RNS Number : 4924G
Aston Martin Lagonda Global Hld PLC
17 March 2020

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Annual Financial Report

Aston Martin Lagonda Global Holdings plc (the "Company") announces that it has today published its Annual Report and Accounts for the financial period ended 31 December 2019 (the "2019 Annual Report") online and it can be viewed on the Company's website www.astonmartinlagonda.com.

In accordance with Listing Rule 9.6.1R, the 2019 Annual Report has been submitted to the National Storage Mechanism and will shortly be available for inspection at www.morningstar.co.uk/uk/NSM.

The 2019 Annual Report will be dispatched to shareholders in due course.

The date for the Company's Annual General Meeting (AGM) and the Notice of AGM will be published on the Company's website and distributed to shareholders in due course.

In compliance with Disclosure Guidance and Transparency Rule ("DTR") 6.3.5, the information in the Appendix below is extracted from the 2019 Annual Report and should be read in conjunction with the Company's Preliminary Announcement issued on 27 February 2020, which can also be viewed at www.astonmartinlagonda.com. Together these constitute the material required by DTR 6.3.5 to be communicated to the media in unedited full text through a Regulatory Information Service. This material is not a substitute for reading the 2019 Annual Report in full and page numbers and cross-references in the extracted information below refer to page numbers and cross-references in the 2019 Annual Report.

The 2019 Annual Report provides information about the Company as at 26 February 2020. In light of the recent extraordinary equity market volatility related to concerns over Covid-19, on 13 March 2020 the Company announced that it has renegotiated certain terms relating to the proposed investment by the consortium led by Lawrence Stroll and the subsequent rights issue, including that the proposed capital raise has increased to £536m. Consequently, certain information in the 2019 Annual Report relating to the placing and rights issue has changed. The 13 March 2020 announcement and a supplemental prospectus containing the full details of these changes (along with the original prospectus and circular) is available on our website at www.astonmartinlagonda.com/investors/shareholder-information.

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APPENDIX: ADDITIONAL INFORMATION REQUIRED BY DTR 6.3.5

AUDIT REPORTS

The Preliminary Announcement includes a condensed set of financial statements. Audited financial statements for the financial year ended 31 December 2019 are contained in the 2019 Annual Report and Accounts. The Independent Auditors' Report on the Group financial statements and the parent company financial statements is set out in full on pages 117 to 125 of the 2019 Annual Report. The audit report is unmodified and does not contain any statements under section 498(2) or section 498(3) of the Companies Act 2006.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following information is extracted from page 115 of the 2019 Annual Report.

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

Each of the directors, whose names and functions are listed on pages 72 to 75 confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

PRINCIPAL RISKS

The following information is extracted from pages 52 to 66 of the 2019 Annual Report.

OUR APPROACH TO RISK

The Board is ultimately responsible for oversight of our risk management and internal control systems and it recognises that effective enterprise risk management is essential to executing our reset plan to achieve sustainable shareholder value, protect the brand and ensure good governance. This includes determining the nature and extent of the principal risks the Board is willing to take in achieving our strategic objectives (the Board's risk appetite), and challenging management's implementation of effective systems of risk identification, assessment, prioritisation and management. We continue to develop our three lines of defence assurance model to maintain the ongoing effectiveness of risk management and control and to define the relationship between the various management and oversight functions.

The Audit and Risk Committee has been delegated the responsibility for monitoring the effectiveness of the Group's risk management and internal control systems. This monitoring is provided through internal governance processes and the work of the Group functions, particularly the work of the Internal Audit and Risk Management Team and the Risk Management Committee. The annual Audit and Risk Committee calendar provides a framework for the ongoing review of these systems and controls by the Committee, particularly through reports provided by our Internal Audit and Risk Management team, the external auditors and providing the opportunity to have "deep dives" to understand the key risks facing the business. The Chair of the Audit and Risk Committee updates the Board on the Committee's activities in this regard as appropriate.

Our Internal Audit and Risk Management team maintain the Group's Enterprise Risk Management Framework and System (ERMFS) and co-ordinate risk management activities across the Group. The challenges which the Group faced in 2019 led to the development of the reset plan and the requirement for the strategic equity investment and proposed rights issue to address liquidity concerns. These difficult conditions demonstrate the importance of continually improving the way we manage our risks. During the period we have continued to enhance our risk management activity by completing formal risk mitigation plans for all principal risks and reassessing current levels of risk exposure. These incorporate management's assessments of gross, net and target risk and the effectiveness of mitigating controls. This has resulted in several changes being made to the Groups principal risks, including the escalation and inclusion of the financial liquidity risk within our reported risks. Internal Audit provide independent and objective assurance over the effectiveness of these risk mitigation plans and report their findings directly to the Audit and Risk Committee (see Control Environment on page 93).

