Company Registration No. 07780838

LKQ Euro Limited

Annual Report and Financial Statements

for the year ended 31 December 2015

LKQ Euro Limited

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Company information

Directors

S Ahluwalia
M Gray
J Holsten
J Quinn
R Wagman

Company secretary

Speafi Secretarial Limited

Registered number

07780838

Registered office

1 London Street
Reading
Berkshire
RG1 4QW
United Kingdom

Independent auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
3 Victoria Square
Victoria Street
St Albans
AL1 3TF
United Kingdom

LKQ Euro Limited

Strategic report
for the year ended 31 December 2015

The directors present their strategic report on the company for the year ended 31 December 2015.

Review of the business

LKQ Euro Limited is an investment company holding several UK and European subsidiaries of its direct parent undertaking (and the ultimate group parent undertaking), LKQ Corporation. The company made a loss of £13,094,872 for the financial year (2014: £16,398,553). Net assets at 31 December 2015 were £204,473,406 (2014: £217,367,529). The directors are satisfied with the underlying performance and financial position of the company.

During the year the company received a dividend of £22,959,157 from LKQ Coatings Limited (2014: no dividend income was received), paid interest of £9,899,130 to LKQ Finance 2 LLP (2014: £9,281,140) and paid guarantee fees to LKQ Corporation of £3,415,794 (2014: £6,140,047 guarantee fees plus £1,539,952 interest). It also paid interest on borrowings to third parties of £1,452,594 (2014: £3,072,432) and charged impairments on fixed asset investments of £23,914,108 (2014: £235,067).

On 30 June 2015 the company issued a further interest-bearing promissory note of £21,865,000 to its fellow group undertaking, LKQ Finance 2 LLP, bringing the total amount borrowed from LKQ Finance 2 LLP at the end of the year to £143,205,300. The proceeds were used to pay down third party borrowings made under the group's revolving credit facility. Borrowings under this facility at 31 December 2015 were £73,285,000 (2014: £96,150,000).

On 24 December 2015 the company acquired 100% of the called-up share capital of Euro Car Parts Limited from its subsidiary undertaking, Euro Car Parts Holdings Limited, for total consideration of £127,640,000. The deal was settled by an interest-free loan note in favour of Euro Car Parts Holdings Limited. Total fixed asset investments at 31 December 2015 were £522,712,654 (2014: £419,796,744).

Principal risks and uncertainties

The company's principal risk is that the carrying value of its fixed asset investments is impaired. The board monitors the risk for its wholly-owned subsidiaries by reviewing the key performance indicators for its principal trading investments, Euro Car Parts Limited and LKQ Netherlands B.V. The key performance indicators are revenue, margin, costs and cash flow. Monitoring and analysis of these indicators against both historic results and future forecasts allows the board to consider whether impairment provisions are required. No impairment has been recognised against the company's principal trading investments as at 31 December 2015 (2014: none).

During the year the company extracted all of the carrying value from its dormant fixed asset investment in LKQ Coatings Limited via a dividend receivable of £22,959,157. Accordingly, the company wrote down its investment in LKQ Coatings Limited to £nil by means of an impairment charge equal to the dividend.

The company also monitors the carrying value of its 33.33% joint venture in AVC Tyre Recycling Limited. This investment merited a full impairment charge of £954,951 in the year (2014: £235,067 impairment charge to write the investment down to the company's share of the joint venture's net assets).

The company also has exposure to risk on the interest paid on third party borrowings made under the revolving credit facility. This interest rate is variable and in response the company has taken out a series of variable-to-fixed interest rate swaps to effectively hedge its position.

Going concern

LKQ Euro Limited had net current liabilities of £262,979,060 at 31 December 2015 (2014: £80,201,172) and made a loss of £13,094,872 for the financial year (2014: loss of £16,398,553). The company continues to adopt the going concern basis in preparing its financial statements due to the availability of funding from its major UK trading subsidiary, Euro Car Parts Limited, and its ultimate parent undertaking, LKQ Corporation. The board has analysed the key performance indicators of its principal trading investments, Euro Car Parts Limited and LKQ Netherlands B.V., and concluded that their highly profitable performance to date and future prospects indicate that the company will have access to adequate resources to continue in operational existence for the foreseeable future.

