales of vehicles	£ 1,564,028	£ 1,468,829
Sales of parts	115,524	111,307
Vehicle rentals income	1,000	2,989
Workshop sales	48,755	51,401
Total revenues	£ 1,729,307	£ 1,634,526

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of control of our vehicles, parts, accessories, or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The transaction price is allocated to each performance obligation based on the relative standalone selling price at contract inception for each performance obligation. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. We do not have any material significant payment terms as payment is received at or shortly after the point of sale.

Vehicles, Parts, and Accessories. For the majority of vehicles, parts, and accessories, we transfer control and recognize a sale when we deliver the product to our customer (retail and wholesale). We receive cash equal to the invoice price for most vehicle sales at the time of delivery for retail and shortly after for wholesale. When the vehicle sale is financed by Ford Credit Europe, we receive payment from Ford Credit Europe when we sell the vehicle to the retail customer. Payment terms on the sale of wholesale vehicles is 7 to 14 days and part sales to dealers, distributors, and retailers range from 1 to 50 days.

Rental income is recognised when the vehicle is delivered for short term hire or recognised monthly on long term hires.

Workshop revenue is recognised when the job is completed.

All revenue is generated in the United Kingdom.

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NOTE 5. TOTAL COSTS AND EXPENSES

Operating profit is arrived at after crediting/(charging) (in thousands):

	For the years ended December 31,	
	2017	2016
Depreciation on tangible fixed assets		
Land, land improvements and buildings	£ (1,701)	£ (1,658)
Machinery, equipment and other	(1,197)	(1,168)
Fixtures and fittings	(871)	(906)
Impairment of inventory	(11,093)	(10,971)
Impairment of trade receivables	(318)	(747)
Inventory recognised as an expense	(1,734,530)	(1,638,518)
Exceptional items:		
- profit on disposal of land	-	5,204
- sites closure costs	(1,736)	(1,993)
- Loss on disposal of other fixed assets	(73)	(182)
- fees for exploring business opportunities	-	(294)
- Customer compensation	120	-
- Sale of dealerships	3,292	-
- VAT refund for historical claims	663	-
Operating lease rentals		
Plant and machinery	(3,384)	(2,764)
Other (buildings)	(9,960)	(10,060)

Auditors' remuneration for the statutory audit of the company's annual financial statements was £316,000 (2016: £312,000) and for non-audit services was £10,000 (2016: £196,000).

NOTE 6. OTHER OPERATING INCOME

Amounts included in *Other operating income* on our income statement were as follows (in thousands):

	For the years ended December 31,	
	2017	2016
Finance and insurance commission	£ 24,615	£ 24,090
Total	£ 24,615	£ 24,090

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NOTE 7. OTHER INTEREST EXPENSE AND FINANCE COST, NET

Amounts included in *Other interest expense and finance cost*, net on the income statement were as follows (in thousands):

	For the years ended December 31,			
	2017		2016	
Interest payable to group undertakings	£	(789)	£	(572)
Interest on loan stock holdings		(2,722)		(4,307)
Other interest charges		6		-
Bank interest received		11		13
Interest from group undertakings		-		5
Finance lease interest		(2)		(6)
Total	£	(3,496)	£	(4,867)

NOTE 8. INCOME TAXES

The *Income tax expense* on our income statement was estimated as follows (in thousands):

	For the years ended December 31,			
	2017		2016	
Current				
Group relief charges- current year	£	3,132	£	3,811
Adjustments in respect of prior years		(589)		43
Total current		2,543		3,854
Deferred				
Origination and reversal of temporary differences		(30)		169
Adjustments in respect of prior years		160		3
Effect of tax rate on opening balance		-		23
Total deferred		130		195
Income tax expense	£	2,673	£	4,049

	For the years ended December 31,			
	2017		2016	
Income before income taxes	£	15,400	£	18,303
Tax calculated at domestic tax rates applicable to profits (2017 –19.25% and 2016 -20%)		2,964		3,661
Tax effects of:				
Capital allowances in excess of depreciation		(47)		279
Expenses not deductible for tax purposes		215		385
Other tax adjustments, reliefs and transfers		(34)		(995)
Adjustments in respect of prior years- deferred tax		160		-
Adjustments in respect of prior years- current tax		(589)		43
Chargeable gains		-		680
Adjustment to opening and closing deferred tax to average rate		4		(4)
Income tax expense	£	2,673	£	4,049

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NOTE 8. INCOME TAXES (Continued)

The deferred tax amounts shown on the statement of financial position at December 31 were as follows (in thousands):

	2017	2016
Deferred tax assets	£ 520	£ 363
Deferred tax liabilities	(431)	(144)
Net deferred tax asset	£ 89	£ 219

The current and non-current portions of deferred income taxes expected to be recovered or settled within and after one year at December 31 were as follows (in thousands):

	2017	2016
Deferred tax assets		
Current portion	£ (72)	£ 201
Non-current portion	161	18
Total deferred tax asset	89	219
Net deferred tax assets	£ 89	£ 219

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2017 has been calculated based on these rates.