Trough the ERMFS the following activities form an integral part of our business and include: annual review and approval of the ERMFS and Risk Management Policy; identifying and assessing gross, target and net risks for potential impact and likelihood; maintaining corporate and functional risk registers; undertaking top-down/bottom-up risk assessments and designing and implementing risk mitigation plans. The risk mitigation plans are independently validated on a rotational basis by our Internal Audit and Risk Management team led by the Director of Internal Audit and Risk Management, who reports administratively to the EVP and Chief Financial Officer with an independent reporting line to the Chair of the Audit and Risk Committee. The key governing bodies associated with promoting effective risk management within the Group, and their primary responsibilities for risk management, are shown in the diagram below.

<table>
<tr><td colspan="6">BOARD OF DIRECTORS AND AUDIT AND RISK COMMITTEE</td></tr>
<tr><td colspan="2">• The Board is responsible for regular oversight of the Group's risk management and internal control systems, assessing the Group's principal risks and setting the Group's risk appetite.</td><td colspan="2">• The Audit and Risk Committee regularly monitor risk status through formal risk reporting, risk deep dive reviews and the commissioning of assurance reviews to independently validate the effectiveness of risk mitigation plans.</td><td colspan="2">• The Board has delegated oversight of the Enterprise Risk Management Framework and System to the Audit and Risk Committee which regularly monitors the principal risks and uncertainties along with management's strategies to mitigate them.</td></tr>
<tr><td colspan="6">RISK MANAGEMENT COMMITTEE (MANAGEMENT COMMITTEE CHAIRED BY DIRECTOR OF INTERNAL AUDIT AND RISK MANAGEMENT)</td></tr>
<tr><td colspan="2">• Reviews external and internal environment for new and emerging risks.
• Performs deep dive reviews of principal risks and challenges risk assessments and mitigation plans.
• Holds risk owners accountable for implementing effective risk mitigation plans.</td><td colspan="2">• Meets every two months and reports key findings to the Audit and Risk Committee.
• Attended by functional "Risk Champions", encompassing senior management from key departments (e.g. IT, Quality, Technology, Manufacturing, Finance, Engineering, Legal, Supply Chain).</td><td colspan="2">• Identifies and assesses changes to risks and monitors the effectiveness of mitigation plans to reduce risk exposure to acceptable levels in accordance with our risk appetite.
• Champions effective risk management and control across the Group</td></tr>
<tr><td colspan="3">INTERNAL AUDIT AND RISK MANAGEMENT TEAM</td><td colspan="3">FUNCTIONAL CHAMPIONS AND RISK OWNERS</td></tr>
<tr><td colspan="3">• Centrally co-ordinates deployment of the "Enterprise Risk Management Framework and System".
• Facilitates updates to the corporate and functional risk registers in partnership with Risk Champions.
• Prepares Board, Audit and Risk Committee and Risk Management Committee status updates.
• Provides resources and training to support risk management activities.
• Evaluates the design and operating effectiveness of risk mitigation activities</td><td colspan="3">• Perform day-to-day risk management activities.
• Identify and assess risk within their departments and implement actions to reduce risk exposure to an acceptable target level.
• Assign owners to risks, maintain functional risk registers and manage "Risk Mitigation Plans".
• Responsible for establishing an appropriate risk management culture, and for implementing effective risk management and internal control within their department.</td></tr>
</table>

RISK APPETITE

The Board determines the amount of risk the Group is willing to accept in the pursuit of the Group's strategic objectives, dependent on the type of risk. The Group's underperformance against the original plan in 2019 was outside the Board's risk appetite, and consequently management performed a comprehensive strategic, operational and financial review which resulted in the reset of the business plan. The reset plan reflects lower risk levels associated with certain elements of the business. The Group's risk appetite will vary dependent on the type of risk and may change over time. In exploring risks and opportunities, we prioritise the interests and safety of our customers and employees and seek to protect the long-term value and reputation of the brand, while maximising commercial benefits to support responsible and sustained growth.

We assess the level of risk exposure against our associated risk appetite to ensure that we appropriately prioritise our resources to manage risks within our risk appetite. Initially we assess the gross exposure of identified risks, this being the risk exposure before considering the effect of any mitigating controls or actions. We then measure the net risk to determine the residual risk exposure using a scoring methodology which considers the likelihood and potential impact of the identified risk. Where the residual risk remains outside of the Board's risk tolerance additional actions are identified to further mitigate the risk down to an acceptable target level.

OUR PRINCIPAL RISKS

Our risk management system is designed to identify a broad range of risks and uncertainties which we believe could adversely impact the profitability or prospects of the Group. Our principal risks are those that we regard as the most material to the achievement of our strategic objectives, our financial performance and our long-term sustainability.
During 2019 several of our principal risks have had a significant adverse impact on the Group's financial performance and position and we have disclosed an additional financial risk on page 65 related to the liquidity shortfalls and the impact that can have on the Group's business and operations. We have also disclosed risk movements based on our revised risk assessments for each principal risk. The following pages set out the Group's principal risks, how these risks are linked to our strategy and the primary mitigating actions implemented for each risk during the year ended 31 December 2019. Our principal risks will change over time as some risks assume greater importance and others may become less significant. We categorise principal risks within one of the following four areas: Strategic, Operational, Compliance and Financial.
Each principal risk is linked to one of these categories and may impact one or more of our strategic pillars.