In addition, LKQ Corporation has formally agreed in a letter of support to make available sufficient funds to the company to settle its debts as they fall due for 12 months from the date of signing of these financial statements, including specifically the intention to enter into new loan note arrangements to replace the £87,883,042 of existing loans which mature on October 16, 2016.

LKQ Euro Limited

Strategic report
for the year ended 31 December 2015 (continued)

Brexit risk

The board has noted the outcome of the referendum on 23 June 2016 and considered the impact of the UK's decision to leave the EU. The company's functional and presentation currency is the pound sterling. Of its two principal trading investments, Euro Car Parts Limited buys a significant part of its inventory in Euros and US dollars and sells in sterling and LKQ Netherlands B.V. buys a significant part of its inventory in Euros and US dollars and sells in Euros.

To date, the major impact of Brexit has been a depreciation of sterling against the Euro and US dollar. This has caused increased input costs for Euro Car Parts Limited which have been passed on to customers where possible, in line with the rest of the UK market. Brexit has had negligible impact on LKQ Netherlands B.V. apart from an underlying increase in its value when converted back into sterling.

The full impact of Brexit on the UK and European economies is still unclear but the board believes that management actions already undertaken in its main trading investments, including management of foreign currency risk, mean there is no need to consider further impairments at this time.

On behalf of the board

J Quinn
Director

Date: 29.09.16

LKQ Euro Limited

Directors' report
for the year ended 31 December 2015

The directors present their report and the audited financial statements of the company for the year ended 31 December 2015.

Current and future developments

The strategic report on pages 2 and 3 sets out the directors' review of the business for the period. The report also highlights the principal risks and uncertainties faced by the company and the key performance indicators used by the board to mitigate these risks.

The company's main strategic objective is to continue as an investment company holding several UK and European subsidiaries of its direct parent undertaking (and the ultimate group parent undertaking), LKQ Corporation.

Dividends

The company has not paid, nor is it proposing to pay, any dividends in respect of the financial year ended 31 December 2015 (2014: £nil).

Financial instruments

The company holds material financial liabilities, largely as loans due to group undertakings for which detailed legal documentation exists. The risks associated with these loans are low as they are managed centrally for both parties by LKQ Corporation to optimise the group's tax and legal structures.

The company also has exposure to risk on the interest paid on the £73,285,000 of external borrowings made under the group's revolving credit facility. This interest rate is variable and in response the company has taken out a series of variable-to-fixed interest rate swaps to effectively hedge its position.

Directors

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

S Ahluwalia	(appointed 9 February 2015)
N Brown	(resigned 31 January 2015)
M Gray	
J Holsten	
J Quinn	
R Wagman	

There was no contract subsisting during or at the date of approval of the financial statements in which any director of the company had a material interest.

Research and development

The company carried out no research and development activities in the year (2014: none).

Events after the end of the reporting period

On 2 February 2016 the company's directly-held investment, LKQ Coatings Limited, was dissolved via a voluntary strike-off by its board, under the direction of LKQ Euro Limited's management. The investment in LKQ Coatings Limited had previously been impaired to a carrying value of £nil.

On 16 March 2016 the company allotted a further 100 ordinary shares to LKQ Corporation for total consideration (including share premium) of £459,128,000. The company used these proceeds to complete the acquisition of 100% of the called-up share capital of Rhiag-Inter Auto Parts Italia S.p.A, a leading pan-European business-to-business distributor of aftermarket spare parts for passenger cars and commercial vehicles. The directors believe that this acquisition demonstrates the group's ongoing commitment to expand its European footprint and will be an integral part of its pan-European strategy.

On 29 July 2016 the company acquired 100% of the called-up share capital of Arleigh Group Limited for net consideration of approximately £13,800,000. Arleigh Group Limited is a distributor of parts, appliances and accessories for the UK caravan, static home, motorhome and the inland marine market.

On 2 August 2016 the company acquired 100% of the called-up share capital of Hella Ireland Limited for net purchase consideration of approximately £1,500,000. Hella Ireland Limited is an automotive aftermarket products distributor.

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- as far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Independent auditor

The auditor, Deloitte LLP, has indicated their willingness to continue in office and appropriate arrangements have been put in place for them to be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the Company receives notice under section 488(1) of the Companies Act 2006.

