

NORTHGATE PLC

INTERIM RESULTS FOR THE 6 MONTHS ENDED 31 OCTOBER 2018

“Further strong revenue growth – full-year VOH target raised in UK.”

	H1 2019 £m	H1 2018 £m	Change %	FY 2018 £m
Average VOH ('000)	92.8	82.1	12.9%	83.8
Revenue – vehicle hire	259.5	234.5	10.7%	471.2
Revenue – vehicle sales	114.5	115.2	(0.6%)	230.5
Underlying ⁽¹⁾ EBITDA	133.5	127.3	4.9%	251.0
Underlying ⁽¹⁾ Operating Profit	36.7	39.1	(6.2%)	68.3
Underlying ⁽¹⁾ Profit before Tax	29.2	33.8	(13.6%)	57.0
Underlying ⁽¹⁾ Earnings per Share (p)	18.5p	20.7p	(10.6%)	34.8p
Dividend per Share (p)	6.2p	6.1p	1.6%	17.7p
Total Revenue	374.0	349.7	6.9%	701.7
Profit before Tax	28.7	31.0	(7.4%)	52.7
Earnings per Share (p)	18.4p	19.1p	(3.7%)	32.4p
Total Net Capex (incl. inorganic) ⁽¹⁾	(149.5)	(178.8)	(16.4%)	(311.1)
Net Debt	(479.8)	(421.0)	(14.0%)	439.3
Return on Capital Employed %	6.7%	8.7%	(2.0ppt)	7.6%

(1) Refer to Reconciliation of GAAP to non- GAAP measures and Glossary of terms.

First Half Highlights:

- Continuing strong VOH growth delivered in UK&I (+12.7%) and Spain (+13.2%)
- UK&I rental margin improved sequentially to 7.1% (H2 2018: 6.0%) despite one-off costs
- Further margin expansion initiatives being implemented in Spain and UK&I
- Reduction in capex delivered by fleet optimisation policy
- Statutory profit before tax 7.4% lower at £28.7 million (H1 2018: £31.0 million)
 - Benefitted from £7.7 million impact of depreciation rate change

FY 2019 full-year outlook:

- UK&I : VOH growth target increased to double-digit (from high single-digit)
Rental margin target now 7.5% - 8.0% (from broadly flat vs. 8.3% in FY 2018)
Net impact neutral for rental profit - expectations unchanged
- Spain : No change to expectations - in line with previous guidance

Kevin Bradshaw, CEO of Northgate, commented:

“Our reported performance in the first half reflected the difficult strategic decisions we took in the second half last year. Consequently, despite strong revenue growth, our margins, profits and ROCE are lower, as expected, compared to the first half of last year. We remain confident, however, about the positive trajectory of the business going forward, and we are on track to meet our full year expectations.

The turnaround in our UK&I business is starting to show through, with double-digit revenue growth, and rental margins ahead sequentially versus the second half last year. We are confident that we can maintain this growth and increase margins going forward. The one-off costs of TOM integration are behind us, the impact of rate increases is now delivering positive rate growth compared to the prior year, and we are implementing a broad range of margin improvement opportunities.

Our Spanish business can maintain its momentum, focusing on profitable SME growth segments, benefitting from new facilities brought into operation in the first half and implementing its own set of margin improvement initiatives.

The high rate of volume growth in both the UK&I and Spain has depressed ROCE, due to the substantial investment in new vehicles as well as lower disposal profits as the fleet is aged. We are maintaining strong discipline in the deployment of capital and are confident that ROCE will grow moving forwards through a combination of margin improvement and fleet optimisation actions.

Dividend

The Board has declared an Interim Dividend of 6.2 pence per share (2018: 6.1 pence/share) which will be paid on Friday 25 January 2019 to Shareholders on the register on Friday 14 December 2018.

Contact details

There will be a presentation for investors and analysts at 9.30 a.m. today at Numis, 5th Floor, London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT. If you have not already registered to attend, please contact MHP Communications on the number below.

A live webcast of this presentation will be available via a link on the Company’s web-site www.northgateplc.com

There will also be a listen-only dial-in facility on 0800 358 6377 (toll-free) or 0330 336 9126 (local) Confirmation code 9977392.

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Notes to Editors:

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

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

Reconciliation of GAAP to non-GAAP measures and Glossary of terms

Throughout this document we refer to underlying results and measures; the underlying measures allow management and other stakeholders to better compare the performance of the Group between the current and prior period without the effects of one-off or non-operational items. Underlying measures exclude certain one-off items such as those arising from restructuring activities and recurring non-operational items. Specifically, we refer to disposal profit. This is a non-GAAP measure used to describe the adjustment in depreciation charge made in the year for vehicles sold at an amount different to their net book value at the date of sale (net of attributable selling costs).

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

CHIEF EXECUTIVE REVIEW

Strategic summary

During the first half Northgate's strategy delivered double-digit VOH growth, successfully exploiting the continuing structural shift in the LCV market from ownership to "usership". The company's competitive advantages, including its nationwide networks of rental depots and service workshops, buying power, and strong brand and reputation enable Northgate to offer a compelling range of LCV rental propositions, which gained strong traction with business customers across all territories served.

The ability to bundle together a range of minimum-term and flexible rental products is proving to be an attractive proposition for many customers in both Spain and the UK, and a substantial proportion of new business is generated by cross-selling additional rental products to existing customers.

Competition in the LCV rental market remains robust in all three territories, but is rational, with structural cost increases faced by the industry generally being passed through to the end user. LCV rental is not purely a price-driven decision for customers, and other factors such as service levels, geographic presence and long-term relationships play a major role. In all its markets, Northgate seeks to differentiate in particular through its service offering, aiming to minimise vehicle downtime for customers and to be the best possible partner.

Moving forward, the company will drive to maintain momentum in VOH, also seeking to focus further on the most attractive growth segments, in both minimum-term and flexible rental, where its competitive strengths can deliver the highest margins and returns. This will help to accelerate the conversion of Northgate's rental revenue growth into strong, sustainable growth in profit and ROCE.

Outlook & Guidance

UK & Ireland - changes

VOH growth of 12.7% in the first half has been stronger than expected, with Northgate's range of minimum term and flexible rental solutions gaining good traction in the market. We expect this growth to continue through the remainder of the year, including strong seasonal peak VOH demand in the third quarter, and now expect to deliver double-digit average VOH growth for the full year.

As a result of this faster VOH growth, and some one-off items in the first half (including processing the 3,400 ex-TOM vehicles acquired), we now expect the rental margin for the full year to be in the range 7.5%-8.0%, versus previous guidance of broadly flat (FY 2018: 8.3%).