STRATEGICRISKS

MACRO-ECONOMIC AND POLITICAL INSTABILITY

The Group operates in many markets exposing us to changing economic, regulatory, social and political developments that may impact customer demand, profitability or our ability to sell within those markets.

Adverse macro-economic conditions or country-specific changes to the operating, regulatory or political environment may lead to an unfavourable business climate and significant tensions between major trading parties which could adversely impact the Group's operations and financial performance and delivery of strategic plans. This may include explicit trade protectionism, differing tax or regulatory regimes, changing public sentiment or reduced disposable incomes which could adversely affect demand for our vehicles.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY All pillars	RISK MOVEMENT IN PERIOD **Increasing Risk**
RISK TOLERANCE **Moderate** - recognising that external factors are difficult to mitigate as they are often outside our direct control.	
EXAMPLES OF RISKS • Wholesale performance has been adversely impacted by macro-economic uncertainty and enduring weakness in UK and European markets. • A key component of the Group's planned growth strategy is the expansion of sales in the Asia Pacific and Middle East regions, particularly recognising the increasing number of high net worth individuals (HNWIs) in these markets. The extent to which economic growth in these emerging markets and within the luxury market as a whole will be sustained is unknown. • Global economic slowdown and increasing uncertainty has adversely affected demand for our products in certain markets. • Increased protectionism in global jurisdictions (e.g. threatened US import taxes on UK vehicles) and Brexit could result in increased tariffs, pricing pressure and additional operating complexities. • Unfavourable movements in foreign exchange rates or commodity prices could adversely affect our ability to meet our strategic objectives. • Adverse economic conditions could adversely impact the Group's dealers on whom the Group is dependent for the sale and promotion of its products and services. • Adverse economic conditions could cause suppliers to be unable to meet their commitments to the Group adversely impacting production and/or costs. • The Covid-19 (Coronavirus) outbreak could potentially result in reduced growth rates and consumer demand in affected markets.	ACTIONS TAKEN BY MANAGEMENT • Operational and financial review of the business resulting in a reset of the plan. • Continued targeting of growth in emerging or underperforming markets (including China, APAC and MENA) while building on our position in established markets (such as the US) to reduce over reliance on any one territory. • Actions to maintain quality of sales and to protect the brand including appropriate inventory management. • Monitoring market trends globally to target areas for future growth and to ensure a product offer which reflects customer tastes and preferences. • Brand and customer activities and experiences to ensure strong brand recognition and customer relationships. • Lobbying, where appropriate, to proactively influence regulatory change which may affect the Group. • Making appropriate preparations for Brexit led by the Brexit steering committee who manage the risks associated with Brexit (see the Brexit principal risk set out on page 64). • Volume planning actions to optimise dealer/network stock levels in light of continued lifecycle actions. • Engagement of external consultants to support deep dive review of Budget and Forecasting process to provide assurance over the accuracy of management information.

INABILITY TO MAINTAIN FAVOURABLE COMPETITIVE POSITIONING

Maintaining our competitiveness in the high luxury segment car market is critical to achieving our strategic growth objectives.

The Group competes with other manufacturers with strong brands and reputations and which may have access to greater financial resources. The high luxury segment is relatively small due to the price at which cars are sold and significant investment is required to introduce new models to the market, which relies on a sufficient level of demand to support the growing levels of production and competition. The trend towards cars with lower engine capacity and new drive technologies could adversely affect the Group.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • Strengthened global brand and sales power. • Inspiring customer-focused luxury products. • World-class value and lean processes. • Top-class quality.	RISK MOVEMENT IN PERIOD Increasing Risk
RISK TOLERANCE **Low** - as we develop our product portfolio, particularly our incremental carlines, we need to ensure that we remain competitive to win customers across model segments.	

EXAMPLES OF RISKS

- Failure to maintain leading design which customers value.
- Inability to produce cars that are competitive in terms of performance, aesthetics and quality and that meet customers' needs and tastes.
- Inability to keep up with technological advancements (e.g. electrification).
- Failure to meet regulatory requirements such as emissions restrictions.
- Competitor brands with greater financial resources enabling them to invest in technology (see technology principal risk on page 58) and benefit from stronger negotiating power with the suppliers due to higher volumes.
- Vantage has not delivered its expected volumes and although has increased market share, the overall market has declined.
- Competitor pricing activity resulting in the need to increase retail and customer financing spend to support retail sales.
- The recent UK Government announcement to bring forward the banning of all sales of new petrol, diesel and hybrid vehicles from 2040 to 2035 may adversely affect the Company's competitive position were the Group unable to develop its EV range within that timeframe.

ACTIONS TAKEN BY MANAGEMENT

- Expanding our product portfolio to produce incremental new core models. This is aimed at increasing demand with a multi-segment model strategy based on clearly defined target customers for each model to reflect customer tastes and preferences.
- Maintaining a regular pipeline of Special editions and fully bespoke customisation offer through the 'Q' division, to drive exclusivity and increase demand.
- Continuous improvement in product performance, technology, quality and other car features.
- Use of modular architecture and "carry over carry across" principle for key systems and components to minimise engineering and tooling investment and time to market and improve overall quality.
- "Beyond Lean"TM manufacturing techniques to improve efficiency and cost savings.
- Expanded dealer network and improved dealer training to ensure luxury customer experience consistent with the brand.
- "Built in" quality processes to achieve customer satisfaction.
- Continuous improvement of vehicle development process.
- Proposed relaunch of Vantage and the introduction of the Roadster in Q2.
- Making appropriate preparations for Brexit led by the Brexit steering committee who manage the risks associated with Brexit (see the Brexit principal risk set out on page 64).
- Volume planning actions to optimise dealer/network stock levels in light of continued lifecycle actions.
- Engagement of external consultants to support deep dive review of Budget and Forecasting process to provide assurance over the accuracy of management information

BRAND/REPUTATIONAL DAMAGE ARISING FROM POOR QUALITY, LATE DELIVERY, PRODUCT RECALL OR INEFFECTIVE BRAND POSITIONING AND AWARENESS

Our brand and reputation are critical in securing demand for our vehicles and in developing additional revenue streams.

Damage to our brand or reputation for any reason could significantly impact our ability to deliver the volume growth required to support our strategy.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • Strengthened global brand and sales power. • Top-class quality. • Inspiring customer-focused luxury products.	RISK MOVEMENT IN PERIOD **Unchanged**
RISK TOLERANCE **Low** - the value of the brand has been built upon delivering exceptional luxury products to our customers. Any real or perceived quality or customer experience issues could significantly affect demand for our products.	
EXAMPLES OF RISKS • Customer confidence and loyalty could be affected due to product recall, late delivery, quality defects or not meeting customer expectations and vehicle specifications. • Reliance on a franchised dealer network to raise and maintain brand awareness. • Inadequate training of our dealership network in new products and technologies as we expand our product portfolio could result in a poor customer experience.	ACTIONS TAKEN BY MANAGEMENT • Clear brand vision and establishment of a consistent brand identity across platforms. • Selective licensing and other use of the brand assets within AML Partnerships. • Monthly Brand Steering Committee meetings. • Cross-functional project team established to deliver new model launches. • Establishment of strong relationships with media. • Development of a Product Strategy team with regional representation. • "Right first time" engineering approach and "Built-in" vehicle quality processes to improve quality. • Customer satisfaction feedback through customer audits and expansion of client services team to improve global customer support. • Quality remediation process in place where significant quality issues are managed through the Technical Review Group, Critical Concerns Review Group and the Recall Committee. • Expanded dealer network and improved dealer training to ensure luxury customer experience consistent with the brand. • Multiple inspection points throughout the manufacturing and assembly operations. • Aston Martin Customer Perception Audit process. • Aston Martin Parts Approval Process implemented to assure parts quality. • ISO 9001 Quality Management System annual certification.

INABILITY TO INCORPORATE AUTOMOTIVE TECHNOLOGICAL ADVANCEMENTS (E.G. ACTIVE SAFETY, CONNECTED CAR, ELECTRIFICATION, AUTONOMOUS DRIVING)

Inability to keep pace with changing customer requirements and expectations with the move towards more advanced technologies due to reliance on third parties for key components and availability of funds to invest internally on product development.

The Group's current liquidity position and funding structure may restrict the availability of funds to pursue potential acquisitions, invest in organic growth projects or exploit emerging business opportunities to maintain our competitiveness in relation to technological change. In particular, keeping abreast of the development of new technology in line with changes in trends and customer tastes. The Group is currently reliant upon certain key suppliers maintaining their pace of technological development and making this available to the Group in a timely manner.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • Inspiring customer-focused luxury products. • Strengthened global brand and sales power. • World-class value and lean processes. • Top-class quality.	RISK MOVEMENT IN PERIOD Increasing Risk
RISK TOLERANCE **Low** - technology requirements in the automotive industry are changing with increasing pace and the Group needs to anticipate and incorporate these into future planning to remain competitive.	
EXAMPLES OF RISKS • The Group may not have access to the latest technologies due to its reliance on third parties for key components. • Competitors may have better access to funding to develop new technology faster and be first to market. • Changing and more stringent regulations may make current technology obsolete and increase risk of future non-compliance. • Investment in new/emerging technology may be delayed if the Group are unable to generate sufficient liquidity to deliver the planned strategy.	ACTIONS TAKEN BY MANAGEMENT • Strategic arrangements with key partners enable the provision of engines, electrical architecture and entertainment systems as well as providing a more cost-effective platform to enhance our design and engineering capabilities. • Active management of the Group's liquidity and cash flow to prioritise use of funds to deliver the strategy. • Through our modular architecture "carry over-carry across" approach for key systems and components and "Beyond lean"TM method of manufacturing, the Group aims to maximise its efficiency, cost effectiveness and quality of operations. • The Group retains a high level of in-house powertrain expertise, in both conventional internal combustion engine technology and next-generation electrified drivetrains, which enables the Group to assess the relative financial and operational merits of sourcing these from third parties or developing comparable engines in-house, whilst complying with future emissions and fuel economy related regulations. • Rationalisation of the Product Development structure to focus groups on innovation to maintain pace with customer expectations. • Improved long-term planning process and governance to deliver diverse and competitive future portfolio. • Commodity strategy plans developed incorporating customer needs analysis, technological advances and anticipated legislative changes. • Lobbying where appropriate to proactively influence regulatory change which may affect the Group.