On behalf of the board

J Quinn
Director

Date: 29·09·16

LKQ Euro Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

LKQ Euro Limited

Independent auditor's report to the members of LKQ Euro Limited

We have audited the financial statements of LKQ Euro Limited for the year ended 31 December 2015 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of LKQ Euro Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

David Halstead

David Halstead (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
St Albans
United Kingdom

Date: 29 September 2016

LKQ Euro Limited

Profit and loss account
for the year ended 31 December 2015

	Notes	2015 £	2014 £
Administrative expenses		(3,445,153)	(6,264,502)
Other operating losses		(23,914,108)	(235,067)
Operating loss	5	(27,359,261)	(6,499,569)
Income from shares in group undertaking	6	22,959,157	-
Loss on ordinary activities before interest and taxation		(4,400,104)	(6,499,569)
Interest payable and similar charges	8	(11,777,318)	(14,325,802)
Loss on ordinary activities before taxation		(16,177,422)	(20,825,371)
Tax on loss on ordinary activities	9	3,082,550	4,426,818
Loss for the financial year		(13,094,872)	(16,398,553)

Statement of comprehensive income
for the year ended 31 December 2015

	2015 £	2014 £
Loss for the financial year	(13,094,872)	(16,398,553)
Other comprehensive income:		
Movement in fair value of interest rate swaps	250,936	(364,517)
Movement in deferred tax relating to interest rate swaps	(50,187)	66,647
Total comprehensive expense for the year	(12,894,123)	(16,696,423)

LKQ Euro Limited

Balance sheet
as at 31 December 2015

	Notes	2015 £	2014 £
Fixed assets			
Investments	10	522,712,654	419,796,744
Current assets			
Debtors	11	26,329,356	16,802,446
Cash at bank and in hand		3,082	1,941
		26,332,438	16,804,387
Creditors: amounts falling due within one year	12	(289,311,498)	(97,005,559)
Net current liabilities		(262,979,060)	(80,201,172)
Total assets less current liabilities		259,733,594	339,595,572
Creditors: amounts falling due after more than one year	13	(55,322,258)	(122,340,300)
Provisions for other liabilities	15	62,070	112,257
Net assets		204,473,406	217,367,529
Capital and reserves			
Called-up share capital	16	300	300
Share premium account		263,679,826	263,679,826
Profit and loss account		(59,206,720)	(46,312,597)
Total equity		204,473,406	217,367,529

The notes on pages 12 to 24 are an integral part of these financial statements.

The financial statements on pages 9 to 24 were authorised for issue by the board of directors and were signed on its behalf.

J Quinn
Director

Date: 29·09·16

LKQ Euro Limited
Registered number: 07780838

LKQ Euro Limited

Statement of changes in equity for the year ended 31 December 2015

	Called-up share capital £	Share premium account £	Profit and loss account £	Total £
Equity as at 1 January 2014	200	125,314,620	(29,616,174)	95,698,646
Loss for the financial year	-	-	(16,398,553)	(16,398,553)
Other comprehensive expense	-	-	(297,870)	(297,870)
Total comprehensive expense for the year	-	-	(16,696,423)	(16,696,423)
Proceeds from shares issued	100	138,365,206	-	138,365,306
Total transactions with owners, recognised directly in equity	100	138,365,206	-	138,365,306
Equity as at 31 December 2014	300	263,679,826	(46,312,597)	217,367,529
Loss for the financial year	**-**	**-**	**(13,094,872)**	**(13,094,872)**
Other comprehensive income	**-**	**-**	**200,749**	**200,749**
Total comprehensive expense for the year	**-**	**-**	**(12,894,123)**	**(12,894,123)**
Total transactions with owners, recognised directly in equity	**-**	**-**	**-**	**-**
Equity as at 31 December 2015	**300**	**263,679,826**	**(59,206,720)**	**204,473,406**

1. **General information**

LKQ Euro Limited is an investment company holding several UK and European subsidiaries of its direct parent undertaking (and the ultimate group parent undertaking), LKQ Corporation.

The company is a private company limited by shares and is incorporated and domiciled in England and Wales. The address of its registered office is 1 London Street, Reading, Berkshire RG1 4QW, United Kingdom.

2. **Statement of compliance**

The individual financial statements of LKQ Euro Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. **Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The company has adopted FRS 102 in these financial statements and details of the transition to FRS 102 are disclosed in note 20.

(a) Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain assets and liabilities measured at fair value through profit and loss.

The preparation of financial statements in conformity with FRS 102 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 4.

(b) Going concern

The company continues to adopt the going concern basis in preparing its financial statements due to the availability of funding from its major UK trading subsidiary, Euro Car Parts Limited, and its ultimate parent undertaking, LKQ Corporation. The board has analysed the key performance indicators of its principal trading investments, Euro Car Parts Limited and LKQ Netherlands B.V., and concluded that their highly profitable performance to date and future prospects indicate that the company will have access to adequate resources to continue in operational existence for the foreseeable future.

In addition, LKQ Corporation has formally agreed in a letter of support to make available sufficient funds to the company to settle its debts as they fall due for 12 months from the date of signing of these financial statements, including specifically the intention to enter into new loan note arrangements to replace the £87,883,042 of existing loans which mature on October 16, 2016.

(c) Exemptions for qualifying entities under FRS 102

LKQ Euro Limited is a qualifying entity for certain disclosure exemptions under FRS 102. The company has taken advantage of the following disclosure exemptions in the preparation of these financial statements:

1. Reconciliation of number of shares outstanding

The company has taken advantage of the exemption, under FRS 102 paragraph 1.12(a), from preparing a reconciliation of the number of shares outstanding.

2. Cash flow statement

The company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent undertaking, LKQ Corporation, includes the company's cash flows in its own consolidated financial statements.

3. **Summary of significant accounting policies (continued)**

(c) Exemptions for qualifying entities under FRS 102 (continued)

3. Financial instruments

The company has taken advantage of the exemption, under FRS 102 paragraph 1.12(c), from making certain financial instrument disclosures, on the basis that it is a qualifying entity and its ultimate parent undertaking, LKQ Corporation, includes the equivalent disclosures in its own consolidated financial statements.

(d) Consolidated financial statements

The company is a wholly-owned subsidiary of LKQ Corporation. It is included in the consolidated financial statements of LKQ Corporation which are publicly available. Therefore the company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the company's separate financial statements.

(e) Foreign currency

1. Functional and presentation currency

The company's functional and presentation currency is the pound sterling.

2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the date of the transaction.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(f) Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

1. Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by period end.

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

3. **Summary of significant accounting policies (continued)**

(f) **Taxation (continued)**

2. Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date with certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(g) **Investments in subsidiary undertakings**

Investments in subsidiary undertakings are held at cost less accumulated impairment losses.

(h) **Investment in joint venture**

The company has elected to account for its joint venture investment using the cost model outlined in Section 15 of FRS 102. The investment is measured at cost less any accumulated impairment losses.

(i) **Cash at bank and in hand**

Cash at bank and in hand includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

(j) **Provisions and contingencies**

1. Provisions

Provisions are recognised (a) when the company has a present legal or constructive obligation as a result of past events, (b) it is probable that an outflow of resources will be required to settle the obligation, and (c) the amount of the obligation can be estimated reliably.

2. Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (a) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date, or (b) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

3. Summary of significant accounting policies (continued)

(k) Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

1. Basic financial assets

Basic financial assets, including other receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction.

Where the arrangement constitutes a financing transaction it is measured at the present value of the future receipts, discounted at a market rate of interest.

Basic financial assets are subsequently carried at amortised cost, using the effective interest rate method where applicable.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit and loss account.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the profit and loss account.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

2. Basic financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and overdrafts, and loans from fellow group undertakings are initially recognised at transaction price, unless the arrangement constitutes a financing transaction.

Where the arrangement constitutes a financing transaction, the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Basic financial liabilities are subsequently carried at amortised cost, using the effective interest rate method where applicable.

Basic financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

3. Derivative financial instruments

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the contract date and are subsequently remeasured at their fair value. Changes in the fair value of derivatives are recognised in the profit and loss account unless an effective hedge is in place, in which case changes in the fair value of derivatives are recognised within other comprehensive income.

The company currently applies hedge accounting for interest rate swaps.

4. Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the financial statements for the year ended 31 December 2015 (continued)

3. **Summary of significant accounting policies (continued)**

(l) Called-up share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. The excess of net proceeds over nominal value is recognised in the share premium account within equity.

(m) Related party transactions

Under the requirements of Section 33 of FRS 102, the company discloses related party transactions with all fellow group undertakings and joint ventures.