NOTE 9. TRADE AND OTHER RECEIVABLES

Trade and other receivables is analysed as follows (in thousands):

	December 31, 2017	December 31, 2016
Amounts falling due within one year		
Trade receivables	£ 19,472	£ 20,584
Amounts owed by group undertakings	18,635	25,511
Other receivables	18,180	5,943
Prepayments and accrued income	5,074	5,195
Total	£ 61,361	£ 57,233

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Trade receivables are stated after provisions for impairment of £823,000 (2016: £1,034,000).

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NOTE 10. INVENTORIES

Inventories on our statement of financial position were as follows (in thousands):

	December 31, 2017	December 31, 2016
Materials and supplies	£ 678	£ 609
Work-in-process	486	400
Finished products	412,764	373,479
Total	<u>£ 413,928</u>	<u>£ 374,488</u>

Inventories are stated after provision for impairment of £6,856,000 (2016: £7,084,000).

Any write down of inventories recognised as an expense are disclosed in note 5.

NOTE 11. ASSETS HELD FOR SALE

Assets held for sale are analysed as follows (in thousands):

	December 31, 2017	December 31, 2016
Property, plant and equipment	£ 911	£ 911
Total	<u>£ 911</u>	<u>£ 911</u>

The Board have agreed the disposal and all properties are currently on the market. The properties are expected to be sold within 12 months.

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NOTE 12. PROPERTY, PLANT AND EQUIPMENT

Changes in *Property, plant, and equipment* balances on our statement of financial position were as follows (in thousands):

For the year ending December 31, 2017					
	Land, Land Improvements, and Buildings	Machinery, Equipment, and Other	Assets under construction	Fixtures and fittings	Total
Cost					
Beginning balance	£ 43,473	£ 12,494	£ 676	£ 10,774	£ 67,417
Reclassifications	673	-	(676)	3	-
Additions	921	894	426	1,013	3,254
Disposals	(3,943)	(1,040)	-	(1,732)	(6,715)
Ending balance	41,124	12,348	426	10,058	63,956
Accumulated depreciation and impairment					
Beginning balance	12,947	8,499	-	5,923	27,369
Reclassifications	-	-	-	-	-
Depreciation	1,701	1,197	-	871	3,769
Disposals	(2,157)	(882)	-	(1,371)	(4,410)
Ending balance	12,491	8,814	-	5,423	26,728
Total as at 31 December 2017	£ 28,633	£ 3,534	£ 426	£ 4,635	£ 37,228
Total as at 1 31 December 2016	£ 30,526	£ 3,995	£ 676	£ 4,851	£ 40,048

Assets we have leased under finance lease arrangements included in Land, Land improvements and Buildings were as follows (in thousands):

	December 31, 2017	December 31, 2016
Cost	£ 2,266	£ 2,266
Accumulated depreciation	(2,266)	(2,266)
Net carrying amount	£ -	£ -

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NOTE 13. INTERESTS IN SUBSIDIARIES

Ownership Percentage and Investment Balances

Investment in subsidiaries on our statement of financial position was as follows (in thousands):

	<u>Group undertakings shares</u>
Cost:	
1 January and 31 December 2017	£ 10,362
Provisions:	
1 January and 31 December 2017	<u>1,935</u>
Net book value at 1 January and 31 December 2017	<u>£ 8,427</u>

Subsidiaries

Organisation	Ownership %	Principle Activity
Lindsay Cars Limited	100%	Dormant

The registered office of the above company is Market Place, Lisburn, Co. Antrim, BT28 1AN.

NOTE 14. DEFERRED INCOME TAXES

An analysis of the movements in the deferred tax asset is set out below (in thousands):

	<u>Accelerated Capital Allowances £</u>	<u>Capital Gains and Losses £</u>	<u>Other short term timing differences £</u>	<u>Total £</u>
Recognised:				
1 January 2017	144	(162)	(201)	(219)
Charge for the year	<u>287</u>	<u>-</u>	<u>(157)</u>	<u>130</u>
31 December 2017	<u>431</u>	<u>(162)</u>	<u>(358)</u>	<u>(89)</u>

NOTE 15. EMPLOYEE BENEFITS

The Group operates a defined contribution scheme for certain eligible employees. The assets of the scheme are held separately from those of the Group, being invested with an insurance company. The cost of contributions is charged to the profit and loss account as incurred. The contributions are based on the members' salaries. The separate contributions of the Group and employees are presently variable. The pension charge for the year was £2,169,000 (2016: £2,022,000).

