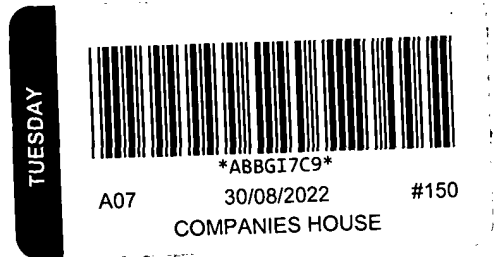


Registration number: 03282075

Alphabet (GB) Limited

Annual Report and Financial Statements
for the Year Ended 31 December 2021



Alphabet (GB) Limited

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Alphabet (GB) Limited

Company Information

Directors	Michael Dennett Ursula Wingfield
Company secretary	William Johnson
Registered office	Alphabet House Summit Avenue Farnborough Hampshire GU14 0FB
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors London

Alphabet (GB) Limited

Strategic Report for the Year Ended 31 December 2021

The directors present their strategic report for the year ended 31 December 2021.

Principal activity

The principal activity of Alphabet (GB) Limited (the "Company") is to provide a wide range of mobility solutions to customers through several distribution channels in the United Kingdom ("UK"). Its mobility solutions include vehicle funding and associated products and services.

Introduction

The Company's strategic aim is 'We make life easier by navigating people to better mobility.' In summary the Company seeks to provide customers and corporate clients with sustainable solutions that meet their business mobility needs through a comprehensive range of products, services and consultancy. The Company aims to provide the best overall solution for each customer's individual needs.

In order to realise this mission, it is the Company's intention that its services will be delivered in the most operationally efficient and creative way by employees who have the knowledge and confidence in their roles to provide outstanding customer service. The business will strive to implement innovative solutions to meet the future changing mobility, environmental, societal and governance requirements of its customers with products that go beyond traditional vehicle leasing and fleet management.

The Company operates within the vehicle financial services market, competing with many other financial services institutions providing vehicle finance and car related services for corporate fleets. The Company is a wholly owned subsidiary of BMW (UK) Holdings Limited, the ultimate parent of which is the German car manufacturer Bayerische Motoren Werke Aktiengesellschaft, more commonly known as "BMW AG". The Company upholds the values of the BMW Group by providing top-quality financial and service products backed by outstanding customer service in order to achieve the best customer outcomes.

The Company, in terms of fleet size, is ranked inside the top ten corporate fleet and funding management companies in the UK, managing 134,383 fleet vehicles.

The Company's reputation in the market is as an innovative, progressive thought leader - through products such as AlphaCity and AlphaElectric - which still retains a personal touch when it comes to relationships and customer service. As part of the BMW Group, the Company has a collaborative ethos for working with suppliers, partners and other vehicle manufacturers in order to deliver truly multi-marque mobility and commercial vehicle solutions.

External appreciation from industry bodies, as well as key fleet media titles, are testament to the success and unique appeal of this approach. The Company notes many achievements, including recognition for exceptional employees as 'BVRLA Heroes', acknowledgement of its 'Customer Service Excellence' from the Fleet News FN50 Awards in 2020, and recognition by the Top Employers Institute for a ninth consecutive year in 2022 for its practices of creating an open and inclusive workplace for all its employees.

Alphabet (GB) Limited

Strategic Report for the Year Ended 31 December 2021

Section 172 (1) Statement

Section 172 of The Companies Act 2006 states that a director of a company must act in the way it considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing so a director of a company must have regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the company's employees;
- The need to foster the company's business relationships with suppliers, customers and others;
- The impact of the company's operations on the community and the environment;
- The desirability of the company maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the company.

The Directors have received guidance and training from the Company Secretary and the Institute of Directors in order to support the performance of their statutory duties and have been briefed on the additional reporting requirements introduced by the Companies Act (Miscellaneous Reporting) Regulations 2018.

The Board reviewed their current approach to corporate governance and decision making, engagement with stakeholders and the Company's impact on the environment. The following summarises how the Company's Board fulfils its duties under Section 172.

Alphabet (GB) Limited

Strategic Report for the Year Ended 31 December 2021

Section 172 (1) Statement (continued)

Decision Making

The Board considers and assesses how the Company creates and preserves value over the long-term by assessment of opportunities presented by the changes in customer behaviour, regulation, and opportunities and challenges presented through multiple sales channels. Consideration of opportunities for the Company are assessed against associated risks.

The Board engages with a variety of stakeholders, including customers, employees, regulators, and suppliers, to inform and enable balanced decisions that incorporate multiple viewpoints, whilst maintaining the Company's Strategy. In making decisions the Board considers outcomes from engagements with stakeholders as well as the importance of maintaining the Company's integrity, brand and reputation.

The Board fulfils its duties to act in good faith to promote the success of the Company through its implementation of the BMW Strategy. As part of the Company's Strategy, the Board aims to actively shape and define the transformation to a technology company with a customer-centric approach to providing premium mobility and services. This will enable the Company to achieve the strategic vision 'To become the leading provider for outstanding business mobility'.

The Board ensures that strategic initiatives feed directly into one or more of the following fundamental ambitions - to be easy to do business with, to be accessible across all channels and, crucially, to be at all times customer centric. The Board reviews and considers the various stakeholders when arriving at recommended business decisions consistent with the strategy. An example of the Board decision making during 2021 was the review, approval and payment of two dividend payments totalling £143.9 million to BMW (UK) Holdings Limited.

In 2019 the Board implemented a customer focused programme that included all associates within the Company. In response to feedback from customer service surveys that ease of doing business is a key driver of satisfaction, the Board required all staff to attend training and prepare team action plans focused on improving customer interactions. In 2020, this continued with the introduction of PACE Next, a training programme designed to further improve customer interactions which was attended by all associates.

For further details on how the Company is managed please see the Corporate Governance Statement in the Directors' Report.

Employee Engagement

The Company's workforce is its most valuable asset and the Company's employees are fundamental to the success of the business. The Company invests in training development, coaching and skills acquisition to ensure the required knowledge and behaviours are aligned with the Company's strategy and values.

Examples of the Board's engagement with employees during 2021 include:

- Quarterly Business Briefings. Senior managers attend these online briefings with the workforce and constantly review the way in which information is provided to ensure engagement with employees. The briefings give employees a platform to raise questions and put suggestions to the senior management team.
- The Company has an Employee Consultation Forum. The aim of the forum is to provide a two-way communication process, involving and engaging employees through consultation, enabling them to contribute to the success of the business.

Alphabet (GB) Limited

Strategic Report for the Year Ended 31 December 2021

Section 172 (1) Statement (continued)

- The Company and the other Group companies on the Campus have created “Campus Trust” whose purpose is to be the guardians of the continued cultural journey and seek synergies between the companies on Campus.
- A Diversity and Inclusion Survey was carried out by the Company. The survey raised awareness of the initiatives and the various Diversity and Inclusion focus groups there are across our Campus.

For further details on how the Company engages with its workforce please see the Employee Engagement Statement in the Directors’ Report.

Business Relationships

Stakeholder engagement is important to the Company and the BMW Group as a whole. The Board engages with a diverse group of stakeholders, including customers, suppliers, government, regulators and trade bodies. The views, decisions and actions of our stakeholders have a considerable impact on our business.

Examples of the Board’s engagement with stakeholders during 2021 include:

- Receiving regular customer feedback and insights generated by a number of feedback loops, including Net Promoter Scores (NPS) and Quality Assurance Programmes, such as the Company’s ‘Customer Committee’ which ensures outstanding customer care is a strategic priority and the ‘Voice of the Customer’ is prominent during executive decision-making.
- Working in close partnership with third party suppliers across all aspects of the relationship and value chain - from initial vehicle supply and procurement with Retailers and Partners, through to ‘in life’ fleet management (such as breakdown, service and maintenance or tyre/glass replacement) and ultimately asset remarketing and disposal operations.
- Having dedicated procurement and supplier management functions and procedures in place which are responsible for performance and quality management, as well as regular competitive tendering to ensure ‘best in class’ supplier network.
- Continuing to prioritise compliance with the FCA’s Senior Management and Certification Regime. Measures undertaken included training of all relevant staff on the requirements of the FCA’s Conduct Rules, additional training for those Associates defined by the Company as ‘Certified Individuals’ and for those holding Senior Management Function designation, including all Board members.
- Engaging with regulators both at an industry level through trade associations for example the British Vehicle Rental and Leasing Association (“BVRLA”) and at an operational level.

For further details on how the Company engages with its stakeholders please see the Stakeholder Engagement Statement in the Directors’ Report.

Alphabet (GB) Limited

Strategic Report for the Year Ended 31 December 2021

Section 172 (1) Statement (continued)

Community and Environment

As part of the BMW Group, the Company has sustainability and environmental care firmly embedded in the Company's culture and corporate strategy. The Company strives to pursue BMW Group's mission to be the most sustainable premium provider of individual mobility, for society & the environment. Sustainability runs through all aspects of our business, from energy-saving, recycling and resource-sharing policies in our offices, employee orientation and social commitment, and ultimately flowing into the products and services we bring to customers.

Corporate Social Responsibility is important to the Company and it undertakes many initiatives in this area. Below are some examples of the Company's 2021 actions:

- Working with the Institute of Customer Service on the Company's 'Effortless Experience' programme and helping to benchmark performance beyond the finance and mobility industry.
- Supporting BEN, a not-for-profit organisation that partners with the automotive industry to provide support and advice and runs a Macmillan neighbours programme where trained employee volunteers can help steer other employees towards Macmillan, who may be suffering either themselves or within their wider families. Further, we support and run the Change 100 flagship programme of paid summer work placements, professional development, and mentoring with Leonard Cheshire. We match talented university students and recent graduates with any disability or long-term condition with progressive employers.
- The Company's employees have completed volunteering activities supporting the local community including painting projects in local schools, garden clearance and many more local initiatives driven by the sustainability champions.
The Sustainability Champions are a group of passionate individuals who have introduced various sustainable initiatives across our site. With the aim to ensure sustainability is ingrained in the BMW Group's strategic agenda as well as having the biggest impact possible by inspiring others to make a change too. Adopting the United Nations Sustainable Development Goals (UNSDGs) as the basis of their activity they have five sub project groups that work on achieving our top 3 prioritised UNSDGs. Including the building facilities group, internal communications, food at our sites, supplier processes and retailer network groups.
- There is a food bank on Campus where we have collected food donations to donate to the local community and we also displayed a festive gift giving tree where you can buy a present and leave under the tree for children in the local community.
- Supporting a British Heart Foundation Clothes Bank to raise money for the Foundation and this has been a long standing relationship.
- The BMW Group has a long established commitment to supporting education across the UK through BMW Education <https://bmweducation.co.uk/>. The programmes are informative, engaging and accessible to everyone free of charge.
- A partnership with the ENEI (Employers Network for Equality and Inclusion) that provides guidance and strategic direction on our Diversity and Inclusion policies and programmes across all UK entities. Through building our network groups we have obtained a bronze status, developed employees to become mental health first aiders and pushed for campus improvements, deeper knowledge of the burning topics and senior sponsorship to drive change.

For further details please see the Corporate Governance Statement in the Directors' Report.

Alphabet (GB) Limited

Strategic Report for the Year Ended 31 December 2021

Section 172 (1) Statement (continued)

Culture and Values

The Company's culture is characterised by clear responsibility, mutual respect and trust. Lawful conduct and fair competition are integral to the Company's business activities and an important condition for securing long-term success. The Company's primary goal is to avoid risks which could jeopardize the trust which customers, shareholders, business partners and the general public place in the BMW Group. The Company is focused on people, with customers being at the heart of the Company's business.