OPERATIONAL RISKS

FAILURE TO ATTRACT, DEVELOP AND RETAIN TOP TALENT

Inability to attract, motivate, develop and retain our people to perform to the best of their ability to meet our strategic objectives.

Our performance, operating results and future growth depend on our ability to attract, motivate and retain talent with the appropriate level of expertise to deliver our strategy. The impact of current financial performance on remuneration and benefits and recent restructuring activities increase the risk of loss of key individuals and skills.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • Passionate people and culture. • World-class value and processes.	RISK MOVEMENT IN PERIOD **Increasing Risk**
RISK TOLERANCE **Low to Moderate** - recognising the importance of having the right people and skills to deliver our strategy. We are reliant in certain areas on highly skilled technicians to maintain the attractiveness and quality of our vehicles.	
EXAMPLES OF RISKS • This period of change may result in the loss of key individuals or the inability to recruit and retain individuals with the relevant talent and experience, which could disrupt the operation of the business and adversely impact the Group's abilities to deliver its strategy. • Failure to engage or equip our teams to deliver our strategy or address key capability gaps (e.g. inability to meet recruitment targets at St Athan). • Failure to build the right capabilities and behaviours in our leadership population. • Failure to have appropriate succession planning in place should key positions become vacant through resignation, ill health or accident. • Loss of critical talent, knowledge or unmanageable levels of attrition due to a competitive local labour market. • Key contractors leaving the business and the impact of IR35 on our contractor population.	ACTIONS TAKEN BY MANAGEMENT • Oversight by our Remuneration Committee to ensure that the remuneration packages for senior leadership roles are appropriate to retain key individuals and align with our strategy. • Succession planning for key roles and positions. • Regular review of talent and resource risks related to key roles/positions by the Board and Committees. • Annual bonus plans in place for management and staff to reward individual and corporate performance. • Annual benchmarking of remuneration levels across grades. • Track record of internal promotions, demonstrating availability for career progression within the Group. • Regular communications with employees to ensure that employees are informed and to gauge morale. Employee engagement survey and action plan and renewed focus on the Aston Martin Way culture programme. • Ongoing investment in our Apprenticeship Programme. • Use of online Learning Management System to facilitate employees' personal development and skills acquisition. • Development Committee which focusses on employee career development and progression. • Working party established to develop and implement IR35 changes.

INABILITY TO DELIVER MAJOR PROGRAMMES

Failure to implement major programmes on time, within budget and to the right technical specification could jeopardise delivery of our strategy and have significant adverse financial and reputational consequences.

Successful delivery of significant programmes (including the new manufacturing facility in St Athan and core (DBX) and Special (Valkyrie) vehicle programmes is fundamental to the achievement of the Group's reset plan.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • Inspiring customer-focused luxury products. • World-class value and lean processes. • Strengthened global brand and sales power.	RISK MOVEMENT IN PERIOD Unchanged
RISK TOLERANCE **Low** - due to the significance of these projects in driving the required levels of volume growth and cash generation to support the reset plan.	
EXAMPLES OF RISKS • Failure to retain sufficient personnel with the correct programme management skills and technical capabilities to deliver programmes. • Failure to follow a standard programme methodology could result in required outcomes not being delivered. • Delayed new model or special project launch. • Late delivery of new models could damage our brand/reputation and potentially result in reduced sales volumes or pricing. • Declining sales have a negative effect on available cash, further increasing the pressure to deliver programmes. • Ability to manage third party delivery in line with programme timelines.	ACTIONS TAKEN BY MANAGEMENT • Deployment of an established stage and gate Programme Delivery Methodology to drive consistent governance and management across the programme portfolio. • Major programmes are subject to Executive Committee approval and oversight. • Dedicated programme management teams are established to deliver each programme. • Regular programme and Operating Committee status reviews with escalation routes for issues to be managed. • Mandatory lessons learned sessions to ensure that subsequent programmes benefit from previous experience. • Technical and quality audits are performed at critical stages by independent parties. • ISO 9001 and 14001 certifications in relation to Quality and Environmental management systems. • Move to modular architecture strategy with increased focus on leveraging core architecture across multiple applications to reduce vehicle programme delivery times. • Weekly programme review established with the R&D VP for all core programmes. • Cost and delivery monitored through 'one-pager' document covering timing, investment and piece cost.

INADEQUATE PROTECTION AGAINST CYBER ATTACK RESULTING IN POTENTIAL LOSS OF DATA, SYSTEM AVAILABILITY OR OPERATIONAL DISRUPTION

Breach of cyber security could result in a system outage, impacting core operations and/or result in a major data loss leading to reputational damage and financial loss.

The Group's technology environment is critical to its success. The control environment helps decrease the risks to core business operations and/or major data loss.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • World-class value and lean processes. • Strengthened global brand and sales power.	RISK MOVEMENT IN PERIOD **Unchanged**
RISK TOLERANCE **Low** - protecting the brand and its reputation globally is at the heart of everything we do. We take a risk-averse approach, adopting a strategy to avoid or mitigate reputational/brand risk arising from cyber threat and to protect the confidentiality, integrity and availability of data within our custody.	
EXAMPLES OF RISKS • Denial of service attacks resulting in disruption of business activities. • An external hacker exploits a security vulnerability resulting in a loss of system control and/or major data loss. • A malicious insider abuses privileged access to gain entry to sensitive information and/or conduct unauthorised activities. • Malware results in a loss of system control causing business disruption and/or major data loss. • Fines due to failure to comply with the General Data Protection Regulations (GDPR). • Disruption, damage of interruption to power supply. • Reliance on systems which are approaching end of life support.	ACTIONS TAKEN BY MANAGEMENT • Completion of independent risk assessments to validate the cyber security strategy and identify capabilities required to achieve appropriate levels of security. • 24/7 monitoring using Darktrace and other tools supported by robust security incident response processes. • Internal controls in place to minimise employee error - password policies, regular communications regarding phishing emails and information security training. • GDPR compliance project undertaken to identify data sets, classify them and ensure effective controls in place to manage data access and use. • Firewalls, anti-virus and patch management controls. • Use of Bitlocker encryption underway to protect data in transit and at rest. • Programme of work to remediate issues identified in audits. • Dual-factor authentication being implemented where appropriate and feasible. • Proposed investment in cyber-security team to further embed and enhance control framework. • Company policy mandates the use of MX Magenta for the exchange of sensitive information outside of the organisation, which allows us to ensure that the correct recipient has accessed the information and provides an audit trail of access.

POTENTIAL DISRUPTION TO THE SUPPLY CHAIN

Supply chain disruption could result in production stoppages, delays, quality issues and/or increased costs resulting in adverse operational and financial consequences for the Group.

Potential loss of key Tier 1 supplier, a single-source supplier, or a deterioration in quality could seriously jeopardise production resulting in delayed or lost sales and brand/reputational damage. (See also the principal risk relating to Brexit).

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • Inspiring customer-focused luxury products. • Top-class quality. • World-class value and lean processes.	RISK MOVEMENT IN PERIOD **Increasing Risk**
RISK TOLERANCE **Low -** as production approaches capacity the business model cannot absorb any significant delays in production and/or sales.	
EXAMPLES OF RISKS • Supplier may be unable to meet delivery schedules due to financial difficulties or the inability to meet increasing volume demand. • Third parties may withdraw their permission to use their components. • Reliance on the use of several smaller, bespoke suppliers for specific components. • Reliance on key suppliers (e.g. engines and electrical architecture from Daimler). • Short-term liquidity issues could result in deferred supplier payments which may lead to potential supply restrictions or supply with more stringent terms. • Deterioration in the Group's credit rating may lead to supply restrictions or more stringent terms and conditions. • The outbreak of the Coronavirus in China may result in supply chain disruption for parts and components sourced from China and/or other affected markets.	ACTIONS TAKEN BY MANAGEMENT • Commodity strategies established for core suppliers detailing alternative supply routes in the event of disruption to current supply. • QCDDM supplier performance metric is in final stage of development with full roll out due in 2020. Metric allows for efficient, co-ordinated management of under-performing suppliers and the formation and deployment of robust mitigation plans. • Assessment of supplier financial strength and performance prior to contracting with them. • Independent reviews by the Procurement team of key supplier Business Continuity plans. • Supplier Quality Development team in place to actively manage supplier quality and performance. • Creation of Risk Management Centre to action operational responses to supplier issues; utilising internal and external intelligence to identify potential risks both financially and operationally. • "Supplier Champions" identified to actively manage at risk suppliers. • Identification of alternative suppliers where risk of sole supply is deemed too significant.

COMPLIANCE RISKS

POTENTIAL NON-COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are subject to a broad spectrum of national and regional laws and regulations in the various jurisdictions in which we operate.