The net impact of the stronger VOH and lower rental margin is that rental profit for the full year is expected to be in line with our original expectations, and higher than in FY 2018.

Spain – no change

We expect the good performance in the first half to continue through the rest of the year, and the business to deliver full year results in line with previous guidance.

Group

The stronger VOH growth we expect in the UK will result in full year group capex £10-20 million higher than previously expected. The definitions of Growth and Net Replacement Capex are currently being reviewed in order to more closely align these metrics to our fleet management policy.

ROCE will remain structurally lower as the company continues to experience rapid VOH growth. This is due to capital being deployed now to purchase a vehicle which will deliver a return over the 3-4 years that it is in the fleet and when it is sold at the end of this period.

UK & IRELAND

KPI	H1 2019 (‘000)	H1 2018 (‘000)	Change %	FY 2018 (‘000)
Average VOH	48.2	42.7	12.7%	43.5
Closing VOH	49.2	44.0	11.9%	46.4
Vehicles purchased	9.4	10.5	(9.7%)	23.4
Vehicles de-fleeted	8.8	9.9	(11.3%)	17.0
Vehicles sold (incl. 3 rd party)	10.8	11.4	(4.7%)	21.0
Profit per Unit (PPU) £	465	390	19.2%	457
Closing fleet size	57.3	50.9	12.6%	56.7
Average utilisation %	86%	87%	(1 ppt)	87%
Average fleet age (mo.)	21	22	(1 mo.)	21

Profit & Loss (Underlying)	H1 2019 £m	H1 2018 £m	Change %	FY 2018 £m
Revenue – Vehicle hire	157.4	141.6	11.1%	283.5
Revenue – Vehicle sales	88.3	80.2	10.1%	156.9
Total Revenue	245.7	221.8	10.7%	440.4
Rental profit	11.2	15.0	(25.4%)	23.5
Rental Margin %	7.1%	10.6%	(3.5ppt)	8.3%
Disposals profit	5.0	4.4	12.9%	9.6
Operating profit	16.2	19.4	(16.7%)	33.1
ROCE %	5.4%	7.8%	(2.4ppt)	6.3%

Rental business – VOH and rental revenue

Average VOH in the first half grew by 12.7% year-on-year to 48,200. This included the addition to VOH during the period of approximately 1,600 former TOM vehicles. VOH growth demonstrated the strong market traction gained by Northgate’s range of compelling rental propositions, and the increasing effectiveness of the self-help actions implemented across the UK business over the past 12 months.

The increase in average VOH in the first half drove 11.1% rental revenue growth to £157.4 million (H1 2018: £141.6 million).

Closing VOH at the end of the first half was 49,200, 8.1% higher than at the start of the period (which excluded ex-TOM vehicles). Minimum-term contracts remained the primary driver of this growth, representing almost 19% of total VOH at the end of the first half compared to 4% at the same time last year. The average term of these contracts remained around three years.

Flexible rental prices were increased by 4.8% for a significant proportion of the flexible rental fleet at the start of the year, to reflect the cumulative impact of structural cost increases that the business had faced over previous periods without corresponding hire rate increases. The increase was accompanied by effective communication with customers, and did not result in any noticeable increase in customer churn. Market research and customer feedback indicated that this price rise was in line with wider market pricing trends.

Northgate's UK customer base continues to be drawn from a wide range of industry sectors and regions, with approximately 25% of VOH deployed directly in the construction sector, and around 20% in businesses carrying out general administrative and support services. The three largest individual customers comprise just under 10% of total VOH. Geographically, northern England and Scotland together are home to approximately 30% of UK VOH, with another 20% of vehicles based in London and the South-East of England.

A key driver of the company's VOH growth is its ability to offer a full range of flexible and minimum-term products, from short-term flexible up to four-year minimum-term. Northgate's sales teams aim to engage with the customer beyond the transaction, creating a relationship and a rental narrative that delivers the best possible all-round proposition for the customer. The result is that a substantial proportion of VOH growth comes from existing customers, in particular new minimum-term sales coming from existing flexible rental customers, who will often add to their flexible VOH at the same time.

Rental profit and margin

As previously reported, returning the UK business to strong VOH growth, including driving new minimum-term propositions, led to a significant dilution of the rental margin during the second half of last year. There is now a major focus on rebuilding margins, while at the same time maintaining strong VOH growth. The initial success of this was demonstrated by the sequential increase in rental margin in the first half to 7.1%, compared to 6.0% in the second half of last year (H1 2018: 10.6%) and the business exited the first half with margins continuing to strengthen.

Rental profit in the first half of £11.2 million was 25.4% lower than the same period last year (H1 2018: £15.0 million), but 31.8% higher than the £8.5 million rental profit reported in the second half of 2018.

First half rental profit was adversely impacted by one-off costs and a short-term dip in utilisation incurred as a result of the integration of the ex-TOM vehicles into Northgate. This acquisition involved processing an additional 3,400 vehicles in a short space of time, requiring a significant increase in operational resources. Rental profit was also held back by further one-off costs associated with the transformation process being implemented across the business, including further organisation restructuring, and other operational changes. These one-off costs totalled around £1.2 million during the period.

These rental profit headwinds were offset by the approximately £2.4 million benefit from the change in depreciation rates implemented at the start to the period.

The company is implementing a number of further initiatives aimed at delivering sustainable increases in rental margin. These include ensuring that contracts include provision for annual hire rate increases, excess mileage charges in contracts are billed fully, and vehicle damage charged for appropriately. There will also be enhanced focus on the market segments where Northgate is most competitive and able to achieve higher rates without compromising the drive for VOH growth.

The business in Ireland, which accounts for just under 7% of VOH, did not perform well in the first half, delivering broadly flat VOH and disposals profits, and a lower rental margin. Extensive changes have been made to management, and a plan implemented to return the business to profitable growth.

Management of fleet and vehicle sales

The fleet at the end of the first half comprised 57,300 vehicles, 6,400 higher than at the same time last year, reflecting the rapid growth in VOH and the acquisition of 3,400 ex-TOM vehicles at the end of last year, around half of which were subsequently converted to VOH.

In line with the Group-wide fleet optimisation policy, the average age at which vehicles were de-fleeted increased, resulting in lower volumes of vehicles both sold and purchased compared to the same period last year. The 10,800 vehicles sold during the first half included approximately 1,800 ex-TOM vehicles, and 2,000 third-party vehicles purchased for re-sale. 42% of total sales were through the Van Monster retail channel, broadly the same as in the same period last year.