4. **Critical accounting judgements and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the company's accounting policies

The company's management has made no accounting policy judgements within the framework of FRS 102 which it considers to have had a significant effect on the amounts recognised in the financial statements.

(b) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

1. Market rate on loans from group undertaking

The directors have assessed the terms and conditions of the company's loans from its fellow group undertaking and concluded that they were transacted at market rates of interest. Additionally, the company's loans and guarantee arrangements with its fellow group undertakings have been agreed with HM Revenue & Customs pursuant to an Advanced Thin Capitalisation Agreement from 2011 to 2015. Accordingly, the company has treated the maturity value of these loans as equal to the fair value of the liability held on the balance sheet.

2. Impairment of fixed asset investments

The company makes an estimate of the recoverable value of its fixed asset investments at each reporting date. When assessing the impairment of investments, management considers factors including the underlying performance of the subsidiary, the value of its net assets and historical experience.

Notes to the financial statements for the year ended 31 December 2015 (continued)

5. Operating loss

Operating loss is stated after charging:

	2015 £	2014 £
Guarantee fees	**3,415,794**	6,140,047
Other	**29,359**	124,455
Administrative expenses	**3,445,153**	6,264,502
Impairment of investment in group undertaking (see note 10)	**22,959,157**	-
Impairment of investment in joint venture (see note 10)	**954,951**	235,067
Operating loss	**27,359,261**	6,499,569
Audit fees payable to the company's auditor	**36,162**	25,680

6. Income from shares in group undertaking

The company received a dividend of £22,959,157 from LKQ Coatings Limited during the year (2014: £nil). The company received no other dividend income in the year (2014: £nil).

7. Employees and directors

The company had no employees in the year (2014: nil).

All the directors who served in the year were remunerated by other group undertakings. No post-employment benefits are accruing for directors at 31 December 2015 under defined benefit schemes (2014: nil). No directors exercised share options during the year (2014: nil). No directors (2014: nil) are accruing benefits under a long-term incentive scheme.

8. Interest payable and similar charges

	2015 £	2014 £
Interest payable on bank loans	**1,452,594**	3,072,432
Interest payable on loans from group undertakings (see note 14)	**9,899,130**	10,821,092
Other	**-**	453
Total interest expense on financial liabilities not measured at fair value through the profit and loss account	**11,351,724**	13,893,977
Settlements of interest rate swaps	**425,594**	431,825
Total interest payable and similar charges	**11,777,318**	14,325,802

9. Income tax

(a) Tax income included in profit and loss account

	2015 £	2014 £
Current tax:		
UK corporation tax on loss for the year	3,082,550	4,426,818
Adjustment in respect of prior periods	-	-
Total current tax income	3,082,550	4,426,818
Total deferred tax	-	-
Tax on loss on ordinary activities	3,082,550	4,426,818

(b) Tax (expense)/income included in other comprehensive income

	2015 £	2014 £
Total current tax	-	-
Deferred tax:		
Movement in deferred tax relating to interest rate swaps	(50,187)	66,647
Total deferred tax (expense)/income	(50,187)	66,647
Tax (expense)/income included in other comprehensive income	(50,187)	66,647

(c) Reconciliation of tax charge

Tax assessed for the year is lower (2014: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2015 of 20.25% (2014: 21.5%). The differences are explained below:

	2015 £	2014 £
Loss on ordinary activities before taxation	(16,177,422)	(20,825,371)
Loss multiplied by the standard rate of tax in the UK of 20.25% (2014: 21.5%)	3,275,928	4,477,455
Effects of:		
Dividend income not subject to tax	4,649,229	-
Impairment charges not deductible for tax purposes	(4,842,607)	(50,539)
Other expenses not deductible for tax purposes	-	(98)
Tax credit for the year	3,082,550	4,426,818

(d) Tax rate changes

The tax rate for 2015 is lower than 2014 due to changes in the UK corporation tax rate which decreased from 21% to 20% on 1 April 2015.

A further reduction to the UK corporation tax rate was enacted as part of the Finance Act 2014 on 17 July 2014. This reduced the standard rate to 19% from 1 April 2016.

A further reduction to the UK corporation tax rate was enacted as part of the Finance Act 2015 on 8 November 2015. This reduced the standard rate to 18% from 1 April 2020.