These include product safety, emissions, trademarks, competition, employee and customer health and safety, data, corporate governance, employment and tax. Changes to laws and regulations or a major compliance breach could have a material impact on the business.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • World-class value and lean processes. • Inspiring customer-focused luxury products. • Strengthened global brand and sales power.	RISK MOVEMENT IN PERIOD **Decreasing Risk**
RISK TOLERANCE **Zero** - the Board adopts a zero tolerance to non-compliance with laws and regulations as this could seriously impact the Group's ability to trade in certain markets and result in significant brand/ reputational damage.	

EXAMPLES OF RISKS	ACTIONS TAKEN BY MANAGEMENT
• Regulatory non-compliance. • Non-compliance with emissions regulations could inhibit the Group's ability to trade in certain markets. • Failure by the Group or associated third parties to act in an ethical manner. • Non-compliance with labour, human rights and environmental standards across our own operations and extended supply chain could result in financial penalties, disruption in production and reputational damage to our business. • Tax is a complex area where laws and their interpretations are changing regularly leading to the risk of unexpected tax and financial loss exposures	• Secured "Small-volume" derogation status within the EU which establishes bespoke emissions targets. • Vehicle safety certification is obtained for all markets. • Reduction in average emissions across the product portfolio. • The HR and Legal and Compliance functions are responsible for ensuring that employees are aware of regulations relevant to their roles. We have strengthened our public company regulatory expertise. • Our Standards of Corporate Conduct contain a framework of policies that aim to drive best practice across our business. These include our Anti-Bribery and Corruption Policy and Data Protection Policy. • GDPR policies and procedures have been embedded within the business with a Data Protection Officer appointed to monitor and drive GDPR compliance. • Assurance processes are in place to monitor compliance in key risk areas, with results being reported to our Audit and Risk Committee and Risk Management Committee. • Our culture and policies encourage employees to speak up and report any issues without fear of retribution via our Whistleblowing process. • In-house Legal and Compliance team that manages any ongoing regulatory investigations. • Third-party support is obtained in areas of new or emerging regulatory guidance to support the implementation of appropriate new processes and controls.

UNCERTAINTY SURROUNDING BREXIT

Various Brexit scenarios could impact the Group's financial position, supply chain and people.

Whilst the UK officially left the EU on 31 January 2020 uncertainty remains as to the nature of any future trade agreements once the transition period ends on 31 December 2020. The current uncertainty regarding the way the UK leaves the EU makes it very difficult to plan for, with multiple scenarios having to be considered and addressed.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • All pillars.	RISK MOVEMENT IN PERIOD **Unchanged**
RISK TOLERANCE **Low** - although we have a low tolerance for risk caused by Brexit there is still uncertainty about the long-term impact.	
EXAMPLES OF RISKS • Additional customs duty from the cessation of existing free trade agreements and VAT cash flow costs at the new UK trade border. • Extended supply lead times increasing working capital investment. • Uncertainty over the rights of EU nationals, which has increased the risk of losing talent. • Exchange and interest rate volatility impacting Group revenues, margins, profits and cash flow. • Imposition of additional tariffs on exports and imports.	ACTIONS TAKEN BY MANAGEMENT • Establishment of the Brexit Steering Group (BSG), a cross- functional team of senior members, chaired by the Director Government & External Affairs and sponsored by the EVP and Chief Financial Officer with fortnightly status reporting to the Executive Committee. • Review of SMMT guidance and leveraging industry best practice. • Tracking progress against the BSG developed 'Brexit Readiness Scorecard' seven key areas impacted: • Supply chain and logistics. • Customs processing. • Sales and pricing. • Human resources. • Type approval. • Legal. • Other/Regulations. Strong engagement by the President and Group Chief Executive Officer with the UK Government, SMMT and CBT. • Steps taken to prepare our supply chain and sales network to mitigate Brexit impacts on the business including: use of alternative ports of entry, review of inventory levels for impacted parts and materials, use of supplier readiness assessments. • Strengthened our production purchasing function under the leadership of the VP and Chief Purchasing and Supply Officer who will also oversee the execution of planned Brexit mitigations.

FINANCIAL RISKS

INSUFFICIENT LIQUIDITY AND LACK OF FINANCIAL STABILITY TO SUPPORT PLANNED GROWTH AND OPERATIONS

The Group may not be able to generate sufficient cash to fund its capital expenditure and sustain its operations and its significant leverage may make it difficult for the Group to operate its business. The viability of the Group is dependent on the successful outcome of the planned strategic equity investment and proposed rights issue, which is subject to shareholder and other approvals, to support its liquidity requirements to deliver the reset plan.

The Group's liquidity requirements arise primarily from its need to fund capital expenditure for product development, working capital and to service debt.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • All pillars.	RISK MOVEMENT IN PERIOD **New principal risk**
RISK TOLERANCE **Low** - the availability of sufficient liquid funds to support planned growth and capital expenditure is key to delivery of the Group's reset plan.	
EXAMPLES OF RISKS • Significant leverage levels may inhibit the Group's ability to repay current indebtedness or borrow additional funds or raise equity capital in the future. • Inability to renew wholesale finance facility on similar terms to those currently in place would have a significant adverse effect on short-term liquidity. • Reduced customer confidence could potentially increase demand for deposit returns which could reduce available cash in the short term and adversely impact the brand. • Delays in payments to suppliers or other creditors could result in production stoppages, delays, quality issues and/or increased costs and unfavourable trading terms resulting in adverse operational and financial consequences for the Group. • Difficulty of accurately forecasting in an uncertain market. • Sales underperformance resulting in less available cash to support planned product capital expenditure and working capital requirements associated with DBX launch.	ACTIONS TAKEN BY MANAGEMENT • Raising of additional capital through strategic equity investment and proposed rights issue. • Regular review of strategic financing options including consideration of available options to raise funds through issue of additional equity or external investment. • Daily management review of cash balances and other working capital balances. • Drawdown of available financing (e.g. Revolving Credit Facility and Bonds) to provide short term liquidity. • Implementation of short-term restrictions on discretionary spend. • Early engagement with finance providers to consider funding options which are due for renewal within the Business Plan period. • Engagement of external consultants to support deep dive review of Budget and Forecasting process to enhance the provision of management information. • Project to enhance management controls and processes related to authorisation and monitoring of retail support expenditure. • Establishment of a back-to-back loan arrangement in China to provide access to funds in the UK based on cash held in China.

POTENTIAL IMPAIRMENT OF CAPITALISED DEVELOPMENT COSTS

The value of capitalised development costs continues to grow as we expand our product portfolio.

The carrying value of development costs in our balance sheet is dependent upon the future profitability of the vehicle platforms to which they are attributed. A significant reduction in vehicle lifecycle profitability could result in the need to impair the capitalised development intangible asset.

RESPONSE TO MARKET DYNAMICS	
LINK TO STRATEGY • Robust financing and funding. • World-class value and lean processes.	RISK MOVEMENT IN PERIOD **Unchanged**
RISK TOLERANCE **Zero** - we have a zero tolerance in relation to financial reporting risk	
EXAMPLES OF RISKS • Vehicle sales volumes reduce below lifecycle plans/forecasts. • Vehicle pricing and margins reduce to levels which no longer support the carrying value of the attributable capitalised costs. • Uncertainty of carry over-carry across of components on future vehicle models.	ACTIONS TAKEN BY MANAGEMENT • Modular architecture platform application approach adopted for new model development to reduce cost of investment across the portfolio. • Strategic component development plan being deployed to reduce investment cost of new models. • Impairment reviews are performed where management considers there to have been a triggering event (e.g. a significant reduction in sales volumes, or vehicle pricing and margins for a model). • Regular vehicle line reviews to monitor sales volumes, average prices and margins. Any significant deterioration below plan is communicated to the Financial Reporting and Accounting team for consideration.

RELATED PARTY TRANSACTIONS

The following information is extracted from pages 113 and 170 of the 2019 Annual Report.

The subsisting material transactions which the Company has entered into with related parties are the Current Relationship Agreements each of which was entered into on 20 September 2018.

The Current Relationship Agreements comply with the requirements of the Listing Rules, including LR 9.2.2ADR(2)(a), and LR 6.5.4R. In accordance with the requirements of Listing Rule 9.8.4R(14), the Board confirms that the Company has complied with its obligations under the Current Relationship Agreements, including in respect of the independence provisions and, so far as the Company is aware, each Significant Shareholder Group has complied with the provisions of its respective Current Relationship Agreement (including the independence and non-compete provisions set out therein), at all times since 20 September 2018. Further information on the Current Relationship Agreements is on page 112.

Other related party transactions are detailed in note 31.

Transactions between Group undertakings, which are related parties, have been eliminated on consolidation and accordingly are not disclosed. The Group has entered into transactions, in the ordinary course of business, with entities with significant influence over the Group. Transactions entered into, and trading balances outstanding at each year end with entities with significant influence over the Group are as follows:

		Sales to related party	Purchases from related party	Amounts owed by related party	Amounts owed to related party
		£m	£m	£m	£m
Related party - Group					
Entities with significant influence over the Group	**31 December 2019**	**1.1**	**4.0**	**0.2**	**0.6**
Entities with significant influence over the Group	31 December 2018	1.4	2.4	-	1.1

During the year ended 31 December 2019 no payments (2018: £9.5m) were made to existing shareholders.

TRANSACTIONS WITH DIRECTORS
In the year ended 31 December 2019 no cars were sold to any directors. (2018: one car sold to Dr Andrew Palmer for £0.1m excluding value added tax). No amounts were outstanding at either year end.

TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES
Sales and purchases between related parties are made at normal market prices. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within 60 days of invoice. Terms and conditions for transactions with subsidiaries are the same, with the exception that balances are placed on intercompany accounts. The Group has not provided or benefited from any guarantees for any related party receivables or payables.

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