Strong residual values generally, and the sale of ex-TOM vehicles, resulted in PPU of £465, nearly 20% above the level achieved last year and significantly higher than previously expected. This resulted in a disposals profit of £5.0 million compared to £4.4 million in the first half last year.

Operating profit and ROCE

The reduction in rental profit, partially offset by the higher disposals profit, resulted in first half operating profit of £16.2 million, 16.7% lower than the first half of last year (H1 2018: £19.4 million). The return on capital employed was 5.4% compared to 7.8% in the same period last year, reflecting the lower operating profit and the higher net book value of the vehicle fleet, due to its rapid growth.

Capex and cash flow

6 months ended 31 October	H1 2019	H1 2018	Change	FY 2018
Cash flow	£m	£m	%	£m
Underlying EBITDA	73.9	71.1	3.9%	138.3
Total Net Capex (incl. inorganic)	(84.9)	(74.8)	(13.5%)	(158.5)
EBITDA less Total Net Capex	(11.0)	(3.7)	-	(20.2)

Underlying EBITDA in the first half grew by 3.9% to £73.9 million (H1 2018: £71.1 million) reflecting rental revenue growth partly offset by higher operating costs during the period, including one-off costs.

Total net capex of £84.9 million was £10.1 million higher than in the same period last year, and included approximately £23 million of the consideration paid to acquire the ex-TOM vehicles. Organic capex was therefore approximately £13 million lower than in the first half of last year, reflecting the impact of the fleet optimisation policy, partly offset by higher investment to grow the fleet.

SPAIN

KPI	H1 2019 (‘000)	H1 2018 (‘000)	Change %	FY 2018 (‘000)
Average VOH	44.6	39.4	13.2%	40.3
Closing VOH	45.4	41.2	10.4%	42.7
Vehicles purchased	7.4	11.1	(34.8%)	18.9
Vehicles de-fleeted	4.3	6.6	(35.3%)	12.7
Vehicles sold	4.7	6.1	(24.0%)	12.8
Profit per Unit (PPU) €	484	1,109	(56.3%)	871
Closing fleet size	51.1	46.3	10.4%	48.0
Average utilisation %	91%	92%	(1 ppt)	91%
Average fleet age at year-end (mo.)	20	19	1 mo.	19

Profit & Loss (Underlying)	H1 2019 £m	H1 2018 £m	Change %	FY 2018 £m
Revenue – Vehicle hire	102.1	92.9	10.0%	187.6
Revenue – Vehicle sales	26.2	35.0	(25.2%)	73.5
Total Revenue	128.3	127.9	0.4%	261.1
Rental profit	21.1	15.2	38.5%	29.0
<i>Rental Margin %</i>	20.6%	16.4%	4.2ppt	15.4%
Disposals profit	2.0	6.1	(66.6%)	10.0
Operating profit	23.1	21.3	8.4%	39.0
ROCE %	9.3%	11.3%	(2.0ppt)	10.0%

Rental business – VOH and rental revenue

Average VOH in the first half grew by 13.2% to 44,600, maintaining the strong momentum built up in the market over the previous year. VOH growth drove 10.0% rental revenue growth to £102.1 million (H1 2018: £92.9 million). Rental revenue growth was also 10.0% at constant exchange rates.

Closing VOH was 45,400, around 4,200 higher than at the same time last year, demonstrating the continuing traction which Northgate’s range of products have gained across a wide range of customers. Growth was again driven by minimum-term products, which represented 28% of closing VOH at the end of the first half, up from 23% at the start of the period and around 17% at the end of the first half last year.

Northgate continues to have a well diversified customer base, in terms of both industry sector and location. The construction sector accounts for around 26% of VOH, with a further 24% of VOH deployed in the support services sector. Retail and wholesale distribution and telecoms are also both industries accounting for just over 10% of VOH. Geographically, Madrid with just under 20% of VOH and Barcelona with just under 15% of VOH are the most important centres of activity for the Company, with the remaining two-thirds of VOH spread fairly evenly across the rest of the country. Northgate’s fleet comprises 30% passenger vehicles, used by customers primarily for business purposes.

Bundling minimum-term and flexible rental products together for large customers has been a key driver of VOH and revenue growth, and these bundled propositions are also now gaining increasing traction in the SME segment. The ability to offer bundles drawn from the widest portfolio of rental products available in the market, based out of the most extensive depot network in Spain and complemented by a market-leading service offer, are what continues to differentiate Northgate.

Rental profit and margin

Rental profit grew by 38.5% to £21.1 million (H1 2018: £15.2 million) with the increase reflecting the £7.7 million positive impact of the change in the depreciation rate at the start of the period. The benefits of greater scale were broadly offset by higher operating costs, which included the impact of opening a major new flagship facility in Madrid, incorporating a rental depot, workshops and vehicle sales facilities.

Rental margin increased to 20.6%, from 16.4% in the first half of last year, mainly reflecting the depreciation rate change, as well as the higher costs of the expanded network and the impact of more minimum term customers in the VOH mix.

The company is focusing on a number of margin improvement initiatives, including higher pricing for customers whose vehicles routinely incur substantially above average damage (the costs of which in the Spanish market are borne by the rental company and not passed through to customers).

Management of fleet and vehicle sales

The fleet at the end of the first half comprised 51,100 vehicles, 4,800 higher than at the same time last year, reflecting the rapid growth in VOH during the past 12 months.

In line with the group-wide fleet optimisation policy, the average age at which vehicles were de-fleeted and sold increased, resulting in substantially lower volumes of vehicles both sold and purchased, compared to the same period last year. During the first half a total of 7,400 vehicles were purchased, 4,300 de-fleeted, and 4,700 sold, of which 16% were sold through the Northgate Occasion retail channel (H1 2018: 14%)

Although residual values were stable, PPU in the first half was €484, less than half the level reported for the same period last year, as expected, mainly reflecting the depreciation rate change

Lower PPUs, combined with the reduction in the number of vehicles sold, resulted in disposals profit of £2.0 million, down from £6.1 million in first half last year. The adverse impact of the previous depreciation change was approximately £2.1 million.

Operating profit and ROCE

Operating profit in the first half was £23.1 million, 8.4% higher than in the first half last year (H1 2018: £21.3 million), reflecting the combined impact of the higher rental profit and lower disposals profit in the period. The net effect of the depreciation rate changes was to increase first half operating profit by £5.6 million. Operating profit also grew by 8.4% at constant exchange rates.

The return on capital employed was 9.3% compared to 11.3% in the same period last year, with the higher net book value of the vehicle fleet, due to its rapid growth, more than offsetting the increase in operating profit.