These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

10. Fixed asset investments

	2015 £	2014 £
At 1 January	**419,796,744**	394,544,096
Additions	**127,830,018**	25,487,715
Adjustment to acquisition cost (see note 13)	**(1,000,000)**	-
Impairments	**(23,914,108)**	(235,067)
At 31 December	**522,712,654**	419,796,744
Analysed as:		
Euro Car Parts Holdings Limited	**103,882,235**	308,173,090
LKQ Netherlands B.V.	**87,899,564**	87,899,564
LKQ Coatings Limited (dormant)	-	22,959,157
JCA Coatings Limited (dormant)	-	-
Sinemaster Motor Factors Limted (dormant)	-	-
Euro Car Parts Limited	**330,930,855**	-
AVC Tyre Recycling Limited (33.33% joint venture)	-	764,933
	522,712,654	419,796,744

Fixed asset investments comprise equity shares in group undertakings and a joint venture, none of which are publicly traded. At 31 December 2015, the company held 100% of the called-up share capital of the following group undertakings:

Group undertaking	**Country of registration**	**Class of share capital held**
Euro Car Parts Holdings Limited	England and Wales	£1 ordinary shares
LKQ Netherlands B.V.	Netherlands	€1 ordinary shares
LKQ Coatings Limited (dormant)	England and Wales	£1 ordinary shares
JCA Coatings Limited (dormant)	England and Wales	£1 ordinary shares
Sinemaster Motor Factors Limted (dormant)	England and Wales	£1 ordinary shares
Euro Car Parts Limited	England and Wales	£1 ordinary shares

On 31 December 2014, the business and assets of LKQ Coatings Limited were hived across to Euro Car Parts Limited, leaving LKQ Coatings Limited as a dormant company with distributable reserves of £22,959,157. LKQ Euro Limited received a dividend of this full amount from LKQ Coatings Limited during 2015, representing a distribution of all the remaining value of its investment. Accordingly, the company charged a provision for impairment of £22,959,157 during the year to write off the remaining carrying value of its investment. LKQ Coatings Limited was subsequently dissolved on 2 February 2016 (see note 19).

The company held the same investments in group undertakings throughout 2015 with the exception of Euro Car Parts Limited. The company acquired its 100% holding in the called-up share capital of Euro Car Parts Limited from Euro Car Parts Holdings Limited on 24 December 2015 for total consideration of £127,640,000. The acquisition cost was settled by means of a loan, details of which are given in note 14.

After it had transferred its investment in Euro Car Parts Limited, Euro Car Parts Holdings Limited became a dormant company with distributable reserves of £103,882,235. The economic position of LKQ Euro Limited was not affected by the transfer because it owned a direct or indirect 100% interest in Euro Car Parts Limited, its major UK trading subsidiary, both before and after the sale. In order to match carrying values with economic values, the company reallocated some carrying value in Euro Car Parts Holdings Limited to Euro Car Parts Limited at 31 December 2015, leaving its investment in Euro Car Parts Holdings Limited with a recoverable carrying value of £103,882,235.

10. Fixed asset investments (continued)

The company owns 33.33% of the called-up £1 ordinary share capital of AVC Tyre Recycling Limited, which it accounts for under the cost model outlined in FRS 102. The company charged a provision for impairment equal to its 33.33% share of the losses in AVC Tyre Recycling Limited during 2014 and 2015. At 31 December 2015, the directors deemed the whole investment in the joint venture to be impaired and the company charged a provision for impairment for all remaining carrying value at that date.

Movements on the company's investment in the year were as follows:

	2015 £	2014 £
At 1 January	**764,933**	-
Additions	**190,018**	1,000,000
Impairment	**(954,951)**	(235,067)
At 31 December	**-**	764,933

11. Debtors

	2015 £	2014 £
Amounts owed by group undertakings	**23,146,750**	8,436,250
Corporation tax	**3,124,382**	8,310,989
Other debtors	**58,224**	55,207
	26,329,356	16,802,446

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

There are no debtors falling due after more than one year (2014: £nil).