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NOTE 16. TRADE AND OTHER PAYABLES

Trade and other payables are analysed as follows (in thousands):

	December 31, 2017	December 31, 2016
Trade payables	£ 22,970	£ 19,838
Bank overdraft	10,671	-
Amounts owed to group undertakings	386,110	368,653
Accruals and deferred income	26,641	27,596
Obligations under finance leases	12	48
Other creditors	366	5,849
Taxation and social security	1,224	1,161
Total	<u>£ 447,994</u>	<u>£ 423,145</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

NOTE 17. PROVISIONS

Provisions on our statement of financial position were as follows (in thousands):

	Self-insured vehicle scheme	Dilapidations	Property closure	Total
Beginning balance as at 1 January 2017	£ 247	£ 811	£ 807	£ 1,865
Added in the year	-	1,176	-	1,176
Utilised in the year	(219)	(121)	(657)	(997)
Total as at 31 December 2017	<u>£ 28</u>	<u>£ 1,866</u>	<u>£ 150</u>	<u>£ 2,044</u>
Current portion	28	935	150	1,113
Non-current portion	-	931	-	931
Total as at 31 December 2017	<u>£ 28</u>	<u>£ 1,866</u>	<u>£ 150</u>	<u>£ 2,044</u>

All current provisions are to be fully resolved/utilised within 12 months. Non-current dilapidations are expected to be utilised in years 2018 to 2024. The self insured vehicle scheme provision is used to cover the cost of accidents in the Company's possession such as company cars and vans. We provide for expected dilapidation costs for making good works on leasehold property which would normally be claimed by the landlord at the end of the tenancy. The property closure costs include legal and professional fees.

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NOTE 18. CALLED UP SHARE CAPITAL

Share capital is analysed as follows (in thousands):

	December 31, 2017	December 31, 2016
Allotted and fully paid		
2,453,000 (2016: 2,453,000) ordinary stock of £1 each	£ 2,453	£ 2,453
Total	£ 2,453	£ 2,453

All shares rank pari passu in all respects.

NOTE 19. EQUITY DIVIDENDS

Equity dividends are analysed as follows (in thousands):

	December 31, 2017	December 31, 2016
Ordinary shares		
Nil (2016: 211.66p) per ordinary stock of £1 each	£ -	£ 5,192
Total	£ -	£ 5,192

NOTE 20. CONTINGENT LIABILITIES

Any future deficit in the Cosworth Pension Plan- "Retail section" is to be made good by Ford Motor Company Limited, the parent undertaking. Ford Motor Company Limited replaced Blue Oval Holdings Limited as the plan sponsor on 1 January 2016. If Ford Motor Company Limited is unable to make good a deficit, that obligation will fall on the company. The directors consider the possibility of this occurring is remote. The surplus in the scheme at 31 December 2017 was £11,147,000 (2016: £10,907,000).

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NOTE 21. CAPITAL AND OTHER COMMITMENTS

At 31 December, the company had the following capital commitments (in thousands):

	<u>2017</u>	<u>2016</u>
Aggregate of contractual commitments not provided for	£ 2,761	£ 1,921

At 31 December, the company had the following non cancellable operating leases (in thousands):

	<u>2017</u>	<u>2016</u>
Future commitments under non-cancellable operating leases are as follows:		
Land and Buildings		
Within one year	£ 8,283	£ 8,702
Between two and five years	29,667	31,001
In excess of five years	43,358	47,007
	<u>£ 81,308</u>	<u>£ 86,710</u>
Others		
Within one year	£ 2,016	£ 1,730
Between two and five years	775	582
	<u>£ 2,791</u>	<u>£ 2,312</u>

NOTE 22. EMPLOYEES AND DIRECTORS

Employment costs were as follows (in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Employment costs		
Wages and salaries	£ 92,339	£ 92,624
Social security costs	9,071	9,110
Other pension costs	2,169	2,022
	<u>£ 103,579</u>	<u>£ 103,756</u>

The average monthly number of persons employed in the company by category was as follows:

	<u>2017 Number</u>	<u>2016 Number</u>
Nature of employment		
Sales staff	876	887
After-sales staff	1,588	1,631
Administration staff	627	604
Total	<u>3,091</u>	<u>3,122</u>

Aggregate emoluments of the directors amounted to £336,000 (2016: £326,000).

The highest paid director's emoluments were £198,000 (2016: £185,000).

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NOTE 23. CONTROLLING PARTIES

The company's immediate parent company is Ford Retail Group Limited, a company registered in the United Kingdom.

The ultimate parent company and controlling party is Ford Motor Company, a company incorporated in the State of Delaware in the USA, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the ultimate parent company's financial statements may be obtained from: Ford Motor Company, One American Road, Dearborn, Michigan 48126, USA.