The Company embraces diversity, flexibility, sustainability and continuous improvement throughout the organisation. It has a customer centric philosophy with transparent, fair and simple processes. The Company's policies are designed to support the Company culture with guidelines cascaded from the ultimate parent, BMW AG.

The Company recognises that long-term success is founded on the culture of the organisation. The aim is to be customer-centric and select the best talent to ensure the longevity and success of the organisation and to be considered one of the top employers in the UK.

Alphabet (GB) Limited

Strategic Report for the Year Ended 31 December 2021

Principal risks and uncertainties

The Company ensures that the risk and reward principle is properly embedded in the culture of the business. Our policy is to: "Enable the efficient and effective governance of risk ensuring the optimum balance between risk and reward."

The key risks the Company faces are residual value and credit risk. In addition other material risks include interest rate risk, liquidity risk, environmental, social and governance ("ESG") risk, operational risk (including IT security, financial crime, data protection and cyber risk), repair, maintenance and tyre risk. There is a process of Risk Identification, Risk Evaluation, Risk Steering, Risk Monitoring and Risk Reporting in place. The principal risks arising from the Company's activities are detailed in note 24 to the financial statements.

The Company has a risk strategy which is managed by a dedicated Risk Management Department, and has structured functions in accordance with the risks identified above and a defined risk appetite. The Risk Management Department is responsible for defining risk management methodologies, calculating adjustment factors and parameters, back-testing, and calculating standard risk costs and estimating expected losses for approval by the risk committees.

There is a formal structure of risk committees embedded into the organisation. The ultimate local committee, responsible for all risks of the entity, is the National Risk Committee (NRC), which is attended by all of the Company's Executive Committee members including all statutory board directors.

A dedicated Risk Controlling function within the Finance Department is responsible for performing calculations in accordance with the methodologies set out by the Risk Management Department, monitoring the development of the actual risk cost and calculating the effects on the Company's Statement of Financial Position and Statement of Profit or Loss.

COVID-19

On 30 January 2020, the World Health Organisation (WHO) declared an international health emergency due to the outbreak of coronavirus. Since 11 March 2020, the WHO has characterised the spread of the coronavirus as a pandemic. The first occurrence of the COVID-19 pandemic impacts to the Company was in the latter part of the first quarter of 2020, and included the closure of Retailers as well as Government imposed restrictions on the movement of individuals.

The Company, as part of the wider BMW Group, has reviewed all aspects of its business, including its cash and liquidity position, and conducted a scenario planning exercise to assess the potential impact on its future financial position. This exercise confirmed that the Company's access to liquidity is sufficient for the Company to remain solvent. In addition, the directors have also received confirmation that BMW AG will continue to support the Company by providing access to BMW AG funds, if required, for at least 12 months from the date of these signed financial statements.

Alphabet (GB) Limited

Strategic Report for the Year Ended 31 December 2021

Russian Sanctions

In February 2022, significant sanctions were put in place by a number of governments, (including the US, UK and EU) directly targeting the Russian Federation and Belarus, companies and financial institutions in and connected to both countries as well as a number of named individuals. The impact of these sanctions includes but is not limited to restricting their ability to make payments, enter into commercial agreements and import or export goods and services. The nature of the sanctions, as well as the list of directly sanctioned entities and persons is changing on an ongoing basis.

In addition, many international companies have indicated their intention to withdraw from providing services in Russia and Belarus.

The Directors have assessed the impact and conclude that there is limited impact on the Group's operations due to the nature of the business. The Directors continue to actively monitor the situation.

Systems and controls

The Company has adopted the BMW Group Internal Control Systems ("ICS") methodology to ensure that it has appropriate and effective internal controls integrated and applied in its processes so as to maintain correct and reliable financial and accounting records and to comply with legal requirements.

The Company has analysed and documented its processes, risks, and control activities and monitors and assesses the effectiveness of the controls on a regular basis in order to identify and address any areas of control weaknesses on a timely basis. Internal control activities are aligned with operational risk activities, whereby the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events is evaluated.

The Company seeks to promote an effective control environment in which control measures are accepted as necessary process steps, along with the notification of errors, weaknesses and deficiencies in order to manage the risks associated with internal processes. Employees are encouraged to identify and report errors, additional risks or potential improvements.

Compliance

Compliance is key to the Company's strategy. The Company is committed to embedding a robust compliance culture, ensuring that the business is compliant. The Company has taken steps to review its business model, processes and controls to ensure good customer outcomes and adherence to applicable regulatory requirements.

The Company's Management Committee is responsible for overseeing the management of compliance risk, as reflected in its terms of reference and individual job descriptions and to enable proactive management of compliance risks, all members of the Executive Committee have received training to empower them to deliver against their responsibilities.

The Company benefits from independent validation from the BSI who reviews the Company on an annual basis to ensure it maintains its ISO9000 accreditation. Since 1 April 2014, the Company has been authorised and regulated by the Financial Conduct Authority ("FCA") in respect of its consumer credit and hire business under permission number 706426.

Alphabet (GB) Limited

Strategic Report for the Year Ended 31 December 2021

Internal Audit

The roles and responsibilities of the Internal Audit function include:

- Assisting the businesses to mitigate high level control risks in the implementation of the BMW Group strategy;
- Providing a systematic, disciplined approach to examine, evaluate and report objectively on the adequacy of both the design and effectiveness of the systems of internal control and the effectiveness of risk management and governance processes.

Internal Audit consults the Board of Directors of the Company in the annual audit programme planning process and asks for suggestions on audit or consulting activities. The prioritisation of activities in the audit programme is revisited, in cooperation with local management, should additional suggestions or items requiring immediate action come up during the course of the year.

Internal audit plans, manages and undertakes audit services in accordance with the annual audit programme, ensuring that key risks and controls are adequately reviewed in line with the BMW Group Corporate Audit approach.

Internal Audit ensures the following regular reporting and exchange of information:

- Audit reports or audit memoranda including audit results published subsequent to audit activities, bi-annual (quarterly upon request) presentations in the Management Committee about audit activities, audit results and the follow up situation;
- Other reporting for example to departmental managers or the Compliance or Risk Management Departments on request.

Performance and measurement

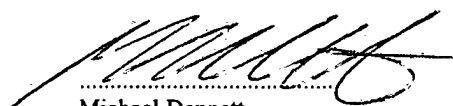
The Company's performance is monitored and assessed using a wide range of targets and measurements. Management accounts are produced on a monthly basis, which monitor actual performance against budgeted figures for a comprehensive set of performance indicators.

The Company now has a portfolio size of 134,383 units, an increase of 2% compared to the prior year (2020: 131,252 units). The value of leased and financed assets was £2,285 million, representing an increase of 10% from the prior year (2020: £2,075 million) due to the higher average value of the leased and financed assets. The Company has re-focused with the target of increasing longer term contract business.

The portfolio has contributed to an operating profit of £166.5 million (2020: £61.3 million) and profit retained in the Company of £158.3 million (2020: £56.5 million). Along with the increase in portfolio, the following factors had the most significant impact on profitability:

- an increase in the profit on sale of operating lease assets including residual value releases. 2021: £103.4 million (2020: £31.1 million).
- a decrease in net credit risk costs including releases. 2021: £4.8 million income (2020: £16.7 million expense).
- a decrease in interest expense. 2021: £14.4 million (2020: £18.6 million).

Approved by the Board on 28 June 2022 and signed on its behalf by:



Michael Dennett
Director

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

The directors present their report and the audited financial statements for the year ended 31 December 2021.

Directors' of the company

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

Nicholas Brownrigg (resigned 1 January 2022)

Stefan Oswald (resigned 1 November 2021)

Ursula Wingfield (appointed 1 November 2021)

The following director was appointed after the year end:

Michael Dennett (appointed 1 January 2022)

Independent supervision of the Company is provided by the BMW Group. The BMW Group believes that its corporate governance structure provides adequate checks and balances in terms of monitoring the activities of its Group companies. The Company's fundamental business policy is determined by the management of the Company in agreement with BMW AG, and in accordance with the long range policy of the BMW Group.

The directors of the Company are required to run the Company in accordance with UK statutory and common law duties and responsibilities, as well as in accordance with BMW Group policy including the Corporate Governance Code and the written terms and conditions between themselves and BMW AG. In the case of any conflict between the applicable law and BMW Group policy, the former prevails.

The Company's Board informs BMW AG of all issues important to the Company regarding planning, business development, risk situations and risk management on a regular, prompt and comprehensive basis. BMW AG monitors the Board's governance of the business and also scrutinises all decisions of fundamental importance made by it.

Directors' interests in shares

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company or any other BMW Group Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Dividends

The directors recommend a final dividend payment of £64,300,000 be made in respect of the financial year ended 31 December 2021 (2020: £57,900,000). This dividend has not been recognised as a liability in the financial statements.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Corporate Governance Statement

This report comprises the Corporate Governance Statement for Alphabet (GB) Limited ("Company") required under The Companies (Miscellaneous Reporting) Regulations 2018 for the Financial Year 1st January 2021 to 31st December 2021 ("Financial Year").

The Company has not applied a specific corporate governance code during the Financial Year however as a subsidiary of BMW AG, its ultimate German parent company, it operates in accordance with its parent company's corporate governance expectations. BMW AG adopted its own corporate governance code based on the German Corporate Governance Code ("Code") in 2002. The Code (updated in 2019) sets out how German listed companies should be organised and seeks to formulate recognised standards for good and responsible governance. The Code seeks to promote the trust of investors, customers, employees and the general public in the management and supervision of German listed companies. The Board of Directors of the Company therefore manage the Company in accordance with BMW Group policies in relation to corporate governance, compliance and risk management.

Although the Company has not adopted a UK specific corporate governance code, the Company's Board of Directors ("Board") have considered The Wates Principles and in this statement the Company has set out how the Company has aligned itself to these governance principles in the Financial Year.

Purpose, strategy and values

The Company provides a wide range of mobility solutions to customers through several distribution channels in the United Kingdom ("UK"). Its mobility solutions include vehicle funding and associated products and services.

The Company's strategy is based on the BMW Group Strategy. As part of the BMW Group Strategy, the Company will actively shape and define the transformation to a technology company for premium mobility and services. As a driver of innovation BMW AG and the Company is playing a leading role in the automotive industry of the future. Digitalisation opens up new opportunities to take individual mobility to the next level - electric, connected and autonomous.

The BMW Group Strategy means a vision to shape tomorrow's individual mobility with a strategic approach of leveraging innovative technologies, digitalisation and sustainability to deliver unique customer experiences and offer the best solutions to the individual customers' mobility needs. It also means having a competitive advantage by having the most emotional products, attractive services and having a corporate culture to create the future with operational excellence.

The Company's vision has been developed to provide a framework which engages employees to deliver the best outcomes for the Company's shareholders, employees and customers.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Corporate Governance Statement (continued)

Culture

The Company's culture is characterised by clear responsibility, mutual respect and trust. Lawful conduct and fair competition are integral to the Company's business activities and an important condition for securing long-term success. The Company's primary goal is to avoid risks which could jeopardize the trust which customers, shareholders, business partners and the general public place in the BMW Group. The Company is focused on people, with customers being at the heart of the Company's business.

The Company embraces diversity, flexibility, sustainability and continuous improvement throughout the organisation. It has a customer centric philosophy with transparent, fair and simple processes. The Company's policies are designed to support the Company culture with guidelines cascaded from the ultimate parent, BMW AG.

The Company recognises that long-term success is founded on the culture of the organisation. The aim is to be customer centric and select the best talent to ensure the longevity and success of the organisation and to be considered one of the top employers in the UK.

There are 5 core values which the whole of the BMW Group including the Company adhere to and these are Responsibility; Appreciation; Transparency; Trust and Openness. These five core values encompass principles of action which define the framework for cooperation within the BMW Group of companies. Based on these core values the Company prides itself in a collegiate atmosphere of mutual trust and understanding. Employees are fully engaged with the business and there is a culture of openness and authenticity.

The Board and senior management have taken active steps to drive cultural change and to ensure corporate strategy and customer orientation principles and values are embraced across the organisation.

A brand new employee cultural identity was developed in recent years encouraging associates to be authentic, inspirational and creating an environment where people feel valued. At the heart of authenticity is the deep set of ethics, values and trust.

All of these cultural and value based initiatives are reviewed by the Board of Directors of the Company and the Management Committee and communicated to the business as a whole at regular business briefings.

Board Composition

The Board of the Company consists of two statutory directors, being Michael Dennett, the Chief Executive Officer (CEO) and Ursula Wingfield, the Chief Financial Officer (CFO) (both locally based in the UK).

The Board combines global experience inside and outside the BMW Group in different business areas ensuring that Board decisions incorporate diverse perspectives.

Both members of the Board are designated Senior Management Functions by the FCA. All employees in a Senior Management Function must be approved by the FCA before they commence the role, and must pass an annual check that they remain fit and proper to undertake the role.

Independent assurance is provided by the BMW Group Internal Audit Department and BMW Group Legal (UK).

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Corporate Governance Statement (continued)

Committees of the Board

The Company is managed by the Board, its Executive Management Committee and five other Committees. The Executive Management Committee which meets bi-weekly manages the Company's business. The Executive Management Committee works to:

- Ensure that customers are treated with fairness and respect and that good customer outcomes are achieved;
- Ensure compliance with laws and regulation;
- Manage company's risk;
- Ensure employee engagement and change management initiatives are designed to achieve strategic objectives;
- Promote the sustainable success of the Company for the benefit of the members as a whole taking consideration of all the Company's stakeholders, its corporate social responsibilities and the environment the Company operates in;
- Approve strategic objectives, initiatives and long-range planning in line with our parent company, BMW AG;
- Ensure that the necessary financial and other resources are made available to ensure objectives are achieved;
- Monitor progress towards achievement of strategic objectives;
- Ensure organisational and structural changes are carried out in line with strategic objectives; and
- Operate within a framework of effective systems of corporate governance and internal controls appropriate to the environment in which it operates, which enable the assessment and management of opportunities and risks.

The Board and Executive Management Committee have delegated appropriate matters to: a Local Credit Committee, National Risk Committee, Commercial Committee, Operational, Projects & Change Committee and Compliance Committee (the "Sub-Committees"). Sub-Committees act to work on detailed topics which would be too time consuming for the Executive Management Committee and provide appropriate challenge to the Executive Management Committee and the Board in their areas of expertise. The CEO acts as Chairman of the Executive Management Committee and with the support of the CFO and General Counsel oversees the efficient and effective operation of the Company's Board and its Committees. This includes consideration of the size and structure of the Board, Executive Management Committee and Sub-Committees so that they are appropriate to meet the strategic needs and challenges of the organisation and enable effective decision-making. Consideration is given to the balance and diversity of the Board and all its Committees.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Corporate Governance Statement (continued)

The Company has adopted a Diversity and Inclusion Policy and through the application of this Policy the Company aims to ensure everyone is treated fairly and equitably and there are arrangements in place to prevent discrimination in the workplace. The Company is committed to encouraging diversity being inclusive and preventing discrimination amongst the workforce. This is promoted through a number of in house network groups which cover a range of subject areas such as mental health and disability. The Company frequently makes use of a large internal audit function which audits different parts of the Company's business to ensure operation in accordance with relevant Company policies and procedures and laws and regulations.

The Management Committee comprises the CEO and the most senior managers in the areas of Finance, Operations, Commercial, Risk and Compliance. The effectiveness of Management Committee members and members of the Sub-Committees is measured via the Company's annual appraisal process (known as "Portfolio") where all employees are reviewed against their objectives which include continuous professional development. Strengths and weaknesses are discussed against a backdrop of feedback from key stakeholders. A rating is given with development goals followed up.

Each Committee has its own terms of reference and a formalised approach with an agenda circulated in advance, minutes taken, voting rules and escalating processes. Each Committee has a Secretary who ensures the timely distribution of materials prior to meetings and works to ensure the accuracy of documents submitted to the Committees for consideration and approval. The Chairperson of a Committee reports key matters at the Management Committee who also reviews minutes of all sub-committee minutes.

Sustainability

Sustainability and responsibility for the environment is firmly embedded in the Company's culture and corporate strategy. The Company has implemented sustainability throughout its value chain. In addition to reducing CO2 emissions the strategy focuses on achieving continuous progress in areas such as environmental protection, supply chain sustainability, employee orientation and social commitment.

Sustainability forms an important part of our BMW Group Strategy. The Company is an active participant in the joint government and industry "Go Ultra Low" campaign.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Corporate Governance Statement (continued)

Opportunity and risk

Opportunity

The Board considers and assesses how the Company creates and preserves value over the long-term by assessment of opportunities presented by the changes in customer behaviour, regulation, taxation, opportunities and challenges presented by new finance concepts for mobility services such as car sharing, short-term rental and subscription models.

Risk

The Company has an internal control system which follows a BMW Group Internal Control system methodology ("ICS") to ensure it has appropriate and effective internal controls integrated and applied in its processes so as to maintain correct and reliable financial and accounting records and to comply with legal requirements. The CRO is responsible for ensuring the operation of the ICS including, but not limited to, ICS training, control measures, key control indicators, management reporting and roles and authorisation concepts. Risks are monitored and managed at an operational level through the National Risk Committee. There are clear roles and responsibilities within this Risk management system set out in the Company's Risk Management Policies.

The Company's policies are determined by its Management Committee and drafted by or under the supervision of the Management Committee member with responsibility for the area covered by the policy. The BMW Group operates a four eye principle throughout the Group. Under this requirement all documents with binding content must be reviewed and signed by two signatories with appropriate levels of authority to bind the relevant company delegated to them by the board of that company."

Further details of the Company's risk management is disclosed in the Strategic Report on pages 2 to 10.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Employee Engagement Statement

Workforce

The Company's workforce is the most valuable asset. The Company invest in training development, coaching and skills acquisition to ensure the required knowledge and behaviours are aligned with the Company's strategy and values. It is important for the employees to feel connected to the Company's purpose. Through quarterly Business Briefings conducted on the campus site in Farnborough ("Campus"), or virtually, the Company seeks to ensure the purpose and the important role employees have is clearly communicated. Senior managers attend these briefings with the workforce, as well as dedicated management briefings (Alphabet Leadership Forum) and constantly review the way in which information is provided to ensure engagement with employees. The briefings give employees a platform to raise questions and put suggestions to the senior management team.

The Company has an Employee Consultation Forum. The aim of the forum is to provide a two-way communication process, involving and engaging employees through consultation, enabling them to contribute to the success of the business. It also offers management the opportunity to consult over business related issues and gain commitment to change. The forum discusses business wide issues impacting employees, provides key information on employment policies and terms of employment, serves as a central communication channel for employees and is an important mechanism of communication between management and employees.

The Company and the other Group companies on the Campus have created "Summit One Forum" whose purpose is to be the guardians of the continued cultural journey and seek synergies between the companies on Campus.

The Summit One Forum guides the cultural development of the Campus and aims to make it a successful and happy place to work in. It does this through living and breathing the 5 core values of Responsibility, Appreciation, Transparency, Trust and Openness and through the Employee Identity "What Moves You", which encourages everyone to be authentic, inspirational and collaborative.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Employee Engagement Statement (continued)

Diversity and Inclusion

The Company has adopted a Diversity and Inclusion Policy and through the application of this Policy the Company aims to ensure everyone is treated fairly and equitably and there are arrangements in place to prevent discrimination in the workplace. The Company is committed to encouraging diversity, being inclusive and preventing discrimination amongst the workforce and these commitments extend to recruitment and selection, training, career development, flexible working arrangements, promotion and performance appraisal. This is promoted through a number of in house network groups which cover a range of subject areas such as mental health and disability.

In the Financial Year a Diversity and Inclusion Survey was carried out by the Company. The survey raised awareness of the initiatives and the various Diversity and Inclusion focus groups there are across our Campus. The ethos of Diversity and Inclusion means the Company is very supportive of individuals to achieve their full potential regardless of physical ability. In the event of Associates becoming disabled, every effort is made to ensure that their employment with the Company continues and to provide specialised training where this is appropriate. Examples of initiatives that the Company is working on include: supporting an accessible campus; promotion of quiet spaces; inclusive leadership; disability awareness and becoming a disability confident employer.

There is a PRIDE network group which supports the Company's LGBT community. Other campus groups include a group supporting working parents and part time workers called "Timewise", a culture and ethnicity network group called "Embrace" and a gender equality network group called "Unity". The Company is looking to create more awareness around BAME and engages with external organisations to benchmark and see how their network groups are supporting this issue. The Company has a focus group called "Minds Matter" which brings together passionate employees from the BMW community who seek to drive cultural change surrounding issues of mental health.

Recruitment

The Company is an equal opportunities employer of around 400 staff. Recruitment decisions are based upon the match of the individual's competencies, skills and knowledge to the requirements of the role. A variety of selection methods are used for both internal and external recruitment including assessment centres, competency-based interviews and psychometric tests.

Offers of employment are made subject to satisfactory completion of pre-employment checks, which include verification of reasons for leaving past employers, qualifications and honesty.

All roles are assessed and provided with job specifications. These detail the purpose of the role, key accountabilities, selection criteria and competencies required. The recruitment process is designed to ensure the most suitable candidate is selected and also to highlight any additional training required in order to ensure the person is competent and remains competent for that role.

Career Development

The Company recognises the importance of career development and progression. To assist in this a performance management process is employed. This process provides the following:

- ensures the employee has a clear understanding of what is expected of them;
- enables the employee to monitor their performance against the requirements for their role;
- provides a fair and consistent way of measuring the performance of all staff;
- helps identify any training needs;

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Employee Engagement Statement (continued)

- helps identify how employees can maximise their potential;
- enables employees to discuss their aspirations for the future; and
- influences salary and bonus payments.

Succession planning is performed annually following the performance review process.

Individuals establish a Personal Development Plan with their manager each year as part of the Performance Management Process. Formal, informal (coaching etc.), computer based and on-the-job training is then provided to meet individual training needs and in fulfilment of best practice and legislative requirements.

The Company has a Performance Management Process in place, which appraises employee's performance by consideration of target achievement and leadership behaviour. In order to ensure all employees have a clear understanding of expectations, an individual target agreement is drawn up for every employee at the beginning of the year as part of the Performance Management Process. Achievement of the targets is appraised informally throughout the year in feedback meetings with the line manager and is formally assessed in the performance review process, which takes place at the end of the year.

Training

It is the policy of the Company that all employees are trained and developed in order to satisfy the statutory, regulatory and professional requirements expected of their role. Training and development is ongoing and monitored to ensure required levels of knowledge are achieved and maintained.

All roles are assessed and provided with job specifications. These detail the purpose of the role, key accountabilities, selection criteria, and competencies required. The recruitment process described above is designed to find the most suitable candidate to match the specification and also highlight any additional training required to ensure the person is competent and remains competent for that role. Additionally, in the case of internal staff, the job specification can ensure that other employees are sufficiently trained to be competent in another role to ensure the Company has adequate cover should there be peaks in the business or staff absence.

Training is planned to ensure that it is received at the appropriate times. Training on legal and regulatory requirements are provided to all relevant personnel.

Records are retained of all training undertaken. Future training required by an employee is captured as part of the portfolio process.

Remuneration

It is a stated aim of the Company to reinforce the connection between performance and reward and this makes the merit principle a fundamental value in our corporate culture. Remuneration is intended to promote the personal performance of every employee including members of the Board and its Committees.

All permanent employees receive a base salary, have access to a range of flexible benefits, and are eligible for a bonus payment on an annual basis to promote personal performance, collaboration and the assumption of entrepreneurial responsibility. The bonus is based on the achievement of personal, Company and BMW Group targets.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Stakeholder Engagement Statement

Stakeholder engagement is important to the Company and the BMW Group as a whole. The BMW Group operates in a highly connected environment. Our products and services are used extensively throughout the UK and we attract interest from, and are interested in, a diverse group of stakeholders.

We highly value regular exchange with the stakeholders. The views, decisions and actions of our stakeholders have a considerable impact on our business.

Customers

One of the key pillars of Alphabet's strategy in the UK is our Customer-centric approach, which channels all customer experience initiatives and innovations under the mantra: 'putting the customer at the heart of everything we do'.

These programmes have been driven by customer feedback and insights generated by a number of feedback loops, including Net Promoter Scores (NPS) and Quality Assurance Programmes, such as our 'Customer Committee' which ensures outstanding customer care is a strategic priority and the 'Voice of the Customer' is prominent during executive decision-making. Alphabet is a member of the Institute of Customer Service who we are working with on our 'Effortless Experience' programme, as well as helping to benchmark our performance beyond the finance and mobility industry.

Today's fleet leasing and mobility sector serves a hugely diverse customer base with very different needs and expectations, so it is vital that Alphabet understand these and tailor our offerings to meet customers' precise demands.

The Company recognises the importance of treating customers fairly and appropriately at all times. The Senior Management Team is committed to developing a customer centric business, ensuring that all customers are treated in accordance with applicable laws and regulations, and in accordance with the standards of the Company.

Suppliers

Alphabet provides a wide breadth and depth of funding, fleet management and mobility solutions to a wide range of customers - from individuals, sole traders and SMEs through to public sector organisations and large corporates. In order to be able to provide this range of products and services to a broad spectrum of customers, Alphabet works in close partnership with third party suppliers across all aspects of the relationship and value chain - from initial vehicle supply and procurement with Retailers and Partners, through to 'in life' fleet management (such as breakdown, service and maintenance or tyre/glass replacement) and ultimately asset remarketing and disposal operations.

Alphabet and the BMW Group have dedicated procurement and supplier management functions and procedures in place which are responsible for performance and quality management, as well as regular competitive tendering to ensure 'best in class' supplier network.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Stakeholder Engagement Statement (continued)

Government, Regulators and Trade Bodies

The Company is authorised and regulated by the Financial Conduct Authority, and registered with the Information Commissioner's Office. We have an open and cooperative relationship with our regulators, and we proactively engage with them, to both understand what regulators seek to achieve through proposed regulatory changes, and to provide feedback as to how we believe this can best be achieved in a proportionate way, avoiding any unintended consequences where possible.

The Board prioritised compliance with the FCA's Senior Management and Certification Regime. Measures undertaken included training of all relevant staff on the requirements of the FCA's Conduct Rules, additional training for those Associates defined by the Company as 'Certified Individuals' and for those holding Senior Management Function designation, including all Board members. All employees in a Senior Management Function must be approved by the FCA before they commence the role, and must pass an annual check that they remain fit and proper to undertake the role.

The Company engages with its regulators both at an industry level through trade associations for example the Finance and Leasing Association ("FLA") and at an operational level.

Community and Charity

Corporate Social Responsibility is important to the Company and it undertakes many initiatives in this area. The Company organised many fundraising events throughout the year with its own "Charity Champion" group comprising of employee volunteers.

The Company also supports BEN, a not-for-profit organisation that partners with the automotive industry to provide support and advice and CALM as a chosen charity for 2022 in conjunction with other BMW UK companies.

Our previous partnership was Alzheimer's Society, a charity that campaigns for change, funds research to find a cure and supports people living with dementia today.

We raised £400,547 during our partnership. This support has directly changed the lives of thousands of people affected by dementia. As the funds have been helping people to access key services and making sure that support is there for them whenever they might need it, over the phone and online.

The employee network group for Culture, Ethnicity & Race (EMBRACE) is working with a school in Buckinghamshire which has a high proportion of ethnic minority students, with the aim of engaging the students to be more aware of career opportunities at BMW regardless of their individual backgrounds. The program has so far reached multiple year groups, providing information on the various routes to working at BMW, such as through internships and apprenticeships. The program has been a great success so far and the group is looking to expand this to more schools during the next academic year

The Company's employees have completed volunteering work with the local community including supporting Alzheimer's Society and community projects such as painting projects in local schools, garden clearance and many more local initiatives. There is a food bank on Campus where food donations have been collect to donate to the local community and we also displayed a festive gift giving tree where you can buy a present and leave under the tree for Children in the local community. The Company also supports a British Heart Foundation Clothes Bank to raise money for the Foundation and this has been a long standing relationship. The BMW Group has a long established commitment to supporting education across the UK through BMW Education <https://bmweducation.co.uk/>. The programmes are informative, engaging and accessible to everyone free of charge. A full campus responsibility programme incorporating all areas of automotive sustainability, charity, diversity and social responsibility, citizenship and local green initiatives.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Stakeholder Engagement Statement (continued)

Environmental Matters

As part of the BMW Group, Alphabet has sustainability and environmental care firmly embedded in the Company's culture and corporate strategy. Alphabet places sustainability and environmental responsibility at the heart of our supply and value chain.

As a leader in the fleet and mobility industry, we recognise we have an important role to play in the protection of the environment and sensible management of limited natural resources. Consequently, sustainability runs through all aspects of our business, from energy-saving, recycling and resource-sharing policies in Alphabet offices, employee orientation and social commitment, supplier chain responsibilities and ultimately flowing into the products and services we bring to customers.

Delivering a more sustainable approach to mobility is a key part of Alphabet's proposition to organisations and business fleets, providing funding, fleet management and mobility solutions which create effective ways to reduce fuel consumption and CO2 emissions for fleets. As a result, Alphabet are one of the UK's leading providers and proponents of ultra-low and zero emission vehicles for fleets.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Streamlined Energy and Carbon Reporting (SECR)

The following figures make up the energy and CO2 baseline for the Company, as the current year is the first year that the Company is required to report this information on its UK consumption and emissions.

The activity data for electricity and natural gas is taken from metered consumption as per supplier invoices. The Company also reports on transport based emissions resulting from initial fuelling of company cars, employee fuel cards and employees' business mileage in private cars.

CO2 emissions:	Units	2021	2020
Natural gas (scope 1)	tCO2e	265	292
Transport fuel - petrol (scope 1)	tCO2e	100	92
Transport fuel - diesel (scope 1)	tCO2e	117	170
Transport fuel - mileage (scope 1)	tCO2e	2	4
Electricity (scope 2)	tCO2e	236	341
Total (scope 1 + 2)		<u>720</u>	<u>899</u>

Energy consumption used to calculate emissions:	Units	2021	2020
Electricity (grid)	kWh	1,109,142	1,460,656
Natural gas	kWh	1,444,667	1,587,909
Total		<u>2,553,809</u>	<u>3,048,565</u>

Transport data used to calculate emissions:	Units	2021	2020
Petrol	litres	45,604	42,287
Diesel	litres	46,641	66,772
Mileage	miles	8,043	13,733

Intensity Ratio:	Units	2021	2020
tCO2e per £m revenue	tCO2e	5	16
tCO2e per employee	tCO2e	2	2

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Streamlined Energy and Carbon Reporting (SECR) (continued)

Methodology

The Company's CO₂ emissions are calculated from activity data using published emission conversion factors. This approach is aligned with the '2020 Government greenhouse gas conversion factors for company reporting' and the 'Greenhouse Gas Protocol'.

The activity data for electricity (kWh) and natural gas (kWh) is taken from supplier invoices. The natural gas data is based on Gross Calorific Value.

The Company reports on transport based emissions resulting from employees' business mileage. Commercial-based transport associated with the Company is operated wholly through third party contracts. The transport activity data is taken from a combination of fuel card reports specifying quantities (litres) and fuel type or from mileage claims covering business trips. The fuel card reports will cover both business and personal mileage and the Company has no way of apportioning the fuel associated solely with business mileage so it reports on all fuel quantities. The business mileage claims system does not differentiate between the type of vehicle or the fuel used and therefore the emission factor used is 'Average car' & 'Unknown' categories.

Emission factors used are taken from 'Conversion Factors 2020 condensed set' which is part of '2020 Government greenhouse gas conversion factors for company reporting'. Emission factors for natural gas, diesel and petrol are taken from the 'Fuels' section of the 'Conversion Factors 2020 condensed set', electricity from the 'UK electricity' section and mileage from the 'Passenger vehicles' section. Emissions reported for electricity use the location-based grid average emissions factor as prescribed by the Streamlined Energy and Carbon Reporting guidance. As noted above, the business mileage claims system does not differentiate between the type of vehicle or the fuel used and therefore the emission factor used is 'Average car' & 'Unknown' categories.

Energy data for transport is derived from the reported CO₂e emissions using the published emissions factor expressed as kWh / kg CO₂e for each fuel. The same method is used for mileage derived CO₂ emissions by using the mathematical average of the two fuel emission factors (there is no published equivalent for mileage derived emissions).

(Calculation: tCO₂e x 1000 (conversion to kg) / emission conversion factor (kWh / kg CO₂e))

Whilst the electricity (scope 2) emissions are reported as prescribed, 100% of the electricity supplied is REGO (Renewable Energy Guarantees Origin) certified. This satisfies the Scope 2 Quality criteria as published in Greenhouse Gas Protocol and enables us to provide alternative (optional) Scope 2 CO₂ emissions for electricity using a Market based emissions factor. With certification from our supplier that 100% of the quantified electricity is REGO backed and thus not subject to duplication the market based emissions factor is zero.

Energy Efficiency Action

In the year covered by the report, the Company has:

- Optimisation of campus and lighting running schedules.
- Lighting control initiative - Time clocks being moved to global schedules 7am-7pm, P.I.R detection installed where none existed currently.
- Installed LED lighting on link bridges to buildings.
- Time clocks on stairwells and high level lighting changed to LED in Car Parks.
- Light sensors switch off automatically after 10 minutes (reduced from 20 minutes).
- Non-essential campus shut down during COVID-19 lockdowns.
- Close main doors into all areas to prevent loss of temperature.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Political and charitable donations

The Company made no political contributions during the year (2020: nil). The Company made £0.02m donations to UK charities during the year (2020: £0.02m).

Creditor payment policy

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

The average trade creditor payment period for 2021 was 16 days (2020: 12 days).

Going concern

These financial statements are prepared on a going concern basis. The Company continues to comply with the requirements of the Companies Act 2006, applicable to companies reporting under International Financial Reporting Standards (IFRS).

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 10 above. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in these financial statements.

The Company, as part of the wider BMW AG Group, has reviewed all aspects of its business, including its cash and liquidity position, and conducted a scenario planning exercise to assess the potential impact on its future financial position. This exercise confirmed that the Company's access to liquidity is sufficient for the Company to remain solvent. In addition, to provide comfort over the £849 million of intercompany loans shown in current liabilities, the directors have also received confirmation that BMW AG will continue to support the Company by providing access to BMW AG funds, if required, for at least 12 months from the date of these signed financial statements.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. In addition, note 24 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

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 apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

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.

Alphabet (GB) Limited

Directors' Report for the Year Ended 31 December 2021

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution to reappoint PwC as auditors will be put to the member of the Company by way of a written resolution.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company or any other BMW Group Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

On 10 June 2003, the Company passed an elective resolution to dispense with the holding of an AGM and the laying of reports and financial statements.

Approved by the Board on 28 June 2022 and signed on its behalf by:



Michael Dennett
Director

Independent Auditors' Report to the Members of Alphabet (GB) Limited

In our opinion, Alphabet (GB) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Statement of Profit or Loss, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's going concern assessment;
- Inspecting the letter of support sent to the directors of the company by the BMW AG group indicating the group's intention not to limit the company's access to inter-company funding for at least 12 months following the signing of the company's financial statements;
- Evaluating the BMW AG group's ability to fulfil its intention not to recall inter-company loans including with respect to the group's financial performance and financial position; and
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditors' Report to the Members of Alphabet (GB) Limited

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of directors for the financial statements

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

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

Independent Auditors' Report to the Members of Alphabet (GB) Limited

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to manipulate financial performance and applying management bias in the judgements and assumptions in significant accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of correspondence with the regulators, including Financial Conduct Authority ('FCA');
- Incorporating unpredictability into the nature and extent of our testing; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the allowance for expected credit loss and residual value provision.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of our report

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

Independent Auditors' Report to the Members of Alphabet (GB) Limited

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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Carl Sizemore (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors
London

28 June 2022

Alphabet (GB) Limited

Statement of Profit or Loss for the year ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Revenue	3	1,085,800	1,082,947
Cost of sales	5	<u>(880,867)</u>	<u>(986,582)</u>
Gross profit		204,933	96,365
Administrative expenses	5	(38,528)	(35,311)
Other operating income	4	<u>86</u>	<u>221</u>
Operating profit	5	166,491	61,275
Finance costs	6	<u>(42)</u>	<u>(42)</u>
Profit before tax		166,449	61,233
Income tax expense	10	<u>(8,121)</u>	<u>(4,704)</u>
Profit for the year		<u>158,328</u>	<u>56,529</u>

The Company had no (2020: nil) recognised gains or losses in the financial year or the preceding financial year other than those dealt with in the statement of profit or loss above. As a result the Company has not presented a separate Statement of Comprehensive Income.

The above results were derived from continuing operations.

Alphabet (GB) Limited

Statement of Financial Position as at 31 December 2021 Registration number: 03282075

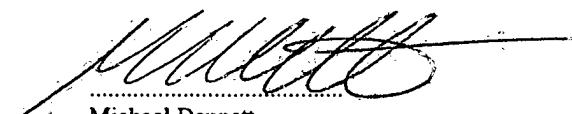
		31 December 2021 £ 000	31 December 2020 £ 000
Assets			
Non-current assets			
Property, plant and equipment	12	25	39
Operating lease assets	12	1,783,456	1,591,466
Right of use assets	13	1,733	1,748
Conditional sale receivables	15	8,742	10,430
Finance lease receivables	16	261,769	203,159
Deferred tax assets	10	97,081	80,550
		<u>2,152,806</u>	<u>1,887,392</u>
Current assets			
Inventories	11	36,797	73,905
Conditional sale receivables	15	24,452	19,224
Finance lease receivables	16	95,272	83,361
Trade and other receivables	17	78,994	96,379
Cash and cash equivalents	18	49	278
Income tax asset	10	11,094	7,247
		<u>246,658</u>	<u>280,394</u>
Total assets		<u>2,399,464</u>	<u>2,167,786</u>

Alphabet (GB) Limited

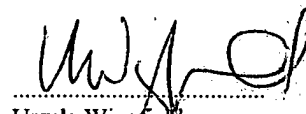
Statement of Financial Position as at 31 December 2021 Registration number: 03282075

		31 December 2021 £ 000	31 December 2020 £ 000
Equity and liabilities			
Equity			
Share capital	21	100	100
Share premium		1,900	1,900
Retained earnings		<u>256,450</u>	<u>242,022</u>
Total equity		<u>258,450</u>	<u>244,022</u>
Non-current liabilities			
Long-term lease liabilities	14	1,711	1,714
Loans and borrowings	20	<u>1,119,629</u>	<u>827,653</u>
		<u>1,121,340</u>	<u>829,367</u>
Current liabilities			
Current portion of long-term lease liabilities	14	44	44
Trade and other payables	19	170,706	170,541
Loans and borrowings	20	<u>848,924</u>	<u>923,812</u>
		<u>1,019,674</u>	<u>1,094,397</u>
Total liabilities		<u>2,141,014</u>	<u>1,923,764</u>
Total equity and liabilities		<u>2,399,464</u>	<u>2,167,786</u>

These financial statements on pages 32 to 71 were approved by the Board on 28 June 2022 and signed on its behalf by:



Michael Dennett
Director



Ursula Wingfield
Director

Alphabet (GB) Limited

Statement of Changes in Equity for the Year Ended 31 December 2021

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	100	1,900	233,193	235,193
Profit for the year	-	-	56,529	56,529
Total comprehensive income	-	-	56,529	56,529
Dividends	-	-	(47,700)	(47,700)
At 31 December 2020	100	1,900	242,022	244,022

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	100	1,900	242,022	244,022
Profit for the year	-	-	158,328	158,328
Total comprehensive income	-	-	158,328	158,328
Dividends	-	-	(143,900)	(143,900)
At 31 December 2021	100	1,900	256,450	258,450

Alphabet (GB) Limited

Statement of Cash Flows for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Cash flows from operating activities			
Profit for the year		158,328	56,529
Adjustments to cash flows from non-cash items			
Depreciation	5	317,369	384,219
Depreciation on right of use assets	5	15	15
Finance costs	6	42	42
Income tax expense	10	8,121	4,704
Impairment loss/(reversal)		<u>8,997</u>	<u>(6,300)</u>
		492,872	439,209
Working capital adjustments			
Decrease in inventories	11	37,108	2,401
Decrease/(increase) in trade and other receivables	17	17,385	(19,290)
Increase in trade and other payables	19	165	53,554
Increase in operating lease assets		(518,342)	(288,464)
Increase in finance lease receivables	16	(70,521)	(77,491)
(Increase)/decrease in conditional sale receivables	15	(3,540)	10,202
Decrease in lease liability	14	<u>(3)</u>	<u>(3)</u>
Cash (used in)/generated from operations		(44,876)	120,118
Income taxes paid		<u>(28,499)</u>	<u>(40,417)</u>
Net cash flow from operating activities		<u>(73,375)</u>	<u>79,701</u>
Cash flows from financing activities			
Interest expense on leases		(42)	(42)
Increase/(decrease) in loan amounts due to BMW Group affiliates		217,088	(31,801)
Dividends paid	22	<u>(143,900)</u>	<u>(47,700)</u>
Net cash flows from financing activities		<u>73,146</u>	<u>(79,543)</u>
Net (decrease)/increase in cash and cash equivalents		(229)	158
Cash and cash equivalents at 1 January		<u>278</u>	<u>120</u>
Cash and cash equivalents at 31 December	18	<u>49</u>	<u>278</u>

The notes on pages 37 to 71 form an integral part of these financial statements.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

1 General information

The Company is a private company limited by share capital, incorporated in United Kingdom and domiciled in England.

2 Accounting policies

Statement of compliance

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board.

Alphabet (GB) Limited transitioned to UK-adopted International Accounting Standards in its company financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The financial statements of Alphabet (GB) Limited have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Basis of preparation

These financial statements are prepared on a going concern basis. The Company continues to comply with the requirements of the Companies Act 2006, applicable to companies reporting under International Financial Reporting Standards (IFRS).

The financial statements are prepared in GBP (£), rounded to the nearest thousand. The financial statements have been prepared on the historic cost basis.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Summary of significant accounting policies and key accounting estimates

The preparation of the financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities as well as income and expenses in the financial statements provided.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The actual outcome is not expected to differ significantly from the estimates and assumptions made.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or the period of revision and future periods if this revision affects both current and future periods. Judgements made by management in the application of Adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

Key estimations and uncertainties are in relation to the valuation of residual values for operating lease agreements and the recoverability of debtor balances.

- Residual values - residual values represent the estimated value of the leased asset at the end of the lease period. Residual values are calculated after analysing the current market place and the Company's own historical experience in the market. Residual values of leased assets are reviewed regularly and any impairments are charged to the statement of profit or loss in the period in which they arise.
- Credit risk provisions - Provisions are made relating to the expected credit loss on individual financial assets and groups of financial assets. The Company applies a three stage model for measuring expected credit losses based on changes in credit quality since recognition. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportive information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Foreign currency transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Finance lease and conditional sale receivables

Under IFRS 16 lessor accounting has remained largely the same with the Company continuing to classify leases as finance or operating leases. Contracts are classified as finance leases if substantially all of the risks and rewards of ownership of the asset are transferred to the customer.

These finance leases along with amounts advanced to customers relating to assets sold under conditional sale are stated in the Statement of Financial Position at the net investment in the lease, being the minimum lease payments and unguaranteed residual value discounted at the implicit interest rate in the contract. Following the classification adjustments made based on the IFRS 16 definition of initial direct costs, direct commission which is incurred at the inception of the contract is also recognized as a part of the finance lease receivable.

Under IFRS 9 deductions of provisions are made to reflect the assessment of expected losses on existing debts, which are known to exist from experience.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in cost of sales.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Stock comprises vehicles formerly on lease contracts awaiting disposal and vehicles awaiting assignment to a lease contract.

At each reporting date, vehicles held for sale are assessed for impairment. If they are impaired, the carrying amount is reduced to its expected selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Impairment of financial assets (including receivables)

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

The Group has adopted the IFRS 9 simplified approach to provisioning for credit losses. This methodology results in the recognition of expected losses on individual and groups of assets. The entire portfolio is classified into an appropriate Stage. For all performing finance lease and conditional sale assets, an initial allocation to Stage 1 is made resulting in a provision to reflect the 12 month expected loss of each asset. For all operating lease assets and for finance lease and conditional sale assets where a significant increase in credit risk has been identified, such as customer balances which are 60 days past due, allocation to Stage 2 is made, resulting in a provision to reflect the lifetime expected loss of each asset. Similarly, a provision to reflect the lifetime expected loss of each asset is applied to all assets where there is objective evidence of impairment, for example when a customer has defaulted on their agreement, with these assets being classified as Stage 3.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income which is shown in the Statement of Changes in Equity.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Revenue recognition

The principles in IFRS are applied to revenue recognition criteria using the following 5 step model:

- Identify the contracts with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when or as the entity satisfies its performance obligations.

Revenue

Under the principles of IFRS 15, the Company disaggregates the different income streams and recognises them as follows:

Operating lease revenue

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance lease and conditional sale revenue

Minimum lease payments are apportioned between the finance income and the reduction of the receivable. The finance charge is calculated to give a constant periodic rate of return on the loan asset.

Maintenance revenue and costs

Maintenance costs for vehicles leased by the Company or sold to customers under finance lease agreements are recognised as incurred. Maintenance revenue is calculated using a contribution margin model based on historical profits made on maintenance contracts and is recognised when the costs have been incurred.

Termination revenue

Sales proceeds received for the disposal of vehicles formerly on operating lease contracts are recognised in the income statement at the point of disposal.

Daily hire revenue

Daily hire revenue is recognised in the income statement on a daily basis in the period of the hire.

Other revenue

Management fees and various admin fees are recognised in the income statement in the period in which they are incurred.

These methods of income recognition most fairly reflect the nature of the business.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Principal versus agent

The Company has arrangements whereby it needs to determine if it acts as a principal or an agent as more than one party is involved in providing the goods and services to the customer. The Company acts as a principal if it controls a promised good or service before transferring that good or service to the customer. The Company is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably the discretion the company has in establishing the price for the specified good or service, whether the company has inventory risk and whether the Company is primarily responsible for fulfilling the promise to deliver the service or good.

This assessment of control requires judgement in particular in relation to certain service contracts. An example is the provision of certain maintenance services where the Company may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Company is acting as a principal, revenue is recorded on a gross basis. Where the Company is acting as an agent, revenue is recorded at a net amount reflecting the margin earned.

Contract modifications

The Company's contracts are sometimes amended for changes in contract specifications and requirements. Contract modification exists when the amendment either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

- a. Prospectively as an additional separate contract;
- b. Prospectively as a termination of the existing contract and creation of a new contract;
- c. As part of the original contract using a cumulative catch up; or
- d. As a combination of b) and c).

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes. Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end as management need to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken via an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management use their judgement to estimate the change to the total transaction price.

Contract assets and receivables

Where goods or services are transferred to the customer before the customer pays consideration, or before payment is due, Contract assets are recognised. Contract assets are included in the statement of financial position and represent the right to consideration for products delivered.

Contract assets and receivables (loans and advances) are recognised in the statement of financial position when the Company's right to consideration becomes unconditional. For conditional sale and finance lease receivables, this is upon delivery of the vehicle.

Contract assets & receivables (loans and advances) are classified as current or non-current based on the Company's normal operating cycle and are assessed for impairment at each reporting date.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Contract liabilities

Contract liabilities and customer deposits are recognised in the statement of financial position when the Company has received consideration but still has an obligation to deliver products and meet performance obligations for that consideration.

Impairment of contract related balances

At each reporting date, the Company determines whether or not such financial assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant contracts or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific KPIs that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Operating lease assets

Operating lease assets are stated at cost less accumulated depreciation and impairment losses. Depreciation on operating lease assets is provided to write off the cost of the asset less the estimated residual value on a straight-line basis over the period of the lease.

Following the classification adjustments made based on the IFRS 16 definition of initial direct costs, direct commission which is incurred at the inception of the contract is also recognized as a part of the cost of the operating lease asset.

Under IAS 16 a prospective, accelerated depreciation adjustment is made to generate additional straight line depreciation for any operating lease assets which have an expected residual value at the end of the contract lower than the contract residual value.

Contract residual values are calculated at the inception of the contract by analysing the market place and using the Company's own historical experience in the market. Residual values of leased assets are reviewed regularly by comparing to third party market forecasts as well as using internal forecasting models and any impairments are charged to the income statement in the period in which they arise.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Asset class	Depreciation method and rate
Office Equipment	12.5% straight line

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders until they are paid, at which point they are recognised in the Statement of Changes in Equity.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- IFRS 17 Insurance Contracts (effective date 1 January 2021).

3 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2021 £ 000	2020 £ 000
Termination revenue	588,037	608,573
Operating lease revenue	431,410	420,241
Other revenue	7,643	5,262
Interest received	1	5
Conditional sale contracts	838	1,139
Finance lease contracts	11,077	8,022
Maintenance revenue	35,077	31,288
Daily hire revenue	11,717	8,417
	<u>1,085,800</u>	<u>1,082,947</u>

4 Other operating income

The analysis of the Company's other operating income for the year is as follows:

	2021 £ 000	2020 £ 000
Miscellaneous other operating expense	-	(45)
Write off of intercompany loan payable	1	-
Release of historic overpayments	85	266
	<u>86</u>	<u>221</u>

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

5 Operating profit

Arrived at after charging/(crediting)

	2021	2020
	£ 000	£ 000
Depreciation expense	317,369	384,219
Depreciation on right of use assets - Property	15	15
Interest payable on loans from BMW Group affiliates	14,696	18,368
Impairment loss/(reversal) on operating lease assets	22,045	(6,092)
Impairment reversal on inventories	(13,048)	(208)
Cost of inventories recognised as an expense	568,173	606,633

6 Finance costs

	2021	2020
	£ 000	£ 000
Finance costs		
Interest expense on lease liability	42	42

7 Auditors' remuneration

	2021	2020
	£ 000	£ 000
Audit of the financial statements	127	86

8 Staff costs

The average number of persons employed by the Company (including directors) during the year, analysed by category was as follows:

	2021	2020
	No.	No.
Administration and support	271	259
Sales, marketing and distribution	117	119
	388	378

The aggregate payroll costs (including directors' remuneration) were as follows:

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

8 Staff costs (continued)

	2021	2020
	£ 000	£ 000
Wages and salaries	18,681	16,812
Social security costs	1,741	1,563
Other pension costs	1,987	1,729
	22,409	20,104

9 Directors' remuneration

The directors' remuneration for the year was as follows:

	2021	2020
	£ 000	£ 000
Remuneration	878	982
Contributions paid to defined contribution pension scheme	51	41
	929	1,023

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2021	2020
	No.	No.
Accruing benefits under defined contribution pension scheme	2	2

In respect of the highest paid director:

	2021	2020
	£ 000	£ 000
Remuneration	446	575
Company contributions to defined contribution pension scheme	33	24

10 Income tax

Tax charged in the income statement

	2021	2020
	£ 000	£ 000
Current taxation		
UK corporation tax	24,652	26,843
Deferred tax	(16,531)	(22,139)
	8,121	4,704

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

10 Income tax (continued)

The tax on profit before tax for 2021 and 2020 is lower than the standard rate of corporation tax in the UK of 19% (2020 - 19%).

The differences are reconciled below:-

	2021 £ 000	2020 £ 000
Profit before tax	<u>166,449</u>	<u>61,233</u>
Corporation tax at standard rate	31,625	11,634
Decrease in current tax from adjustment for prior periods	(39)	(6,931)
Increase from effect of expenses not deductible in determining taxable profit	-	1
Deferred tax credit relating to changes in tax rates or laws	<u>(23,465)</u>	<u>-</u>
Total tax charge	<u>8,121</u>	<u>4,704</u>

Reconciliation of movement in tax asset:

	2021 £ 000	2020 £ 000
Brought Forward Asset/(Liability)	7,247	(6,327)
Tax Charge	(24,652)	(26,841)
Tax Paid	<u>28,499</u>	<u>40,415</u>
Tax Asset	<u>11,094</u>	<u>7,247</u>

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

10 Income tax (continued)

Deferred tax

Deferred tax movement during the year:

	At 1 January 2021 £ 000	Recognised in income £ 000	At 31 December 2021 £ 000
Operating lease assets	59,593	16,525	76,118
Temporary differences on impairments	20,957	6	20,963
Net tax assets	80,550	16,531	97,081

Deferred tax movement during the prior year:

	At 1 January 2020 £ 000	Recognised in income £ 000	At 31 December 2020 £ 000
Operating lease assets	39,624	19,969	59,593
Temporary differences on impairments	18,787	2,170	20,957
Net tax assets	58,411	22,139	80,550

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on the tax rates that have been enacted or substantively enacted at the year end date. The whole deferred tax asset is expected to be recovered in more than one year.

UK deferred tax assets and liabilities have been calculated at 25% (2020: 19%).

Factors that may affect future tax charges

The UK Corporation tax rate, effective 1 April 2020, is 19%. An increase in the UK corporation tax rate from 19% to 25%, effective from 1 April 2023, was substantively enacted on 24 May 2021. The deferred tax asset at 31 December 2021 has been calculated based on these rates.

11 Inventories

	31 December 2021 £ 000	31 December 2020 £ 000
Vehicles held for remarketing	36,797	73,905

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

12 Property, plant and equipment

	Office equipment £ 000	Operating lease assets £ 000	Total £ 000
Cost or valuation			
At 1 January 2020	185	2,406,128	2,406,313
Additions	-	871,682	871,682
Disposals	-	(934,610)	(934,610)
At 31 December 2020 and 1 January 2021	185	2,343,200	2,343,385
Additions	-	974,314	974,314
Disposals	-	(760,353)	(760,353)
At 31 December 2021	185	2,557,161	2,557,346
Accumulated depreciation			
At 1 January 2020	129	725,224	725,353
Charge for year	17	384,202	384,219
Eliminated on disposal	-	(351,600)	(351,600)
Reversal of impairment losses	-	(6,092)	(6,092)
At 31 December 2020 and 1 January 2021	146	751,734	751,880
Charge for the year	14	317,355	317,369
Eliminated on disposal	-	(317,429)	(317,429)
Impairment losses	-	22,045	22,045
At 31 December 2021	160	773,705	773,865
Carrying amount			
At 31 December 2021	25	1,783,456	1,783,481
At 31 December 2020	39	1,591,466	1,591,505

	31 December 2021 £ 000	31 December 2020 £ 000
Future minimum lease receipts under non-cancellable operating leases:		
Not later than 1 year	509,074	314,336
Later than 1 year and not later than 5 years	530,112	301,469
	<u>1,039,186</u>	<u>615,805</u>

13 Right of use assets

	Property £ 000	Total £ 000
Cost or valuation		

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

13 Right of use assets (continued)

	Property £ 000	Total £ 000
At 1 January 2020	1,776	1,776
At 31 December 2020 and 1 January 2021	1,776	1,776
At 31 December 2021	1,776	1,776
Accumulated Depreciation		
At 1 January 2020	13	13
Charge for year	15	15
At 31 December 2020 and 1 January 2021	28	28
Charge for the year	15	15
At 31 December 2021	43	43
Carrying amount		
At 31 December 2021	1,733	1,733
At 31 December 2020	1,748	1,748

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

14 Leases

Lease liabilities maturity analysis

	31 December 2021 £ 000	31 December 2020 £ 000
Not later than 1 year	44	44
Later than 1 year and not later than 5 years	167	167
Later than 5 years	<u>1,544</u>	<u>1,547</u>
	<u>1,755</u>	<u>1,758</u>

15 Conditional sale receivables

	31 December 2021 £ 000	31 December 2020 £ 000
Gross receivable not later than 1 year	25,238	19,747
Gross receivable later than 1 year and not later than 5 years	9,037	10,667
Unearned income	(1,074)	(748)
IFRS 9 Provision	(7)	(12)
	<u>33,194</u>	<u>29,654</u>

16 Finance lease receivables

	31 December 2021 £ 000	31 December 2020 £ 000
Gross receivable no later than 1 year	106,545	92,021
Gross receivable later than 1 year and not later than 5 years	266,095	204,733
Gross receivable later than 5 years	12,026	12,433
Unearned income	(25,775)	(21,572)
IFRS 9 provision	(1,850)	(1,095)
	<u>357,041</u>	<u>286,520</u>

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

17 Trade and other receivables

	31 December 2021 £ 000	31 December 2020 £ 000
Trade receivables	39,607	53,785
Provision for impairment of trade receivables	<u>(6,784)</u>	<u>(16,094)</u>
Net trade receivables	32,823	37,691
Receivables from related parties	34,193	44,862
Prepayments	<u>11,978</u>	<u>13,826</u>
	<u>78,994</u>	<u>96,379</u>

The Company's exposure to credit and market risks, including maturity analysis, relating to trade and other receivables is disclosed in note 25.

18 Cash and cash equivalents

	31 December 2021 £ 000	31 December 2020 £ 000
Cash at bank	<u>49</u>	<u>278</u>

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

19 Trade and other payables

	31 December 2021	31 December 2020
	£ 000	£ 000
Trade payables	18,120	40,969
Amounts due to related parties	21,876	6,448
Social security and other taxes	2,941	23,717
Maintenance liability	24,559	22,839
Advance payments from customers	54,456	44,030
Other payables	48,754	32,538
	<u>170,706</u>	<u>170,541</u>

Other payables includes various accruals for goods, services and leased out assets for which invoices have not been received.

All items within trade and other payables are expected to be settled within 12 months.

The Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 25.

20 Loans and borrowings

	31 December 2021	31 December 2020
	£ 000	£ 000
Non-current loans and borrowings		
Other borrowings	1,119,629	827,653
	<u>1,119,629</u>	<u>827,653</u>
	31 December 2021	31 December 2020
	£ 000	£ 000
Current loans and borrowings		
Other borrowings	848,924	923,812
	<u>848,924</u>	<u>923,812</u>

The loans and borrowings classified as financial instruments are disclosed in note 26.

The Company's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in the financial risk management and impairment note.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

21 Share capital

Allotted, called up and fully paid shares

	31 December 2021		31 December 2020	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	100	100	100	100

The holder of the ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company.

Capital management

The Company's capital management objective is to support the objectives of the BMW Group. The BMW Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in the long-term and to provide an adequate return to shareholders.

The BMW Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk profile of the underlying assets.

The BMW Group manages the structure of debt capital on the basis of a target debt ratio. An important aspect of the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the BMW Group uses a variety of financial instruments available on the world's capital markets to achieve optimal diversification.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

22 Dividends

Final dividends paid

	2021	2020
	£ 000	£ 000
Final dividend of £143,900 (2020 - £47,700) per each Ordinary share	<u>143,900</u>	<u>47,700</u>

23 Pension and other schemes

Defined contribution pension scheme

The Company is a participating employer in a defined contribution pension plan: the BMW (UK) Personal Pension Plan. Through this plan, all employees are auto enrolled into this scheme and the Company makes contributions on behalf of the employees, with no requirement for the employees to make personal contributions.

The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £1,987k (2020 - £1,729k).

24 Contingent liabilities

The Group is facing a number of diesel emissions-related court claims in the English High Court. The claimants intend to apply for a group litigation order. Given that the Company has not yet received the particulars of claim, the probability, amount or timing of any liability, is not practical to be estimated.

25 Financial risk review

Whilst the Company accepts that all of its business activities involve risk, it seeks to protect its members by managing risks that arise from its activities appropriately. Against this background, during the last year the Company has strengthened the compliance team in order to meet the increasing regulatory demands and ensure all employees are trained and aware of the financial risk management the Company undertakes to mitigate these risks.

The Company is exposed in particular to the following risks:

- Residual value risk
- Credit risk
- Liquidity risk
- Interest Rate risk
- Foreign Exchange Risk

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Residual value risk

The principal risk arising from the Company's leasing activities relates to the non-realisation of the full amount of the residual values ("RV"), set by the Company at the inception of its leasing agreements. The profitability of the Company's vehicle leasing contracts is highly dependent on the residual value of the vehicle at the end of the agreement. RV risk arises on contract hire agreements and other operating lease arrangements where the vehicle is returned to the Company at the end of the primary lease term.

On inception of the lease, the Company uses its knowledge and experience of the market and industry to estimate an appropriate RV. However, future RVs can be difficult to predict due to future market trends and customer demands, and the Company is exposed to the risk that they could fall, leading to reductions in profitability.

The Company manages this risk by continually monitoring the RV estimates built into the leasing portfolio, both against industry-wide data such as CAP and Autofutura, and the Company's own information on remarketing BMW, MINI and multi-marque vehicles. This ensures that any reduction in RVs is quickly identified so that appropriate action can be taken. Any required impairment is charged to the income statement.

The impairment calculation also includes costs associated with remarketing the vehicle at the end of the agreement, covering inspection/collection from the customer, transport and auction fees.

As a result of the risk management guidelines detailed above, the Company has estimated its future residual value exposure on Operating Lease assets:

	31 December 2021 £ 000	31 December 2020 £ 000
Residual value exposure		
Not later than one year	22,301	68,923
Later than one year and not later than five years	49,662	46,883
	<u>71,963</u>	<u>115,806</u>

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Residual value risk (continued)

The Company performs regular sensitivity analysis on its exposure to risks.

At 31 December 2021 a 1% decrease in the future outlook of the used car market would have resulted in an adverse profit and loss impact of £2,865k (2020: £7,762k).

At 31 December 2021 a 5% decrease in the future outlook of the used car market would have resulted in an adverse profit and loss impact of £19,711k (2020: £32,204k).

Credit risk

Credit risk is the risk of financial loss to the Company if a corporate or individual customer to a financial instrument fails to meet its contractual obligations. It arises principally from vehicle finance agreements granted by the Company to consumers and business customers. These can be in the form of contract hire agreements or loans under conditional sale and finance lease receivables.

Various tools and procedures are used to assess credit risk at contract inception, such as information from credit reference agencies, credit scoring techniques and on-site assessments. Credit limits for business customers are based on an assessment of financial and non-financial information and regularly monitored thereafter to ensure that the risk rating does not decline thereby placing the Company's exposure at risk.

The Company actively manages its credit exposures and when weaknesses in exposures are detected, either in individual exposures or in groups of exposures, action is taken to mitigate the risks. These include steps to reduce the amounts outstanding either through written or verbal communication with the customer and where appropriate, repossession and sale of the loan assets. The Company exercises forbearance.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Credit risk (continued)

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	31 December 2021 £ 000	31 December 2020 £ 000
Current	31,730	39,392
Aged 0 - 30 days	1,388	2,470
Aged 31 - 60 days	884	854
Aged 61 - 90 days	614	1,309
Aged 91 - 120 days	54	932
More than 120 days	4,937	8,828
	<u>39,607</u>	<u>53,785</u>
Less allowance for impairment:		
Provision for impairment of trade receivables	(6,784)	(16,094)
Total	<u>32,823</u>	<u>37,691</u>

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Credit risk (continued)

Operating lease receivables

The credit risk provisions can be further analysed as follows:

	31 December 2021 £ 000	31 December 2020 £ 000
Operating lease receivables, lifetime credit loss allowance	(1,390)	(8,135)
Operating lease receivables, credit impaired loss allowance	<u>(5,394)</u>	<u>(7,959)</u>
	<u>(6,784)</u>	<u>(16,094)</u>

The operating lease receivables can be further analysed into performance of these receivables:

	31 December 2021 £ 000	31 December 2020 £ 000
Underperforming	30,112	43,549
Credit impaired	<u>7,659</u>	<u>10,236</u>
	<u>37,771</u>	<u>53,785</u>

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Credit risk (continued)

Operating lease receivables (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

Operating lease receivables 2021

	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Expected credit loss allowance opening balance	-	8,135	7,959	16,094
Transfer to stage 2	-	30	(1,112)	(1,082)
Transfer to stage 3	-	(30)	936	906
Derecognised financial assets	(15)	(228)	(972)	(1,215)
New assets originated in year	-	214	260	474
Write-offs	-	(2)	(1,822)	(1,824)
Changes in models and risk parameters	-	(19)	29	10
Other movements	15	(6,710)	116	(6,579)
	<u>-</u>	<u>1,390</u>	<u>5,394</u>	<u>6,784</u>

Other movements

The IFRS 9 movements are determined by the IFRS tool but adjustments were required outside the system to account for the impact of COVID on the behaviour of customers. The IFRS 9 base provision was analysed to assess the impact of customers being further downgraded due to economic hardship. This analysis was based on our customer payment behaviour and aligned with external studies that look at which sectors will be worst affected by COVID. A sector analysis was carried out on our customer list to identify high/low risk customers based on this analysis. The analysis calculated how much the provision would increase if customers in the respective risk categories were to default and a probability assigned. These customers are not in default but have seen an increase in credit risk.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Credit risk (continued)

Operating lease receivables (continued)

Operating lease receivables 2020

	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Expected credit loss allowance opening balance	-	518	4,482	5,000
Transfer to stage 2	-	2	(88)	(86)
Transfer to stage 3	-	(25)	3,714	3,689
Derecognised financial assets	(10)	63	(157)	(104)
New assets originated in the year	-	240	826	1,066
Write-offs	-	(2)	(806)	(808)
Changes in models and risk parameters	-	4	(1)	3
Other movements	10	7,335	(11)	7,334
	<u>-</u>	<u>8,135</u>	<u>7,959</u>	<u>16,094</u>

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Credit risk (continued)

Finance lease receivables

The credit risk provisions can be further analysed as follows:

	31 December 2021	31 December 2020
	£ 000	£ 000
Finance lease receivables, 12 month credit loss allowance	(1,784)	(368)
Finance lease receivables, lifetime credit loss allowance	(8)	(6)
Finance lease receivables, credit impaired loss allowance	(58)	(721)
	<u>(1,850)</u>	<u>(1,095)</u>

The finance lease receivables can be further analysed into performance of these receivables:

	31 December 2021	31 December 2020
	£ 000	£ 000
Performing	355,724	284,685
Underperforming	564	220
Credit impaired	2,604	2,710
	<u>358,892</u>	<u>287,615</u>

The finance lease receivables that are neither past due nor specifically impaired can be further analysed into credit quality of these performing receivables:

	31 December 2021	31 December 2020
	£ 000	£ 000
Good quality	204,975	165,632
Satisfactory quality	150,749	119,053
	<u>355,724</u>	<u>284,685</u>

Good quality are receivables which have been allocated a risk rating of 1 to 3.

Satisfactory quality are receivables which have been allocated a risk rating of 4 to 7.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Credit risk (continued)

Finance lease receivables (continued)

The movement in the allowance for impairment in respect of finance lease receivables during the year was as follows:

Finance lease receivables 2021

	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Expected credit loss allowance opening balance	368	7	720	1,095
Transfer to stage 1	-	(3)	(62)	(65)
Transfer to stage 2	2	1	(2)	1
Transfer to stage 3	(1)	2	33	34
Derecognised financial assets	(42)	(1)	(23)	(66)
New assets originated in year	83	5	7	95
Write-offs	-	-	(2)	(2)
Changes in models and risk parameters	(27)	-	2	(25)
Other movements	1,401	(3)	(615)	783
	<u>1,784</u>	<u>8</u>	<u>58</u>	<u>1,850</u>

Finance lease receivables 2020

	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Expected credit loss allowance opening balance	152	2	29	183
Transfer to stage 1	-	-	(6)	(6)
Transfer to stage 2	-	2	-	2
Transfer to stage 3	(4)	(1)	91	86
Derecognised financial assets	(34)	-	(8)	(42)
New assets originated in the year	101	1	19	121
Write-offs	-	-	(2)	(2)
Changes in models and risk parameters	11	-	-	11
Other movements	141	3	598	742
	<u>367</u>	<u>7</u>	<u>721</u>	<u>1,095</u>

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Credit risk (continued)

Conditional sale receivables

The credit risk provision relating to conditional sale receivables can be further analysed as follows:

	31 December 2021 £ 000	31 December 2020 £ 000
Stage 1 - 12 month credit loss allowance	<u>(7)</u>	<u>(12)</u>

The conditional sale receivables can be further analysed into performance of these receivables:

	31 December 2021 £ 000	31 December 2020 £ 000
Performing	<u>33,201</u>	<u>29,666</u>

The conditional sale receivables that are neither past due nor specifically impaired can be further analysed into credit quality of these performing receivables:

	31 December 2021 £ 000	31 December 2020 £ 000
Good quality	19,074	19,898
Satisfactory quality	<u>14,127</u>	<u>9,768</u>
	<u>33,201</u>	<u>29,666</u>

Good quality are receivables which have been allocated a risk rating of 1 to 3.

Satisfactory quality are receivables which have been allocated a risk rating of 4 to 7.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Credit risk (continued)

Conditional sale receivables (continued)

The movement in the allowance for impairment in respect of conditional sale receivables during the year was as follows:

Conditional sale receivables 2021

	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Expected credit loss allowance opening balance	12	-	-	12
Derecognised financial assets	(6)	-	-	(6)
New assets originated in year	6	-	-	6
Changes in models and risk parameters	(2)	-	-	(2)
Other movements	(3)	-	-	(3)
	<u>7</u>	<u>-</u>	<u>-</u>	<u>7</u>

Conditional sale receivables 2020

	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Expected credit loss allowance opening balance	15	-	-	15
Derecognised financial assets	(7)	-	-	(7)
New assets originated in the year	6	-	-	6
Changes in models and risk parameters	1	-	-	1
Other movements	(3)	-	-	(3)
	<u>12</u>	<u>-</u>	<u>-</u>	<u>12</u>

	31 December 2021 £ 000	31 December 2020 £ 000
Provision for impairment of trade receivables	(6,784)	(16,094)
Finance lease provision	(1,850)	(1,095)
Conditional sale provision	<u>(7)</u>	<u>(12)</u>
	<u>(8,641)</u>	<u>(17,201)</u>

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Credit risk (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

The Company looked at multiple different macroeconomic factors to see if there was any correlation with the Company's probability of default percentage (PD). The company uses a model based on UK unemployment rate with a one month lag. A correlation coefficient for unemployment and PD is calculated and used in the model. Three scenarios are used; base, positive and negative.

Scenario	Probability	ECL	Current	2022	2023	2024	2025
Base	80%	5,679,135	4.40%	4.40%	4.53%	4.65%	4.76%
Positive	10%	5,653,294	4.00%	4.40%	4.40%	4.40%	4.40%
Negative	10%	6,048,689	8.00%	7.80%	7.80%	7.80%	7.80%
Weighted ECL		5,713,505					

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they fall due.

To minimise this risk the Company has taken several measures. Its day-to-day liquidity is managed as part of the UK cash pooling of the BMW Group in a way that ensures that the Company can meet any obligation to make payments. In addition the Company follows the matched funding principle of matching our cash inflow and cash outflows, and perform a short-term forecasting for the next two days in order to ensure that requirements can be met.

The Company reports its funding requirements into the BMW Group wide liquidity planning which is the basis for obtaining liquidity in the world's financial markets. To ensure access to liquidity at attractive rates, the BMW Group is present in all important capital markets to enable a diversification of funding sources including bonds, commercial paper and asset-backed transactions. The Company has direct access to these funds to manage its liquidity requirements through BMW Malta Finance and BMW Finance N.V.

The following tables set out the remaining contractual maturities of the Company's financial liabilities by type.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Financial risk review (continued)

Non-derivative liabilities

2021

	Carrying Amount £ 000	Contractual cash flows £ 000	1 year or less £ 000	1-5 years £ 000
Loan amounts due to BMW Group affiliates	1,968,553	1,977,086	851,053	1,126,033
Trade and other payables	170,706	170,706	170,706	-
	<u>2,139,259</u>	<u>2,147,792</u>	<u>1,021,759</u>	<u>1,126,033</u>

Non-derivative liabilities

2020

	Carrying Amount £ 000	Contractual cash flows £ 000	1 year or less £ 000	1-5 years £ 000
Loan amounts due to BMW Group affiliates	1,751,465	1,766,182	927,210	838,972
Trade and other payables	170,541	170,541	170,541	-
	<u>1,922,006</u>	<u>1,936,723</u>	<u>1,097,751</u>	<u>838,972</u>

Interest rate risk

Interest rate risk arises from the provision of financing to the Company's customers.

The Company has significant loans payable to BMW Finance N.V. which are at both fixed and variable rates of interest for their term. The maturities of these loans can vary from one month to a few years and this variation will influence the timing of new loans and therefore any movement in interest rates prevailing in the market will have an impact on the Company's cost of funding.

The Company has designated that the conditional sale and finance lease receivables due from its customers, the majority of which are at a fixed rate of interest, constitute the financial asset portion of the fixed rate instruments. The loans payable to BMW International Investment B.V. and BMW Finance N.V. are at both fixed and variable rates of interest for their term and therefore constitute the fixed and variable rate financial liabilities.

	31 December 2021 £ 000	31 December 2020 £ 000
Value-at-risk	<u>25,500</u>	<u>34,100</u>

Foreign exchange risk

The Company does not have any material exposure to foreign exchange risk due to the small number of financial transactions that take place in a currency other than pounds sterling.

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

26 Financial instruments

Fair values of financial instruments

Under IFRS 13, fair value measurements should be classified using a fair value hierarchy that reflects the significance of the inputs used in the measurements, according to the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 - inputs for the assets or liability that are not based on observable market data.

The following assumptions have been applied in determining the fair value of the financial instruments held by the Company.

Conditional sale and finance lease receivables

Fair values of hire purchase receivables have been calculated by using the average internal rate of return used in hire purchase contracts written at the year end date as a discount factor on the forecast future monthly gross receivable amounts (Level 3). The fair value of deductions of provisions for bad and doubtful debts of hire purchase receivables have been deemed to be of equivalent value to the carrying amount.

Trade and other payables and trade and other receivables

For trade and other payables and trade and other receivables with a remaining life of less than one year, the notional amount is deemed to reflect fair value (Level 3).

Interest bearing borrowings

Fair values of interest-bearing borrowings are determined by using the Group's Treasury Management System. This system incorporates relevant and current external market information. Specifically, fair market values are calculated by using a discounted cash flow method. Each future cash flow is discounted by a factor based on the zero yield curve. The zero yield curve is calculated by the system using current market data (Level 3).

Under the IFRS 9 classification and measurement guidelines, all financial assets and liabilities are measured at amortised cost.

The following tables show the fair values and carrying amounts of financial assets and liabilities that are measured at cost or amortised cost and whose carrying amounts differ from their fair value. For some items on the Statement of Financial Position, fair value corresponds to the carrying amount due to their short maturity:

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

26 Financial instruments (continued)

	2021 Carrying Amount £000	2021 Fair Value £ 000	2020 Carrying Amount £ 000	2020 Fair Value £ 000
Financial assets				
Non-current conditional sale receivables	8,742	8,784	10,430	10,656
Current conditional sale receivables	24,452	25,011	19,224	19,735
Non-current finance lease receivables	261,769	267,771	203,159	216,358
Current finance lease receivables	95,272	103,766	83,361	90,926
Trade and other receivables	78,994	78,994	96,379	96,379
Income tax receivable	11,094	11,094	7,247	7,247
Cash	49	49	278	278
Total financial assets	480,372	495,469	420,078	441,579

	2021 Carrying Amount £ 000	2021 Fair Value £ 000	2020 Carrying Amount £ 000	2020 Fair Value £ 000
Financial liabilities at amortised cost				
Current trade and other payables	(170,706)	(170,706)	(170,541)	(170,541)
Current loan amounts due to BMW Group affiliates	(848,924)	(851,053)	(923,812)	(927,210)
Non-current loan amounts due to BMW Group affiliates	(1,119,629)	(1,126,033)	(827,653)	(838,972)
Total financial liabilities	(2,139,259)	(2,147,792)	(1,922,006)	(1,936,723)

	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	Total £ 000
Financial assets				
Conditional sale receivables	-	-	33,795	33,795
Finance lease receivables	-	-	371,537	371,537
Trade and other receivables	-	-	78,994	78,994
Total financial assets	-	-	484,326	484,326

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

26 Financial instruments (continued)

	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	Total £ 000
Financial liabilities				
Current trade and other payables	-	-	(170,706)	(170,706)
Loan amounts due to BMW Group affiliates	-	-	(1,977,086)	(1,977,086)
Total financial liabilities	<u>-</u>	<u>-</u>	<u>(2,147,792)</u>	<u>(2,147,792)</u>

27 Related party transactions

The related parties with which the Company traded during the year or with whom there were outstanding assets or liabilities at the year-end are listed below. Each of the related parties listed is an indirect subsidiary of BMW AG, the ultimate parent company and controlling party.

Alphabet (UK) Fleet Management Limited
 Alphabet Nederland B.V.
 BMW Financial Services (GB) Limited
 BMW Hams Hall Motoren GmbH
 BMW International Investment B.V.
 BMW (UK) Limited
 BMW (UK) Holdings Limited
 BMW (UK) Manufacturing Limited
 BMW (UK) Pensions Services Limited
 Rolls-Royce Motor Cars Limited
 Park Lane Limited
 Swindon Pressings Limited

	2021 £ 000	2020 £ 000
Sales of goods and services to BMW Group affiliates	<u>3,314</u>	<u>3,839</u>
Interest income received from BMW Group affiliates	<u>1</u>	<u>5</u>
	2021 £ 000	2020 £ 000
Purchases of goods and services from BMW Group affiliates	<u>188,126</u>	<u>207,754</u>
Interest paid to BMW Group affiliates	<u>14,696</u>	<u>18,368</u>

Amounts receivable from related parties at the year end, which the Company expects to be settled in cash, were as follows:

Alphabet (GB) Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

27 Related party transactions (continued)

	31 December 2021 £ 000	31 December 2020 £ 000
Trade and other receivables due from BMW Group affiliates	<u>34,193</u>	<u>44,862</u>

Amounts payable to related parties at the year end, which the Company expects to be settled in cash, were as follows:

	31 December 2021 £ 000	31 December 2020 £ 000
Trade and other payables due to BMW Group affiliates	21,876	6,448
Loans due to ultimate parent company not later than 1 year	36,224	12,093
Loans due to BMW Group affiliates not later than 1 year	812,700	911,720
Loans due to BMW Group affiliates later than 1 year not later than 5 years	<u>1,119,629</u>	<u>827,653</u>

28 Parent and ultimate parent undertaking

The directors regard BMW AG, a company incorporated in Germany, as the ultimate parent company and controlling party.

The Company's immediate parent is BMW (UK) Holdings Limited, a company incorporated in England and Wales with registered office Summit One, Summit Avenue, Farnborough, Hampshire.

The ultimate parent is BMW AG.

The most senior parent entity producing publicly available financial statements is BMW AG. These financial statements are available upon request from D-80788, Munich, Germany.

The ultimate controlling party is BMW AG.

29 Non adjusting events after the financial period

In February 2022, significant sanctions were put in place by a number of governments, (including the US, UK and EU) directly targeting the Russian Federation and Belarus, companies and financial institutions in and connected to both countries as well as a number of named individuals. The impact of these sanctions includes but is not limited to restricting their ability to make payments, enter into commercial agreements and import or export goods and services. The nature of the sanctions, as well as the list of directly sanctioned entities and persons is changing on an ongoing basis.

In addition, many international companies have indicated their intention to withdraw from providing services in Russia and Belarus.

The Directors have assessed the impact and conclude that there is limited impact on the Group's operations due to the nature of the business.

The Directors continue to actively monitor the situation.