12. Creditors: amounts falling due within one year

	2015 £	2014 £
Bank loan (see note 14)	**73,285,000**	96,150,000
Amounts owed to group undertakings	**4,611**	-
Loans from group undertakings (see note 14)	**215,523,042**	-
Other creditors	**163,518**	208,062
Derivative financial instruments	**322,143**	573,079
Accruals and deferred income	**13,184**	74,418
	289,311,498	97,005,559

Derivative financial instruments refer to the revolving floating-to-fixed interest rate swaps entered into by the company in 2011 to manage the floating interest rate risk on a portion of its bank loan. These swaps are accounted for as an effective cash flow hedge under FRS 102. The balance represents the fair value of unsettled swaps at 31 December 2015 (before deferred tax impact).

13. Creditors: amounts falling due after more than one year

	2015 £	2014 £
Loan from group undertaking (see note 14)	**55,322,258**	121,340,300
Other creditors	**-**	1,000,000
	55,322,258	122,340,300

Other creditors arose on the company's acquisition of JCA Coatings Limited in 2013. Payment was subject to certain post-acquisition targets on earnings and synergies being met. The directors have reassessed the likelihood of payment of this amount and concluded that the liability is no longer valid as at 31 December 2015. It was therefore credited against the carrying value of the company's investment in Euro Car Parts Limited.

14. Loans and other borrowings

	2015 £	2014 £
Bank loan	**73,285,000**	96,150,000
Loans from group undertakings	**270,845,300**	121,340,300
	344,130,300	217,490,300

(a) Bank loan

The bank loan represents unsecured borrowings made under a monthly revolving Credit Agreement held by LKQ Corporation and its subsidiary undertakings. The borrowings are repayable at variable interest rates ranging from 1.25% to 1.75% above the lenders' base rate. LKQ Corporation charges the company a guarantee fee of 4% on outstanding monies borrowed under the revolving credit facility.

(b) Loans from group undertakings

The company has issued the following promissory notes to its fellow group undertaking, LKQ Finance 2 LLP. The promissory notes are listed on the Channel Islands Securities Exchange as a Special Purpose Vehicle and are unsecured.

Description	**Issued**	**Matures**	**£**
8.0% promissory note	17 October 2011	16 October 2016	60,000,000
8.0% promissory note	30 June 2012	16 October 2016	3,425,466
8.0% promissory note	31 December 2012	16 October 2016	2,592,576
5.5% promissory note	30 June 2015	16 October 2016	21,865,000
Amounts falling due in less than one year			87,883,042
7.0% promissory note	1 May 2013	30 June 2019	55,322,258
Amounts falling due between one and five years			55,322,258

Notes to the financial statements
for the year ended 31 December 2015 (continued)

14. Loans and other borrowings (continued)

(b) Loans from group undertakings (continued)

The company has also issued the following loan note to fellow group undertaking Euro Car Parts Holdings Limited relating to the acquisition of its investment in Euro Car Parts Limited. The loan note is interest free and unsecured.

Description	Issued	Matures	£
Loan note	31 December 2015	On demand	127,640,000
Amounts falling due in less than one year			127,640,000

15. Provisions for other liabilities

Provisions for other liabilities relate wholly to deferred tax as follows:

	2015 £	2014 £
Deferred tax asset on fair value of interest rate swaps	**64,429**	114,616
Other deferred tax liabilities	**(2,359)**	(2,359)
	62,070	112,257

The net deferred tax asset expected to reverse in 2016 is £64,429.

16. Called-up share capital

Ordinary shares of £1 each

	2015 £	2014 £
Issued and fully paid:		
At 1 January and 31 December	**300**	300

There is a single class of ordinary shares. These shares carry no restrictions on the distribution of dividends and the repayment of capital.

During 2014 the company allotted 100 ordinary shares with a nominal value of £1 for total consideration of £138,365,306 including share premium of £138,365,206.

17. Related party transactions

During the year, LKQ Euro Limited entered into transactions as part of its normal trading with other related parties as follows:

	2015 £	2014 £
Guarantee fee payable to parent undertaking		
LKQ Corporation	**3,415,794**	6,140,047
Dividend receivable from subsidiary undertaking		
LKQ Coatings Limited	**22,959,157**	-

17. Related party transactions (continued)

	2015 £	2014 £
Interest payable to group undertakings		
LKQ Finance 2 LLP	**9,899,130**	9,281,140
LKQ Corporation	**-**	1,539,952
	9,899,130	10,821,092

At 31 December 2015, the following amounts were outstanding with fellow group undertakings:

	2015 £	2014 £
Amounts due from/(to) group undertakings		
Euro Car Parts Limited – other debtor	**23,140,937**	1,825,448
LKQ Coatings Limited – other debtor	**-**	6,610,802
LKQ UK Finance 1 LLP – other debtor	**5,813**	-
LKQ UK Finance 2 LLP – other creditor	**(4,611)**	-
LKQ UK Finance 2 LLP – loans	**(143,205,300)**	(121,340,300)
Euro Car Parts Holdings Limited – loan	**(127,640,000)**	-
	(247,703,161)	(112,904,050)

18. Controlling parties

The company's immediate parent undertaking is LKQ Corporation. This is also the ultimate group parent undertaking and the smallest and largest group to consolidate the company's financial statements is LKQ Corporation, which is incorporated in the United States of America and quoted on the NASDAQ.

Copies of the consolidated financial statements of LKQ Corporation can be obtained from 500 West Madison Street, Suite 2800, Chicago, Illinois, USA.

19. Events after the end of the reporting period

On 2 February 2016 the company's directly-held investment, LKQ Coatings Limited, was dissolved via a voluntary strike-off by its board, under the direction of LKQ Euro Limited's management. The investment in LKQ Coatings Limited had previously been impaired to a carrying value of £nil.

On 16 March 2016 the company allotted a further 100 ordinary shares to LKQ Corporation for total consideration (including share premium) of £459,128,000. The company used these proceeds to complete the acquisition of 100% of the called-up share capital of Rhiag-Inter Auto Parts Italia S.p.A, a leading pan-European business-to-business distributor of aftermarket spare parts for passenger cars and commercial vehicles. The directors believe that this acquisition demonstrates the group's ongoing commitment to expand its European footprint and will be an integral part of its pan-European strategy.

On 29 July 2016 the company acquired 100% of the called-up share capital of Arleigh Group Limited for net consideration of approximately £13,800,000. Arleigh Group Limited is a distributor of parts, appliances and accessories for the UK caravan, static home, motorhome and the inland marine market.

On 2 August 2016 the company acquired 100% of the called-up share capital of Hella Ireland Limited for net purchase consideration of approximately £1,500,000. Hella Ireland Limited is an automotive aftermarket products distributor.

20. Explanation of transition to FRS 102

This is the first year that the company has presented its financial statements under FRS 102. The last financial statements under previous United Kingdom Generally Accepted Accounting Practice ("UKGAAP") were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. Set out below are the changes in accounting policies which reconcile total equity as at 1 January 2014 and 31 December 2014 and the loss for the financial year ended 31 December 2014 between UKGAAP as previously reported and FRS 102.

(a) Reconciliation of equity

	1 January 2014 £	31 December 2014 £
Equity reported under previous UKGAAP	95,859,239	217,825,992
Recognition of fair value of interest rate swaps	(160,593)	(458,463)
Equity reported under FRS 102	95,698,646	217,367,529

FRS 102 requires derivative financial instruments such as the company's interest rate swaps to be recognised at fair value. Under previous UKGAAP the company did not recognise these instruments in the financial statements. Accordingly at transition a liability of £208,562 was recognised in the balance sheet with a corresponding deferred tax asset of £47,969. At 31 December 2014 a liability of £573,079 was recognised in the balance sheet with a corresponding deferred tax asset of £114,616.

Accounting for the interest rate swaps was the only change in accounting policy which caused a difference in equity as at 1 January 2014 and 31 December 2014 between UKGAAP as previously reported and FRS 102.

(b) Reconciliation of loss

	Year ended 31 December 2014 £
Loss for the financial year reported under previous UKGAAP	(16,398,553)
Recognition of movement in fair value of interest rate swaps	-
Loss for the financial year reported under FRS 102	(16,398,553)
Total comprehensive expense for the year reported under previous UKGAAP	(16,398,553)
Recognition of movement in fair value of interest rate swaps	(364,517)
Deferred tax impact of adjustment	66,647
Total comprehensive expense for the year reported under FRS 102	(16,696,423)

Interest rate swaps are accounted for as an effective cash flow hedge using the accounting procedures outlined in FRS 102, as stated in note 3. The movement in fair value of the interest rate swaps and the deferred tax impact thereon is included in other comprehensive income rather than the profit and loss account.

Accounting for the interest rate swap was the only change in accounting policy which caused a difference in the loss for the financial year ended 31 December 2014 between UKGAAP as previously reported and FRS 102.