Capex and cash flow

6 months ended 31 October Cash flow	H1 2019 £m	H1 2018 £m	<i>Change</i> %	FY 2018 £m
Underlying EBITDA	61.9	57.6	7.5%	115.7
Total Net Capex	(64.7)	(103.9)	37.7%	(152.5)
EBITDA less Total Net Capex	(2.8)	(46.3)	-	(36.8)

Underlying EBITDA in the first half grew by 7.5% to £61.9 million (H1 2018: £57.6 million) reflecting rental revenue growth, partly offset by higher operating costs.

Total net capex of £64.7 million was £39.2 million lower than in the same period last year, reflecting both the substantial impact of the fleet aging process and longer vehicle replacement cycle, as well as the significantly lower level of vehicle purchases to grow the fleet compared to the previous year.

Business resilience

Northgate is well positioned to manage the range of challenges that could potentially result from external factors. These include:

Brexit

The Company has undertaken a review of the potential impact on its business of the UK leaving the European Union. The most significant potential threat would be if the import of vehicles and vehicle components into the UK from the EU were disrupted, or if additional import costs were imposed. Around 90% of vehicles purchased by Northgate UK from UK OEMs are imported from the EU, valued at approximately £220 million annually. Assurances have been sought from these OEMs, who are confident that there will be no material long-term disruption. Northgate itself can mitigate the impact of potential short-term supply disruption by slowing the rate of vehicle de-fleets in order to maintain vehicle availability for customers. Additionally, components for vehicles manufactured in the UK are imported from the EU, but normal OEM stock levels are judged to be sufficient to address any potential short-term supply issues.

The Company believes that whilst any increase in import costs could potentially create some margin pressure in the short-term, in the longer term it will be able to pass through to end-users any significant additional costs that might be imposed on imported vehicles. A potential upside for Northgate in the event of any new vehicle supply shortages, or higher purchase costs, would be the likely increase in rental demand and residual values that would result.

Less than 5% of Northgate's UK employees do not possess a UK passport, so any change to the status of EU citizens in the UK will not have a material effect on the company's operations.

No material impacts on Northgate's business in Ireland have been identified.

Economic downturn

The Company is well placed to weather adverse economic conditions which could arise either as part of the general business cycle or linked to Brexit. Importantly, the business generates strong cash flow when it is not investing to grow the vehicle fleet. If VOH growth turns negative in a downturn, vehicle purchases can be slowed, and even if there were to be some decline in the residual value of de-fleeted vehicles, the company can continue to generate significant cashflow, protecting its balance sheet and its ability to service debt and dividend payments. Currency risks are mitigated by the Group's matching of the currency profiles of its revenues and costs and its debt and net assets.

Vehicle emission regulations

Regulations to reduce vehicle emissions are continually evolving, and the focus is now shifting to vehicles that meet only Euro 4 standards. Northgate's fleet has almost no Euro 4 vehicles remaining, comprising over 70% Euro 6 vehicles, with all diesel vehicle purchases now Euro 6 standard. Vehicles in this category produce one-third lower CO2 emissions and one-third better fuel consumption than equivalent petrol engines.

Northgate has increased the number of electric and hybrid vehicles in its fleet, particularly in Spain, in response to specific customer requirements, but these still comprise less than 1% of the total Northgate fleet, and very limited supply options are available currently from OEMs. As regulations evolve and customer demand for electric and hybrid vehicles increases, Northgate's fleet and propositions will also evolve to meet this demand, with the company's close relationships with suppliers ensuring that it has access to any commercially viable supply options as soon as these become available. In the short-term however, due to the lack of electric and hybrid alternatives, customer LCV demand and Northgate LCV purchases are likely to remain dominated by diesel vehicles.

FINANCIAL REVIEW

Underlying financial summary ⁽¹⁾	H1 2019 £m	H1 2018 £m	Change £m	Change %
Revenue	374.0	349.7	24.3	6.9%
Operating profit	36.7	39.1	(2.4)	(6.2%)
Statutory operating profit	36.2	36.3	(0.1)	(0.3%)
Net finance charge	(7.4)	(5.3)	(2.1)	(41.4%)
Profit before tax	29.2	33.8	(4.6)	(13.6%)
Statutory profit before tax	28.7	31.0	(2.3)	(7.4%)
Net tax charge	(4.6)	(6.2)	1.6	26.7%
Profit after tax	24.7	27.6	(2.9)	(10.7%)
Earnings per share (pence)	18.5	20.7	(2.2)	(10.6%)
Dividend per share (pence)	6.2p	6.1p	0.1p	1.6%

(1) All figures disclosed are underlying unless stated otherwise. Refer to Reconciliation of GAAP to non-GAAP measures and Glossary of terms for further information.

Revenue

Total underlying Group revenue increased by 6.9% to £374.0 million.

Group revenue comprised:

	H1 2019 £m	H1 2018 £m	Change £m	Change %
Vehicle hire	259.5	234.5	25.0	10.7%
Vehicle sales	114.5	115.2	(0.7)	(0.6%)
Total	374.0	349.7	24.3	6.9%

Vehicle hire revenue was driven by growth in average VOH of 12.9% (£30.3m), partially offset by lower average hire rate which declined 2.0% (£5.3m). Vehicle sales revenue was broadly flat, with a £13.6m reduction in revenue from lower sales volumes being offset by a 12.7% increase in proceeds per vehicle (£12.9m).

Underlying operating profit

Total underlying Group operating profit decreased by 6.2% to £36.7 million and is stated before certain intangible amortisation of £0.5m (2018 – Exceptional costs and certain intangible amortisation £2.8m)

Group underlying operating profit comprised:

	H1 2019 £m	H1 2018 £m	Change £m	Change %
Rental Profit	32.3	30.2	2.1	6.8%
Disposals Profit	7.0	10.5	(3.5)	(33.2%)
Corporate Costs	(2.6)	(1.6)	(1.0)	(58.8%)
Total	36.7	39.1	(2.4)	(6.2%)

Rental profit increase of £2.1m is driven by growth in Spain of £5.9m offset by UK&I decline of £3.8m. The Group result is inclusive of a net benefit of £10.1m owing to changes in depreciation rates.

Disposal profits decreased by £3.5m as a result of unwind of previous depreciation rate changes (£2.5m) and a 13.4% decline in disposal volumes.

Corporate costs have increased by £1.0m to £2.6m.

Interest

Net finance charges for the first half increased by £2.1 million to £7.4 million, as a result of both higher borrowings (£1.3m) and a higher cost of borrowing (£0.8m).

Taxation

The underlying effective tax rate reduced to 15.6% (2018: 18.4%) due to the resolution of certain tax positions in relation to prior year giving rise to an underlying tax charge in the first half of £4.6 million (2018: £6.2 million).

