



Vertu
Motors plc

ANNUAL REPORT & FINANCIAL STATEMENTS
For the year ended 28 February 2019

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Financial Diary

| | |
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| Annual General Meeting | 24 July 2019 |
| Interim Results 2019/20 | 9 October 2019 |
| Final Results 2019/20 | May 2020 |

Chairman's Statement

The Group has delivered underlying profits in excess of market expectations and the Group continues to trade in line with management expectations for the year ahead, which anticipates profit growth.

The automotive retail sector faced a number of challenges in the year to 28 February 2019 including disruption to new vehicle supply, driven by a weaker pound and EU Worldwide Harmonised Light Vehicle Test Procedure ("WLTP") regulations, political uncertainty impacting consumer confidence and significant cost pressures. Despite this, the Group delivered a credible result in profit terms and very strong cash generation. The Board proposes a final ordinary dividend of 1.05p per share taking the total ordinary dividend for the year to 1.60p per share, an increase of 6.7% on last year.

The Group generated Free Cash Flow of £21.2m and £9.3m was returned to shareholders through a combination of ordinary dividend payments (£5.7m) and share buybacks (£3.6m). During the year 8.3m shares were purchased for cancellation reducing the number of shares in issue by 2.2%. The Share Buyback Programme will be recommenced following this announcement.

As anticipated, investment in the Group's property portfolio has continued, with a capital expenditure cash outflow of £33.7m before disposals. This spend included significant projects to increase the operating capacity of the Group and to ensure dealerships meet the latest in Manufacturer standards. The portfolio is now well invested, with reduced capital expenditure expected in the coming financial year. Adjusted Net Cash reduced to £22.9m from £32.1m, with £31.5m spent on acquisitions completed in the year. Net debt, inclusive of used vehicle stocking facilities is negligible at just £0.3m at the balance sheet date and this means the Group has considerable firepower for future investment.

There were a number of Board changes in the year. David Crane was appointed as an Executive Director of the Company on 26 July 2018. David joined Vertu at its inception and has been instrumental in its subsequent growth and success. Nigel Stead, who had been a Non-executive Director of the Group for 7 years, retired from the Board on 31 December 2018. Andrew Goss joined the Group on 3 September 2018 as a Non-executive Director and brings 39 years' experience in the automotive sector to the Board, having held very senior roles in a number of Manufacturers including Porsche and Jaguar Land Rover. Michael Sherwin retired from his position as CFO on 1 March 2019. Karen Anderson, who has been with Vertu since its incorporation in November 2006 succeeded Michael as CFO in a very smooth transition.

I have been in place as Chairman since 1 January 2015 and now consider it is time to step down in the coming months, having overseen a number of Board changes in the last 18 months and with the Group in an excellent position and poised for further growth. A process has commenced to find a new Non-executive Chairman for the Group and further announcements are expected in the coming months.

The automotive retail sector is set to remain challenging for the year ahead notably due to political uncertainty and increased regulatory attention. It is likely that over time there will continue to be a reduction in the number of franchise dealer outlets in the UK and drive further network consolidation. The Group's core strategy remains unchanged, which is to grow a scaled franchised automotive retail group, working in conjunction with chosen Manufacturer partners. Our aim is to deliver outstanding customer service and to build long term value through the delivery of sustainable growth in cash flows and earnings per share.

I would like to take this opportunity to thank the Board, management and, above all, the incredible colleagues in the Group for their passion, commitment and hard work. This Group was founded in late 2006 and is now a significant player in the UK automotive retail sector with an excellent, exciting future ahead of it.

P Jones
Chairman

Highlights

Strategy

- Strong management and financial position enables growth of franchised businesses with major Manufacturer partners to deliver growth in value
- Leads the sector in on-line capability for omni-channel retailing. On-line retailing capability developed in used cars, parts and vans
- Delivery of market beating used car sales growth through use of technology in stock management and vehicle pricing together with cost-effective digital and TV marketing
- Growing high margin service revenues through expanded capacity, high penetration of retention products such as service plans and delivery of outstanding customer experiences
- Strong portfolio management including divestment of sub-scale and underperforming outlets/properties generating cash and reducing cost structures
- Continuing value enhancing acquisitions

Financial

- Profit before tax of £25.3m (2018: £30.4m)
- Adjusted¹ profit before tax of £23.7m ahead of market expectations (2018: £28.6m)
- Full year dividend of 1.6p per share, up 6.7% (2018: 1.5p per share)
- VAT income of £3.1m, in addition to Adjusted PBT, received following HMRC clarification of finance deposit allowance treatment
- Excellent cash conversion: Free Cash Flow of £21.2m delivered in the year (2018: £10.7m)

Operational

- £186m (6.7%) growth in revenues to £3bn, with like-for-like revenue growth of 5.1%
- Excellent aftersales performance with like-for-like revenue growth of 7.0% delivering a 6.4% growth in gross profit
- Like-for-like used vehicle revenue growth of 11.6% delivering £2.5m additional gross profit
- New retail volumes stable and ahead of the market trends

Throughout this Annual Report there are references to various Alternative Performance Measures (“APMs”) used to measure performance for the financial year ended 28 February 2019, which can be reconciled to measures disclosed in the consolidated financial statements on page 73 to 115. Definitions and reconciliations of the APMs referred to are provided on page 128 to 132.

¹ Adjusted to remove non-underlying items

Highlights (continued)

Capital Structure

- Adjusted² Net Cash of £22.9m (2018: £32.1m)
- Strong balance sheet to fund future growth: tangible net assets per share of 44.9p reflective of extensive freehold property base
- Major capital expenditure programme now largely complete aiding future Free Cash Flow generation
- Used car stocking funding utilised of £23.2m (cover of 4.6 times used car stock value) (2018: £12.8m). Substantially lower than industry peer group reflecting resilient balance sheet
- £3.6m of shares bought back in FY19 together with £5.7m of dividend payments
- Share Buyback Programme recommenced on this announcement with £3m allocated

Outlook

- Group has traded in line with management's expectations in March and April 2019 with trading profit expected to be in line with prior year period

² Adjusted to remove used car stocking loans

Strategic Report

The purpose of this strategic report is to inform all stakeholders on how the Group has performed in the year to 28 February 2019, through the provision of a detailed analysis of financial performance. It also appraises the challenges the Group faces, the opportunities available to exploit and explains how the Board plan to manage the business going forward.

Strategic Overview

Economic Backdrop

Economic indicators for the UK consumer are positive. In March 2019 the UK employment rate was estimated at 76.1%, higher than the previous year and the highest figure on record. In addition, those in employment have seen a 1.2% growth in wages, adjusted for inflation, compared with 2017. Despite these positive trends, the consumer confidence index for the United Kingdom averaged minus 9 for the first half of the Year, declining to an average of minus 13 from October 2018, as the strong labour market was offset by ongoing Brexit uncertainty and concerns over global growth prospects. There is a proven long-term link between consumer confidence and UK new vehicle registrations, which were weaker in the second half of the financial year.

Movements in the sterling exchange rate also tend to impact on UK new vehicle registrations. Weaker sterling discourages Manufacturers bringing vehicles into the UK due to resultant margin pressures.

Reductions in registrations of new vehicles in the UK leads to reduced availability of used vehicles for sale, which tends to underpin used vehicle values aiding Group used vehicle performance. Rising new car prices also tends to result in some customers switching from new cars to used cars due to affordability. A slowdown in the change cycle of vehicles also tends to increase the demand for the aftersales services and parts supplied by the Group.

Network Change - physical dealerships in an on-line world

The impact of the growth in on-line shopping on the general retail sector has been well documented with increased on-line sales driving reduced physical retail transactions and resulting in considerable dislocation on the High Street. Whilst the pace of consumer change from physical to on-line has been fast in the general retail sector, the relative complexity of a vehicle purchase has, thus far, led to a much lower adoption of 'purely' on-line transactions within automotive retail. Customers are increasingly using the internet to research prior to purchase and to initiate contact with dealerships, however, a recent ICDP survey found less than 10% of consumers ideally wanted to finalise the deal on-line. Customer requirements are likely to evolve over time and the Group's needs to adapt to meet them.

Vertu was the first dealer group in the UK to develop the technology for customers to choose a used vehicle, finance its purchase and trade in their existing vehicle purely on-line. This was launched in May 2017 and has been successful, with many customers starting their purchasing journey on the platform and in some cases completing the entire process on-line. The relatively low volumes of purely on-line sales relate directly to the relative complexity of a vehicle purchase transaction, which potentially includes financing, warranty and other products, as well as a vehicle to trade in. The vast majority of customers also prefer to test drive their chosen new vehicle, to ensure that it will meet their needs, before committing to a purchase. The Group continues to invest in on-line sales capability since this channel is likely to grow over time and provides the Group with significant learnings on evolving customer digital buying behaviour.

Strategic Report (continued)

Strategic Overview (continued)

Network Change - physical dealerships in an on-line world (continued)

Whilst on-line purchase transactions remain negligible in the sector, the internet is of paramount importance in marketing and communicating with customers in their research phase of purchasing for both vehicles and aftersales products. It is therefore vital to have a multi-channel approach, which offers choice to customers between on-line and off-line channels and an omni-channel retail experience so transition from on-line to off-line is seamless. Today's customers utilise both on-line and off-line resources in complex ways during the buying cycle. Lack of on-line visibility or barriers to an effortless journey can lead to customers purchasing elsewhere so impacting sales levels. It is of the utmost importance that the Group further invests in its in-house digital development capability, its digital platforms and enhances its websites. This has been undertaken in the year significantly improving Group capabilities. For example, the Group purchased Vans Direct in January. Thus providing a dedicated channel in the increasingly important on-line van market. The Group has also delivered further enhancements to the functionality of the Group's existing websites including extending on-line vehicle purchase functionality across more website and increasing funding options with this offering.

The substantial global network of Manufacturers, and their associated supply chains, are investing significantly in the technological development of vehicles to meet future customer needs and to comply with increasingly complex and stringent environmental regulations. These Manufacturers rely upon their retail franchise dealer network to deliver their products to end users and to provide essential aftersales care. There is very little sign that this will not continue long into the future primarily due to the capital investment required to have a necessary physical presence and the complexity of organising businesses across every geography across the globe. The Manufacturers appear to have enough challenges for investment and change without seeking revolutionary new distribution models.

Clearly, this does not mean that there will not be change in the composition and structure of the UK's franchise dealer networks. On-line retailing will continue to develop over time and cost and margin pressures will also result in a tendency for the number of UK franchised dealer outlets to continue to decline as it has in recent years. Manufacturer partners continue to seek simplification in their networks, choosing to work with fewer retail partners who best deliver on their objectives. The majority are now actively working on or are contemplating facilitating further reductions in sales outlets in the next few years to 'right size' their distribution networks to ensure these networks make an appropriate return through increasing sales per outlet. The positive relationships the Group has established with Manufacturer partners means it is well placed to take advantage of this ongoing consolidation. The Group is also seeking to add additional Manufacturer partners, not currently represented in the portfolio, to facilitate additional growth opportunities. In addition, it is likely that dealership locations may see increased levels of multi-franchising, where two or more franchises are represented at one dealership location, to provide sales and service functions in a territory, but with a lower operating cost base. The Group continues to evaluate such opportunities in order to maximise profitability of each location. Increased flexibility of formats and Manufacturer requirements are likely to aid this process.

The Group's network of physical dealerships across the UK remains at the centre of its customer offering since most new and used purchases are undertaken following a visit and test drive. Dealership visits are actually increasing in each buying cycle at present in the UK and as powertrain and model complexity in vehicles increases, this is likely to continue. Moreover, the physical network is vital for the delivery of service and repair services to our customers. This local capacity remains an important factor in many customers' vehicle buying decisions and is reflected in the Group's strong service retention figures. 58% of the Group's new vehicle customers and 43% of used vehicle customers return to the Group to have their vehicle serviced after their first year of ownership. The continued improvement of

Strategic Report (continued)

Strategic Overview (continued)

Network Change - physical dealerships in an on-line world (continued)

customer retention is a key goal for the Group. Initiatives such as the sale of service plans aid service retention, but the delivery of excellent customer experience is the most important predictor of customer loyalty. It is often stated that while the sales department sell the first car, it is the service department which effectively sells the second.

The Board remains confident in the longer-term growth prospects for the Group. Freehold dealership locations are a valuable financial asset and their geographic spread is important to capitalise on a growth in on-line marketing and ultimately transactions. 53% of Group dealership locations are freehold or long leasehold. The average remaining life on the Group's leasehold locations is 7.5 years, with approximately one third of property leases having the benefit of tenant break clauses or lease end dates within the next three years. These property arrangements therefore provide the Group with flexibility to respond to the changing retail environment in the years ahead. The reduction in dealership retail outlets in the UK will increase market share for those retailers who deliver excellent customer service and work in partnership with their chosen Manufacturer partners. The Group operates franchises where a close relationship and partnership with Manufacturers is crucial. The Board believe Vertu is well-positioned from a relationship point of view with Manufacturers and that the Group's excellent financial strength will allow the right further investments to be made.

Technological Change – powertrain shift

Over 40% of the Group's gross profit arises from its aftersales operations, namely the provision of servicing and repairs and the retailing and wholesaling of parts.

The increasing technological complexity of newer internal combustion and electric vehicles has meant the barriers for new entrants into the vehicle servicing arena have, if anything, increased as the costs of specialist diagnostic equipment, tooling and training rise. Customers are more likely to trust Manufacturer franchise-holders to service a highly complex, potentially electric, connected vehicle with increasing levels of autonomous driving functionality.

Electric vehicles require less mechanical service intervention than those with an internal combustion engine, however, latest research suggests that their complexity has the potential to increase or at least maintain service and repair revenues from such vehicles for the next decade and further into the future. Moreover, global growth in sales of pure electric vehicles is expected to be modest, with industry analysis providing forecasts of a 20%³ global market share of electric vehicle registrations by 2030. Pure electric vehicle registrations in the UK in 2018 accounted for less than 1% of the total market. This leaves a very high proportion of registrations of vehicles with an internal combustion engine component and these vehicles will dominate the vehicle parc well into the 2030s and even beyond. The ICDP forecast the internal combustion engine will be fitted to the majority of cars sold in 2030 and that UK service and repair market revenues will continue to increase as a consequence. This provides a major growth opportunity in aftersales for the Group, especially given that developments in the connected vehicle area are likely to increase service retention of vehicles into franchised networks.

The cost of investment in research and development required by Manufacturers in order to develop new engine technology is leading to some choosing to combine resources and share know-how, either through formal ownership change or joint venture arrangements. The continued high cash cost of such development activity may result in Manufacturer

³ Source: New Market, New Entrants, New Challenges : Battery Electric Vehicles : Deloitte

Strategic Report (continued)

Strategic Overview (continued)

Technological Change – powertrain shift (continued)

consolidation or ownership change and clearly this may have a potential knock on impact on future automotive retailing networks.

Importance of management, colleagues and culture

The Group has over 5,500 colleagues and its success is predicated not only on having the right strategy but in the day-to-day delivery of operational excellence to meet customers' needs at over 100 UK locations. The calibre, skills and motivation of management and colleagues is therefore vital to delivering the objectives of the Group. This comes down to consistently delivering the basics within the business.

The Group has a very stable team of senior executives and General Managers in each dealership. Training is seen as a vital part of the Group with extensive leadership development paths in place from sales executives and technicians all the way to executive level. These paths are combined with a formal talent strategy in each division to identify, develop and promote high potential colleagues and to provide opportunities so that the Group retains them. The HR Director and CEO undertake formal talent pool reviews with each Division on a six-monthly basis. E-learning and skills-based training is also provided for all colleagues to ensure consistency of culture and processes.

To ensure basic processes are in place to a high standard, the Group performs over 1,500 mystery shops each year on its sales activities across the Group. These highlight great performances by colleagues which are rewarded and also identify areas for improvement and the need for further training and coaching. Scores have improved year on year which points to enhanced execution. These mystery shops are alongside similar programmes in sales and aftersales conducted by the Manufacturers, where Group scores are well above average.

A sector leading management information system has also been developed to provide management (and colleagues) with real time data, in all aspects of the business from financial information, cost trends, colleague performance, customer experience data to complaints analysis. This provides benchmarking to promote greater consistency in performance across the business.

A key aspect of the Group, which the Board believe drives performance and consistency, is to have one, consistent Group culture. This is at the core of how we do business and includes the following:

- Values that are embedded in the business. 97% of colleagues in the annual colleague survey knew the Values and 87% considered that the Directors actively practice them.
- An annual Vision statement is produced setting out key goals to be achieved including operational KPI's which drive a balanced scorecard league of all dealerships each month.
- There is a focus on all senior management visiting dealerships and talking and listening to management and colleagues rather than sitting in meetings at "Head Office".
- Recognition is critical to colleagues so good work is rewarded and the Group has activities to promote this from its Masters annual awards evening to hand written letters from the Directors to colleagues who have excelled with customers.

To execute its strategies, the Group must have the right people in management and colleague positions and have a culture that promotes excellence and is intolerant of mediocrity. In this way, the basics of the business are executed and customers delighted.

Strategic Report (continued)

Strategic Overview (continued)

Importance of management, colleagues and culture (continued)

The Group adopts a “Right People, Right Choice, Right Deal” brand model, centred on a “Right Experience for You”. The “Right Experience” applies equally to colleagues, customers, Manufacturer partners and indeed investors.

This brand model is illustrated below and utilised extensively in the business to provide clarity on what we do, how we do it and where we are going as a business.



Ensuring that each business has the right Values and culture is of paramount importance to building both long-term relationships with loyal customers and a stable team of colleagues.

Regulatory Change

Emissions

The development and sales growth of alternatively powered vehicles is being driven by environmental legislative change, as reductions in emissions are sought by governments rather than reflecting change in consumer demand patterns per se. Targeted European emissions reductions by 2021 represent a major challenge to Manufacturers who have to invest to significantly reduce the emissions levels on their vehicle sales or face penal EU fines.

New WLTP regulations, which changed the way in which vehicle emissions are tested, came into force for cars on 1 September 2018. These changes disrupted the supply of new vehicles into the UK in the year, as all new model vehicles had to be tested under the new regime or could not be sold. Many Manufacturers simply did not have enough time to get their many models through the WLTP testing routine in the finite number of facilities available to carry out such tests. WLTP applies to commercial vehicles from 1 September 2019 and, while some disruption is likely, the Manufacturers currently anticipate that they are better prepared as a whole than last year.

The next stage of these emissions testing changes for cars is the introduction of ‘Real Driving Emissions’ (“RDE”) regulations. Stage one of RDE (“RDE1”) will apply to all new vehicles registered on or after 1 September 2019 and as was the case with WLTP, vehicles which

Strategic Report (continued)

Strategic Overview (continued)

Regulatory Change (continued)

Emissions (continued)

have not met the testing requirements by that date cannot be sold. An RDE test is a measure of how closely a vehicle achieves the emissions results generated from the WLTP laboratory test in a real-world driving scenario. The test is particularly concerned with Nitrogen Oxide (NOx) emissions, service conformity and evaporate testing. RDE1 requires vehicles to achieve results less than 2.2 times over the lab test results, whilst stage two (“RDE2”), applicable from January 2021 onwards requires that new vehicles drive within 1.5 times the WLTP levels achieved in the laboratory.

There is a risk that these new RDE regulations will again disrupt new vehicle supply in 2019 because of the testing requirements and potential non-conformity issues, however, this is currently expected to have less of an impact on supply than WLTP. It is expected that the number of model variants in vehicle ranges may reduce, as will the number of available accessory options, particularly those which have an impact on driving efficiency.

FCA

In recent months the FCA published its findings in connection with a review of motor finance and a further thematic review of general insurance product sales. The main areas of focus arising from the motor finance review, were around commission arrangements and the provision of timely and transparent information to consumers.

The Group has not utilised the difference in charges (“DIC”) commission basis, highlighted negatively by the FCA, for over four years and has strong controls over the setting of interest rates for customers. Rate caps are in place and the Group’s electronic showroom system provides control and visibility to Group management. The FCA has commenced a consultation process around commission arrangements. Whilst it is not known at this stage what, if any, changes will arise from the FCA’s findings, the Group are working closely with its retail finance partners, the National Franchised Dealer Association (“NFDA”) and Finance and Leasing Association (“FLA”) within the consultation process.

The Group has strong compliance processes in place which include regular review of the finance explanations and information the Group gives to its customers during the sales process. A uniform electronic showroom system also ensures a consistency of approach in this important compliance area. The Group has revisited the explanations given, in the light of the FCA’s findings, and is confident that sales teams have the right tools to ensure compliance with processes, and to provide customers with the right information to select the financial products which best suit their needs.

The thematic review on general insurance product sales includes a number of products sold by the Group, such as tyre and alloy insurance, and asset protection insurance. The review highlighted areas of interest principally around value for money for customers and the oversight insurance providers exert over the distribution and pricing of their products. Consultation has now commenced, which the Group will actively engage with.

UK withdrawal from the EU

At this stage, the UK’s future relationship with the European Union remains unclear. The Group’s vehicle and parts supply contracts are with the UK based sales companies of our Manufacturer partners, limiting the need for significant Brexit contingency planning. Manufacturer partners, however, have planned for a range of possible scenarios. Many Manufacturers have chosen to accelerate supply of vehicles and parts into the UK over the past few months, to limit the potential impact of short-term logistics dislocation. In the event the UK exits the Customs Union and Single Market, there is the possibility that import tariffs of 10% will apply to those vehicles which are imported into the UK, increasing the cost

Strategic Report (continued)

Strategic Overview (continued)

Regulatory Change (continued)

UK withdrawal from the EU (continued)

of such vehicles to consumers. This is likely to cause a fall in demand for new vehicles whilst leading to an underlying strength in used vehicle values.

A number of the Group's Manufacturer partners have also highlighted a change to the likely timing of new vehicle consignment stock invoicing to retailers. The Group currently receives invoices, on which it can reclaim input VAT, from a number of its Manufacturer partners when a vehicle leaves the assembly line following production regardless of where this may be located within the EU. The VAT is then reclaimed by the Group whilst the invoice is classified in trade creditors until the vehicle is sold or a prolonged period expires utilising Manufacturer funding lines. On leaving the EU and its VAT regime, invoicing to the Group may be delayed until the vehicle arrives in the UK. A delay in the timing of vehicle invoices to the date a vehicle arrives in the UK, will reduce the current VAT cash flow advantage currently afforded to the Group as a result of such invoicing arrangements.

Costs

The automotive retail sector has in recent years faced considerable cost headwinds from a number of directions. Some of these are now stabilising. Business rates continue to rise and have put pressure on physical retailing in general. Depreciation and rent levels have risen on the back of substantial investments in property capacity and Manufacturer standards. This is now set to stabilise as capital expenditure levels are reducing.

One of the major sources of cost increase has been in the area of employment costs. Labour markets are generally tight as employment levels have risen to historic high levels and this, combined with the National Minimum Wage increases, has put upward pressure on costs. 17% of the colleagues employed by the Group are paid at the National Minimum Wage level and this continues to rise. Pension costs have also risen due to auto-enrolment with the last in a number of staged increases effective on 1 April 2019.

The Group has had to work very hard to seek to mitigate these cost increases with a number of successful cost reduction initiatives implemented in the financial year. This will continue to be a key focus as cost pressures still remain a key factor in determining the Group's profitability.

Summary

There are a number of potential threats to the Group's business model set out above, however, there are also significant opportunities. The Group's future success is dependent upon its ability to continue to innovate in order to meet any changes in customers' needs and in response to regulatory change. The Board also needs to continue to ensure capital is allocated to those activities, locations and Manufacturer partners' franchises that are best placed to meet the competitive challenges arising. The Group's success will ultimately rely on leveraging its proven strengths, the quality of execution of business ideas, such as cost saving initiatives, enhancing operational efficiency, marketing campaign delivery and new business opportunities. The Group's management and financial strength means it is well positioned to take advantage of the opportunities arising.

We are proud of our Vision "to deliver an outstanding customer motoring experience through honesty and trust" and all our colleagues strive to achieve customer service excellence. The Group's business success is based on the delivery of this premise.

Strategic Report (continued)

Financial Overview

The Group delivered an adjusted profit before tax of £23.7m which is ahead of market expectations. Profit before tax was £25.3m including a receipt of £3.1m VAT income, following HMRC's clarification of the treatment of dealer deposit allowances, which also benefits the wider automotive retail sector. This income has been treated as a non-underlying item.

The Group's income statement for the year is summarised below:

| | FY19 | Mix | FY18 | Mix | % | Like for like |
|-------------------------------------|------------------|---------------------------|------------------|---------------------------|---------------------|----------------------|
| | £'000 | % | £'000 | % | change | Change % |
| Revenue | | | | | | |
| New | 862,824 | 28.9 | 836,370 | 29.9 | 3.2 | 2.9 |
| Fleet & Commercial | 644,643 | 21.6 | 662,520 | 23.7 | (2.7) | (3.9) |
| Used | 1,217,596 | 40.9 | 1,068,931 | 38.2 | 13.9 | 11.6 |
| Aftersales | 257,137 | 8.6 | 228,247 | 8.2 | 12.7 | 8.8 |
| Total Group Revenue | 2,982,200 | 100.0 | 2,796,068 | 100.0 | 6.7 | 5.1 |
| | | | | | Gross Profit | Like for like |
| | | | | | Change | Gross Profit |
| | | | | | £'000 | change % |
| Gross profit | | Margin⁴ | | Margin⁴ | | |
| New | 63,832 | 7.4 | 64,068 | 7.7 | (236) | (0.6) |
| Fleet & Commercial | 20,217 | 3.1 | 21,429 | 3.2 | (1,212) | (8.4) |
| Used | 102,043 | 8.4 | 98,680 | 9.2 | 3,363 | 2.5 |
| Aftersales | 136,013 | 43.9 | 123,531 | 44.0 | 12,482 | 6.4 |
| Total Gross profit | 322,105 | 10.8 | 307,708 | 11.0 | 14,397 | 2.7 |
| Operating expenses | (294,714) | 9.9 | (277,257) | 9.9 | | |
| Operating Profit | 27,391 | | 30,451 | | | |
| Net finance charges | (3,681) | | (1,898) | | | |
| Adjusted PBT | 23,710 | | 28,553 | | | |
| Non-underlying items | 1,622 | | 1,894 | | | |
| Profit before tax | 25,332 | | 30,447 | | | |
| Taxation | (4,796) | | (5,766) | | | |
| Profit after tax | 20,536 | | 24,681 | | | |
| Earnings per share | 5.45p | | 6.31p | | | |
| Ordinary dividends per share | 1.60p | | 1.50p | | | |

Total revenues in the year grew by 6.7% (£186.1m) and like-for-like revenues also grew by 5.1%. The Group saw growth in used vehicle selling prices and volumes and in aftersales revenues, increasing the proportion of total revenues and gross profits generated by these higher margin operations. These activities contributed 49.4% (2018: 46.4%) of total revenues and 73.9% (2018: 72.2%) of gross profit and reflects the fact that the business success of the Group is far more resilient than being solely linked to the new car market. The latter tends to be more volatile than the Group's other revenue streams.

Core Group gross profit increased by £8.1m (2.7%), whilst gross margins of 10.8% were achieved (2018: 11.0%). Margins reduced due to continued increases in vehicle selling prices, whilst profit per unit increased at a slower rate. Selling price rises were due to currency pressures in new vehicle channels but also the increasing premium mix of the Group which also tends to reduce gross margin percentages.

⁴ Margin in aftersales expressed on internal and external revenue

Strategic Report (continued)

Financial Overview (continued)

The increase in total gross profit of £14.4m was more than offset by operating expense increases of £17.4m. Although there were upward cost pressures, operating expenses as a percentage of revenue remained static at 9.9%. The Group acquired the Hughes business on 30 June 2018 and this increased operating expenses relative to gross profit since the trading period excluded the most profitable month of the year being March.

The table below shows the volume of vehicles sold by the Group:

| | 2019 | | | 2018 | | Variance (%) | |
|-------------------------------|----------------|--------------|----------------|----------------|----------------|---------------|--------------|
| | Like-for-like | Acquired | Total | Like-for-like | Total | Like-for-like | Total |
| Used retail vehicles | 82,576 | 1,868 | 84,444 | 78,439 | 79,821 | 5.3 | 5.8 |
| New retail cars | 34,711 | 701 | 35,412 | 34,694 | 35,412 | - | - |
| Motability cars | 9,521 | 275 | 9,796 | 10,477 | 10,770 | (9.1) | (9.0) |
| Fleet and Commercial vehicles | 31,584 | 264 | 31,848 | 34,636 | 34,852 | (8.8) | (8.6) |
| Total New Vehicles | 75,816 | 1,240 | 77,056 | 79,807 | 81,034 | (5.0) | (4.9) |
| Grand Total | 158,392 | 3,108 | 161,500 | 158,246 | 160,855 | 0.1 | 0.4 |

The volumes of vehicles retailed by the Group remained stable in the period with like-for-like volumes up 0.1%. New retail volumes were static on a like-for-like and total basis with declines exhibited in the Motability and Fleet car channels reflecting in part the strategies of certain Manufacturers to reduce supply into the UK in these lower margin channels. These declines were offset by growth in used car volumes.

New Vehicles

UK private new retail vehicle registrations during the year fell by 5.3% and fleet car registrations fell by 7.5%. The light commercial vehicle market saw UK registrations down slightly by 0.8% in the year.

The Group's changes in new vehicle sales volumes compared to the SMMT UK registration figures were as follows:

| | Increase/(decrease) year-on-year | | |
|-------------------------|----------------------------------|-----------------|----------------------|
| | Total % | