Accounting Policies

Interpretations effective in the year ended 28 February 2009

- IFRS 7 – Financial instruments: disclosures. This amendment introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or disclosure relating to taxation and trade and other payables. These disclosures are reflected in the consolidated financial statements, including their impact on the comparatives.
- IAS 1 – Amendment – presentation of the financial statements: Capital disclosures. This amendment introduces new disclosures relating to capital requirements and management and does not have any impact on the financial position or performance of the Group. These disclosures are reflected in the consolidated financial statements, including their impact on the comparatives.
- IFRIC 8 – Scope of IFRS 2. This interpretation requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. The Group already applies an accounting policy which complies with the requirement of IFRIC 8.
- IFRS 4 (revised) - Insurance contracts. This has not resulted in a significant change to amounts recognised or disclosure.
- IFRIC 10 – Interim financial reporting and impairment. This has not resulted in a significant change to amounts recognised or disclosure.
- IFRIC 11 – Group and treasury share transactions. This has not resulted in a significant change to amounts recognised or disclosure.
- IFRIC 12 – Service concession arrangements. This has not resulted in a significant change to amounts recognised or disclosure.

Standards and interpretations not yet effective

The following IFRS and IFRIC interpretations have been issued but have not been early adopted by the Group:

- IFRS 3 (revised) – Business combinations (accounting periods beginning on or after 1 July 2009)
- IFRS 8 – Operating segments (accounting periods beginning on or after 1 January 2009)
- IAS 23 (revised) – Borrowing costs (accounting periods beginning on or after 1 January 2009)
- IFRIC 13 – Customer loyalty programmes (accounting periods beginning on or after 1 January 2009)
- IFRIC 14 – The limit on a defined benefit asset, minimum funding requirement and their interaction accounting periods beginning on or after 1 January 2009)
- IFRIC 15 – Agreements for the construction of real estate (accounting periods beginning on or after 1 January 2009)
- IFRIC 16 – Hedges of a net investment in a foreign operation (accounting periods beginning on or after 1 October 2008)
- IFRIC 17 – Distribution of non-cash assets to owners (accounting periods beginning on or after 1 July 2009)
- IFRIC 18 – Transfer of assets from customers (accounting periods beginning on or after 1 July 2009)
- IAS 1 (revised) – Presentation of financial statements (accounting periods beginning on or after 1 January 2009)
- IFRS 2 (revised) - Share based payments (accounting periods beginning on or after 1 January 2009

Accounting Policies (continued)

- IAS 27 (revised) – Consolidated and separate financial statements (accounting periods beginning on or after 1 July 2009)
- IAS 28 (revised) – Interest and associates (accounting periods beginning on or after 1 July 2009)
- IAS 31 (revised) – Interests in joint ventures (accounting periods beginning on or after 1 July 2009)
- IAS 32 (revised) – Financial instruments (presentation) (accounting periods beginning on or after 1 January 2009)
- IAS 39 (revised) – Financial instruments (recognition and measurement) (accounting periods beginning on or after 1 July 2009)

Additionally, the IASB published a large number of minor amendments to various standards as part of its annual improvement projects in May 2008. The Directors are currently reviewing the requirements of the above standards and interpretations to determine whether there will be a material impact on the Group's financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Vertu Motors plc and its subsidiary undertakings. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50 per cent of the voting rights. Subsidiaries are consolidated from the date at which control is transferred to the Group and they are excluded from the consolidated financial statements from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including intangible assets not previously recognised by the acquiree) and liabilities (including contingent liabilities) of acquired businesses at fair value. Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the consideration over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Where the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the consideration, the excess or "negative goodwill" is recognised immediately in the income statement. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units.

Each cash generating unit ("CGU") or group of cash generating units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Gains and losses on the disposal of a business component are calculated on a basis which incorporates the carrying amount of goodwill relating to the business sold.

Other intangible assets

Intangible assets, when acquired separately from a business combination, solely comprise computer software and are carried at cost less accumulated amortisation and any impairment losses. Amortisation is provided on a straight-line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer software is three to four years.

Intangible assets, for example, customer relationships acquired as part of a business combination, are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Such assets are amortised over their expected useful lives of twenty years.

Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial period end. Land is not depreciated. Depreciation is provided at rates calculated to write off the cost of property, plant and equipment less their estimated residual values, on a straight-line basis over their estimated useful lives at the following rates:

Freehold and long leasehold buildings	2%
Short leasehold properties	Lease term
Vehicles and machinery	10%-25%
Furniture, fittings and equipment	10%-25%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'operating expenses' in the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method (FIFO). Costs incurred in bringing each product to its present location and condition are included and cost is based on price including delivery costs less trade discounts. Net realisable value is based on estimated selling price less further costs to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Property assets held for sale

Property assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

Trade payables

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

Provisions

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. If the effect is material, provisions are discounted using a pre-tax discount rate.

Accounting Policies (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rates. The amount of the loss is recognised in the income statement.

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where fair value cannot be determined then the recoverable amount will be determined by reference to value in use. Value in use is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows of separately identifiable cash flows ("CGU's") are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the income statement in that expense category consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of any amount recoverable. A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the impairment loss was recognised.

Taxation

Current tax

Current income tax assets and liabilities are measured at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date for financial reporting purposes. Deferred tax liabilities are recognised for all temporary differences, except:

a. where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

b. in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

c. where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

d. in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is calculated using the enacted or substantively enacted rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged direct to equity in which case the deferred tax is also credited or charged to equity.

Revenue

Revenue for the sale of goods and services is measured at the fair value of consideration receivable, net of rebates and any discounts. It excludes sales related taxes and intra Group transactions. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. In practice this means that revenue is recognised when vehicles or parts are invoiced and physically despatched or when a service has been undertaken.

Pension costs

The Group operate two pension schemes, including defined contribution schemes and a Bristol Street Group defined benefit scheme (which was closed to new entrants and future accrual in May 2003 before ownership by Vertu Motors plc).

A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity. The Group 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.

A defined benefit scheme is a pension scheme that is not a defined contribution scheme. Typically defined benefit schemes define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The assets of the defined benefit scheme are held separately from the assets of the Group. The asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of recognised income and expense (SORIE) in the period in which they arise.

The current service cost and gains and losses on settlements and curtailments are included in operating costs in the consolidated income statement. Past service costs are similarly included where benefits have vested otherwise they are amortised on a straight-line basis over the vesting period. The expected return on assets of funded defined benefit pension schemes and the imputed interest on pension plan liabilities comprise the pension element of the net finance cost or income in the income statement.

Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of recognised income and expense in full for the period in which they arise.

Accounting Policies (continued)

Share based payments

The Group allows employees to acquire shares of the Company through share option schemes. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The Group operates a number of equity-settled, share-based compensation plans. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Group of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the investing period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Segmental reporting

A business segment is a group of assets and operations engaged in providing goods and services that is subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing goods and services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Exceptional costs

Exceptional costs comprise items of expenditure that are material in amount and unlikely to recur and therefore they merit separate disclosure in order to provide an understanding of the Group's underlying performance.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Share capital

Ordinary shares are classed as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Derivative financial instruments

The Group uses derivative financial instruments to reduce the exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding

Accounting Policies (continued)

contracts at their contracted rates and a valuation calculated using the rates prevailing at the balance sheet date.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Any trading derivatives are classified as a current asset or liability.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. Any gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains and losses – net'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit and loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains and losses'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported within equity is immediately transferred to the income statement within 'other gains and losses'. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is amortised to profit and loss over the period to maturity.