After taking account of certain intangible amortisation the effective tax rate was 14.9% (H1 2018 17.8% after certain intangible amortisation and exceptional costs).

Cash flow and net debt

Total net capex for the period declined £29.3m to £149.5m (2018 – £178.8m) as a result of lower net purchases (£32.0m) offset by an increase in other net capex (£2.7m).

Net debt including unamortised arrangement fees increased from 30 April 2018 to £479.8m from £439.3m due to investment to grow the vehicle fleet. The Net Debt to EBITDA leverage ratio at the end of the period was 1.87x, in line with the Group's stated target range of 1.5x to 2.5x EBITDA. The group maintains comfortable levels of headroom against all of our debt covenant ratios.

Facility headroom at 31 October 2018 was £138.4m.

Balance sheet

Group return on capital employed was 6.7% compared to 8.7% in the same period last year and 7.6% in the year ended 30 April 2018.

Net tangible assets at 31 October 2018 were £537.5m (30 April 2018 - £530.3m), equivalent to net tangible assets per share of 403p (30 April 2018 – 398p).

Gearing at 31 October 2018 was 89.3% (30 April 2018 – 82.8%).

Foreign exchange

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

	October 2018	October 2017	April 2018
	£ : €	£ : €	£ : €
Average	1.13	1.13	1.13
Closing	1.13	1.14	1.14

Risks and uncertainties

The Board and the Group's management have clearly defined responsibility for identifying the major business risks facing the Group and for developing systems to mitigate and manage those risks.

The principal risks and uncertainties facing the Group at 30 April 2018 were set out in detail on pages 36 to 39 of the 2018 annual report, a copy of which is available at www.northgateplc.com, and were identified as:

- economic environment;
- market risk;
- vehicle holding costs;
- legal compliance and the employee environment;
- IT systems; and
- access to capital.

These principal risks have not changed since the last annual report and continue to be those that could impact the Group during the second half of the current financial year.

In addition to the risks outlined above, the going concern assumption is considered in Note 1 to the condensed interim financial statements for the six months ended 31 October 2018.

Glossary of terms

The following defined terms have been used throughout this document:

Term	Definition
Disposals Profit	This is a non-GAAP measure used to describe the adjustment in the depreciation charge made in the year for vehicles sold at an amount different to their net book value at the date of sale (net of attributable selling costs).
EBITDA	Earnings before interest, taxation, depreciation and amortisation.
Facility headroom	Calculated as facilities of £620.9m less net borrowings of £482.5m. Net borrowings represent net debt of £479.8m excluding unamortised arrangement fees of £2.7m and are stated after the deduction of £10.7m of net cash balances which are available to offset against borrowings.
Gearing	Calculated as net debt divided by net tangible assets (as defined below).
LCV	Light commercial vehicle: the official term used within the European Union for a commercial vehicle with a gross vehicle weight of not more than 3.5 tonnes.
Net tangible assets	Net assets less goodwill and other intangible assets.
OEM	Original equipment manufacturer.
PPU	Profit per unit/loss per unit – this is a non-GAAP measure used to describe the disposals profit (as defined), divided by the number of vehicles sold.
ROCE	Return on capital employed: calculated as trailing 12 month underlying operating profit divided by average capital employed. Capital employed being net assets excluding net debt.
UK & I	The UK and Ireland operating segment.
VOH	Vehicles on hire with customers

Reconciliation of GAAP to non-GAAP measures

Throughout this report we refer to underlying results and measures. The underlying measures allow management and other stakeholders to better compare the performance of the Group between the current and prior period without the effects of one-off or non-operational items.

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

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

	Six months to 31.10.18 £000	Six months to 31.10.17 £000
Profit before tax	28,743	31,026
<i>Add back:</i>		
Exceptional operating expenses (credit)	—	1,926
Certain Intangible amortisation	494	896
Underlying profit before tax	29,237	33,848
Profit for the period	24,448	25,492
<i>Add back:</i>		
Exceptional operating expenses (credit)	—	1,926
Certain Intangible amortisation	494	896
Tax on exceptional items, brand royalty charges and intangible amortisation	(278)	(702)
Underlying profit for the year	24,664	27,612
Weighted average number of Ordinary shares	133,232,518	133,232,518
Underlying basic earnings per share	18.5p	20.7p
	Six months to 31.10.18 £000	Six months to 31.10.17 £000
Operating profit	36,181	36,286
<i>Add back:</i>		
Restructuring costs	—	1,926
Certain intangible amortisation	494	896
Underlying operating profit	36,675	39,108
<i>Add Back</i>		
Fleet Depreciation	93,742	85,234
Other Depreciation	2,716	2,644
Loss on disposal of assets	114	143
Intangible amortisation included in underlying operating profit	297	138
Underlying EBITDA	133,544	127,267

	UK and Ireland 6 months to October 2018 £000	Spain 6 months to October 2018 £000	Corporate 6 months to October 2018 £000	Group 6 months to October 2018 £000
Underlying operating profit (loss)	16,193	23,120	(2,638)	36,675
<i>Exclude</i>				
Adjustments to depreciation charge in relation to vehicles sold in the period	(4,993)	(2,043)	–	(7,036)
Corporate costs	–	–	2,638	2,638
Rental Profit	11,200	21,077	–	32,277
<i>Divided by:</i> Revenue: hire of vehicles	157,358	102,135	–	259,493
Rental margin	7.1%	20.6%		12.4%

	UK and Ireland 6 months to October 2017 £000	Spain 6 months to October 2017 £000	Corporate 6 months to October 2017 £000	Group 6 months to October 2017 £000
Underlying operating profit (loss)	19,441	21,328	(1,661)	39,108
<i>Exclude</i>				
Adjustments to depreciation charge in relation to vehicles sold in the period	(4,423)	(6,111)	–	(10,534)
Corporate costs	–	–	1,661	1,661
Rental Profit	15,018	15,217	–	30,235
<i>Divided by:</i> Revenue: hire of vehicles	141,640	92,869	–	234,509
Rental margin	10.6%	16.4%	–	12.9%

Condensed consolidated income statement

for the six months ended 31 October 2018

		Six months to 31.10.18 (Unaudited) Underlying	Six months to 31.10.18 (Unaudited) Statutory	Six months to 31.10.17 (Unaudited) Underlying	Six months to 31.10.17 (Unaudited) Statutory	Year to 30.04.18 (Audited) Underlying	Year to 30.04.18 (Audited) Statutory
	Note	£000	£000	£000	£000	£000	£000
Revenue: hire of vehicles	2	259,493	259,493	234,509	234,509	471,187	471,187
Revenue: sale of vehicles	2	114,478	114,478	115,169	115,169	230,485	230,485
Total revenue	2	373,971	373,971	349,678	349,678	701,672	701,672
Cost of sales		(298,969)	(298,969)	(277,610)	(277,610)	(563,232)	(563,232)
Gross profit		75,002	75,002	72,068	72,068	138,440	138,440
Administrative expenses (excluding exceptional items and intangible amortisation)		(38,327)	(38,327)	(32,960)	(32,960)	(70,097)	(70,097)
Exceptional administrative expenses	9	–	–	–	(1,926)	–	(2,499)
Intangible amortisation		–	(494)	–	(896)	–	(1,767)
Total administrative expenses		(38,327)	(38,821)	(32,960)	(35,782)	(70,097)	(74,363)
Operating profit	2	36,675	36,181	39,108	36,286	68,343	64,077
Interest income		–	–	1	1	1	1
Finance costs		(7,438)	(7,438)	(5,261)	(5,261)	(11,340)	(11,340)
Profit before taxation		29,237	28,743	33,848	31,026	57,004	52,738
Taxation	3	(4,573)	(4,295)	(6,236)	(5,534)	(10,651)	(9,506)
Profit for the period		24,664	24,448	27,612	25,492	46,353	43,232

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

Underlying profit excludes exceptional items as set out in Note 9, as well as brand royalty charges, certain intangible amortisation and the taxation thereon, in order to provide a better indication of the Group's underlying business performance.

Earnings per share

Basic	4	18.5p	18.4p	20.7p	19.1p	34.8p	32.4p
Diluted	4	18.1p	18.0p	20.5p	18.9p	34.3p	32.0p

Condensed consolidated statement of comprehensive income

for the six months ended 31 October 2018

	Six months to 31.10.18 (Unaudited) £000	Six months to 31.10.17 (Unaudited) £000	Year to 30.04.18 (Audited) £000
Amounts attributable to owners of the Parent Company			
Profit attributable to owners	24,448	25,492	43,232
Other comprehensive income (expense)			
Foreign exchange differences on retranslation of net assets of subsidiary undertakings	4,762	14,964	15,488
Net foreign exchange differences on long term borrowings held as hedges	(3,197)	(11,006)	(11,393)
Foreign exchange difference on revaluation reserve	12	44	46
Net fair value gains on cash flow hedges	259	537	1,105
Deferred tax charge recognised directly in equity relating to cash flow hedges	(49)	(102)	(210)
Total other comprehensive income for the period	1,787	4,437	5,036
Total comprehensive income for the period	26,235	29,929	48,268

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

Condensed consolidated balance sheet

31 October 2018

		31.10.18 (Unaudited) £000	31.10.17 (Unaudited) £000	30.04.18 (Audited) £000
	Note			
Non-current assets				
Goodwill		3,589	3,589	3,589
Other intangible assets		7,816	3,325	5,205
Property, plant and equipment: vehicles for hire	6	946,386	829,503	897,323
Other property, plant and equipment	6	68,195	66,034	67,979
Total property, plant and equipment	6	1,014,581	895,537	965,302
Deferred tax assets		9,150	16,381	10,791
Total non-current assets		1,035,136	918,832	984,887
Current assets				
Inventories		25,333	37,952	31,828
Trade and other receivables		84,763	79,702	76,091
Current tax assets		–	–	4,745
Cash and bank balances	8	47,862	28,024	21,382
Total current assets		157,958	145,678	134,046
Total assets		1,193,094	1,064,510	1,118,933
Current liabilities				
Trade and other payables		100,855	62,700	97,671
Derivative financial instrument liabilities	10	86	–	112
Current tax liabilities		9,933	17,208	15,246
Short-term borrowings		47,239	28,415	17,952
Total current liabilities		158,113	108,323	130,981
Net current (liabilities) assets		(155)	37,355	3,065
Non-current liabilities				
Derivative financial instrument liabilities	10	1,045	1,957	1,277
Long term borrowings		480,445	420,626	442,751
Deferred tax liabilities		4,597	3,559	4,796
Total non-current liabilities		486,087	426,142	448,824
Total liabilities		644,200	534,465	579,805
NET ASSETS		548,894	530,045	539,128
Equity				
Share capital		66,616	66,616	66,616
Share premium account		113,508	113,508	113,508
Own shares reserve		(4,722)	(3,427)	(3,238)
Hedging reserve		(915)	(1,585)	(1,125)
Translation reserve		419	(1,283)	(1,146)
Other reserves		68,672	68,658	68,660
Retained earnings		305,316	287,558	295,853
TOTAL EQUITY		548,894	530,045	539,128

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

Condensed consolidated cash flow statement

for the six months ended 31 October 2018

	Note	Six months to 31.10.18 (Unaudited) £000	Six months to 31.10.17 (Unaudited) £000	Year to 30.04.18 (Audited) £000
Net cash used in operations	7	(12,214)	(80,141)	(81,797)
Investing activities				
Interest received		–	1	1
Proceeds from disposal of other property, plant and equipment		932	2,215	2,374
Purchases of other property, plant and equipment		(3,493)	(4,432)	(9,292)
Purchases of intangible assets		(3,388)	(1,059)	(4,073)
Net cash used in investing activities		(5,949)	(3,275)	(10,990)
Financing activities				
Receipt of bank loans and other borrowings		33,394	89,246	113,902
Debt issue costs paid		(1,737)	–	–
Dividend paid		(15,268)	(15,326)	(23,365)
Net payments to acquire own shares for share schemes		(1,881)	(1,959)	(3,257)
Net cash generated from financing activities		14,508	71,961	87,280
Net decrease in cash and cash equivalents		(3,655)	(11,455)	(5,507)
Cash and cash equivalents at beginning of the period		14,127	19,637	19,637
Effect of foreign exchange movements		214	254	(3)
Cash and cash equivalents at the end of the period		10,686	8,436	14,127
Cash and cash equivalents consist of:				
Cash and bank balances	8	47,862	28,024	21,382
Bank overdrafts	8	(37,176)	(19,588)	(7,255)
		10,686	8,436	14,127

Condensed consolidated statement of changes in equity

for the six months ended 31 October 2018

	Share capital and share premium £000	Own shares £000	Hedging reserve £000	Translation reserve £000	Other reserves £000	Retained earnings £000	Total £000
Total equity at 1 May 2017	180,124	(1,659)	(2,020)	(5,241)	68,614	276,799	516,617
Share options fair value charge	–	–	–	–	–	784	784
Share options exercised	–	–	–	–	–	(191)	(191)
Profit attributable to owners of the Parent Company	–	–	–	–	–	25,492	25,492
Dividend paid	–	–	–	–	–	(15,326)	(15,326)
Net purchase of own shares	–	(1,959)	–	–	–	–	(1,959)
Transfer of shares on vesting of share options	–	191	–	–	–	–	191
Other comprehensive income	–	–	435	3,958	44	–	4,437
Total equity at 1 November 2017	180,124	(3,427)	(1,585)	(1,283)	68,658	287,558	530,045
Share options fair value charge	–	–	–	–	–	81	81
Share options exercised	–	–	–	–	–	(1,487)	(1,487)
Profit attributable to owners of the Parent Company	–	–	–	–	–	17,740	17,740
Dividend paid	–	–	–	–	–	(8,039)	(8,039)
Net purchase of own shares	–	(1,298)	–	–	–	–	(1,298)
Transfer of shares on vesting of share options	–	1,487	–	–	–	–	1,487
Other comprehensive income	–	–	460	137	2	–	599
Total equity at 1 May 2018	180,124	(3,238)	(1,125)	(1,146)	68,660	295,853	539,128
Share options fair value charge	–	–	–	–	–	680	680
Share options exercised	–	–	–	–	–	(397)	(397)
Profit attributable to owners of the Parent Company	–	–	–	–	–	24,448	24,448
Dividend paid	–	–	–	–	–	(15,268)	(15,268)
Net purchase of own shares	–	(1,881)	–	–	–	–	(1,881)
Transfer of shares on vesting of share options	–	397	–	–	–	–	397
Other comprehensive income	–	–	210	1,565	12	–	1,787
Total equity at 31 October 2018	180,124	(4,722)	(915)	419	68,672	305,316	548,894

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

Unaudited Notes

1. Basis of preparation and accounting policies

Northgate plc is a Company incorporated in England and Wales under the Companies Act 2006.

The condensed financial statements are unaudited and were approved by the Board of Directors on 28 November 2018.

The condensed financial statements have been reviewed by the auditors and the independent review report is set out in this document.

The interim financial information for the six months ended 31 October 2018, including comparative financial information, has been prepared on the basis of the accounting policies set out in the last annual report and accounts, except for: income taxes, which are accrued using the tax rate that is expected to be applicable for the full year, and in accordance with IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU); revenue which is recognised in accordance with IFRS 15 'Revenue from Contracts with Customers' as issued by the IASB and adopted by the EU and; financial instruments which are recognised in accordance with IFRS 9 'Financial Instruments' as issued by the IASB and adopted by the EU.

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is applicable to financial assets and financial liabilities. During the period ended 31 October 2018, the Group assessed in detail the impact of the new standard on the consolidated financial statements and concluded the impact on transition was immaterial. Accordingly, in the condensed consolidated interim financial statements the Group has not restated comparatives and no adjustment to the opening balance sheet at 1 May 2018 has been recognised.

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. The standard requires that revenue should only be recognised when a customer obtains control of goods or services and has the ability to direct the use and obtain the benefits from the goods or services. During the 6 months ended 31 October 2018, the Group assessed in detail the impact of the new standard and concluded that the adoption of IFRS 15 had an immaterial impact on the consolidated financial statements. Accordingly, in the condensed consolidated interim financial statements the Group has not restated comparatives and no adjustment to the opening balance sheet at 1 May 2018 has been recognised.

IFRS 16 'Leases' was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. It will therefore be adopted by the Group from the accounting period beginning 1 May 2019 and is expected to have a material impact on property plant and equipment and borrowings (based on our current lease commitments).

In preparing the interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same, in all material respects, as those applied to the consolidated financial statements for the year ended 30 April 2018.

Going concern assumption

Having reassessed the principal risks and the other matters discussed in connection with the viability statement in the 2018 annual report and accounts the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the interim financial statements.

Information extracted from 2018 annual report

The financial figures for the year ended 30 April 2018, as set out in this report, do not constitute statutory accounts but are derived from the statutory accounts for that financial year.

The statutory accounts for the year ended 30 April 2018 were prepared under IFRS and were delivered to the Registrar of Companies on 24 August 2018. The audit report was unqualified, did not draw attention to any matters by way of emphasis and did not include a statement under Section 498(2) or 498(3) of the Companies Act 2006.

2. Segmental analysis

Management has determined the operating segments based upon the information provided to the Board of Directors, which is considered to be the chief operating decision maker. The Group is managed, and reports internally, on a basis consistent with its two main operating divisions, UK and Ireland, and Spain. As outlined in the 2018 annual report and accounts, the UK and Ireland segments are now reported as a single segment. The comparatives have been restated accordingly. The principal activities of these divisions are set out in the Chief Executive review and Financial review.

	UK and Ireland	Spain	Corporate	Group
	Six months to 31.10.18 (Unaudited) £000	Six months to 31.10.18 (Unaudited) £000	Six months to 31.10.18 (Unaudited) £000	Six months to 31.10.18 (Unaudited) £000
Revenue: hire of vehicles	157,358	102,135	–	259,493
Revenue: sale of vehicles	88,301	26,177	–	114,478
Total revenue	245,659	128,312	–	373,971
Underlying operating profit (loss) *	16,193	23,120	(2,638)	36,675
Intangible amortisation				(494)
Operating profit				36,181
Finance costs				(7,438)
Profit before taxation				28,743

	UK and Ireland	Spain	Corporate	Group
	Six months to 31.10.17 (Unaudited) £000	Six months to 31.10.17 (Unaudited) £000	Six months to 31.10.17 (Unaudited) £000	Six months to 31.10.17 (Unaudited) £000
Revenue: hire of vehicles	141,640	92,869	–	234,509
Revenue: sale of vehicles	80,196	34,973	–	115,169
Total revenue	221,836	127,842	–	349,678
Underlying operating profit (loss) *	19,441	21,328	(1,661)	39,108
Exceptional administrative expenses				(1,926)
Intangible amortisation				(896)
Operating profit				36,286
Interest income				1
Finance costs				(5,261)
Profit before taxation				31,026

	UK and Ireland Year to 30.04.18 (audited) £000	Spain Year to 30.04.18 (audited) £000	Corporate Year to 30.04.18 (audited) £000	Group Year to 30.04.18 (audited) £000
Revenue: hire of vehicles	283,543	187,644	–	471,187
Revenue: sale of vehicles	156,937	73,548	–	230,485
Total revenue	440,480	261,192	–	701,672
Underlying operating profit (loss) *	33,114	38,960	(3,731)	68,343
Exceptional administrative expenses				(2,499)
Intangible amortisation				(1,767)
Operating profit				64,077
Interest income				1
Finance costs				(11,340)
Profit before taxation				52,738

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

3. Taxation

The charge for taxation for the six months to 31 October 2018 is based on the estimated effective rate for the year ending 30 April 2019 of 14.9% (October 2017 – 17.8%).

4. Earnings per share

	Six months to 31.10.18 (Unaudited) Underlying	Six months to 31.10.18 (Unaudited) Statutory	Six months to 31.10.17 (Unaudited) Underlying	Six months to 31.10.17 (Unaudited) Statutory	Year to 30.04.18 (Audited) Underlying	Year to 30.04.18 (Audited) Statutory
Basic and diluted earnings per share	£000	£000	£000	£000	£000	£000

The calculation of basic and diluted earnings per share is based on the following data:

Earnings

Earnings for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Parent Company

	24,664	24,448	27,612	25,492	46,353	43,232
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Number of shares	Number	Number	Number	Number	Number	Number
Weighted average number of Ordinary shares for the purpose of basic earnings per share	133,232,518	133,232,518	133,232,518	133,232,518	133,232,518	133,232,518
Effect of dilutive potential Ordinary shares:						
– share options	2,726,990	2,726,990	1,422,769	1,422,769	2,077,803	2,077,803
Weighted average number of Ordinary shares for the purpose of diluted earnings per share	135,959,508	135,959,508	134,655,287	134,655,287	135,310,321	135,310,321
Basic earnings per share	18.5p	18.4p	20.7p	19.1p	34.8p	32.4p
Diluted earnings per share	18.1p	18.0p	20.5p	18.9p	34.3p	32.0p

5. Dividends

In the six months to 31 October 2018, a dividend of £15,268,000 was paid (2017 – £15,326,000). The Directors have declared a dividend of 6.2p per share for the six months ended 31 October 2018 (2017 – 6.1p).

6. Property Plant and Equipment

Net Book Value	Vehicles for hire	Other property, plant & equipment	Total
At 1 May 2017	731,657	65,262	796,919
Additions	265,780	4,432	270,212
Disposals	(95,279)	(2,334)	(97,613)
Depreciation	(85,234)	(2,644)	(87,878)
Exchange differences	12,579	1,318	13,897
At 1 November 2017	829,503	66,034	895,537
Additions	244,745	4,860	249,605
Disposals	(86,152)	(424)	(86,576)
Depreciation	(91,366)	(2,561)	(93,927)
Exchange differences	593	70	663
At 1 May 2018	897,323	67,979	965,302
Additions	220,365	3,493	223,857
Disposals	(81,778)	(1,046)	(82,824)
Depreciation	(93,742)	(2,716)	(96,458)
Exchange differences	4,218	485	4,704
At 31 October 2018	946,386	68,195	1,014,581

7. Notes to the cash flow statement

	Six months to 31.10.18 (Unaudited) £000	Six months to 31.10.17 (Unaudited) £000	Year to 30.04.18 (Audited) £000
Net cash used in operations			
Operating profit	36,181	36,286	64,077
Adjustments for:			
Depreciation of property, plant and equipment	96,458	87,878	182,185
Net impairment of property, plant and equipment	–	–	(380)
Amortisation of intangible assets	791	1,034	2,171
Loss on disposal of other property, plant and equipment	114	143	390
Loss on disposal of intangible assets	–	–	25
Share options fair value charge	680	784	865
Operating cash flows before movements in working capital	134,224	126,125	249,333
Decrease (increase) in non-vehicle inventories	810	(512)	(1,190)
Increase in receivables	(2,900)	(10,895)	(14,641)
Increase (decrease) in payables	9,580	(6,952)	6,899
Cash generated from operations	141,714	107,766	240,401
Income taxes paid, net	(3,444)	(7,499)	(11,451)
Interest paid	(6,909)	(4,929)	(10,707)
Net cash generated from operations before net capex	131,361	95,338	218,243
Purchases of vehicles	(229,670)	(268,352)	(486,943)
Proceeds from disposal of vehicles	86,095	92,873	186,903
Net cash used in operations	(12,214)	(80,141)	(81,797)

8. Analysis of consolidated net debt

	31.10.18	31.10.17	30.04.18
	(Unaudited)	(Unaudited)	(Audited)
	£000	£000	£000
Cash and bank balances	(47,862)	(28,024)	(21,382)
Bank overdrafts	37,176	19,588	7,255
Bank loans	400,854	340,910	364,750
Loan notes	88,811	87,781	87,890
Cumulative preference shares	500	500	500
Confirming facilities	343	262	308
	479,822	421,017	439,321

9. Exceptional items

During the period the Group recognised exceptional items in the income statement as follows:

	Six months	Six months	Year to
	to 31.10.18	to 31.10.17	30.04.18
	(Unaudited)	(Unaudited)	(Audited)
	£000	£000	£000
Restructuring costs	–	1,926	2,499
Exceptional administrative expenses	–	1,926	2,499
Total pre—tax exceptional items	–	1,926	2,499
Tax charge on exceptional items	–	(383)	(471)

10. Derivative financial instruments

At the balance sheet date, the Group held the following financial instruments at fair value:

	31.10.18	31.10.17	30.04.18
	(Unaudited)	(Unaudited)	(Audited)
	£000	£000	£000
Interest rate derivatives	(1,131)	(1,957)	(1,389)
	(1,131)	(1,957)	(1,389)

The derivative financial instruments above all have fair values which are calculated by reference to observable inputs (i.e. classified as level 2 in the fair value hierarchy). They are valued using the discounted cash flow technique with an appropriate adjustment for counterparty credit risk. The valuations incorporate the following inputs:

- interest rates and yield curves observable at commonly quoted intervals;
- commonly quoted spot and forward foreign exchange rates; and
- observable credit spreads.

The carrying value of financial assets and liabilities recorded at amortised cost in the financial statements are approximately equal to their fair value.

Interim announcement – Statement of the Directors

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34;
- the interim management report includes a fair review of the information required by DTR 4.2.7 (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8 (disclosure of related party transactions and changes therein).

By order of the Board

Philip Vincent

Chief Financial Officer

4 December 2018

Independent review report to Northgate plc

Report on the consolidated interim financial statements

Our conclusion

We have reviewed Northgate plc's consolidated interim financial statements (the "interim financial statements") in the interim results of Northgate plc for the 6 month period ended 31 October 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated balance sheet as at 31 October 2018;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated cash flow statement for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim results, including the interim financial statements, are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the interim results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

Newcastle upon Tyne

4 December 2018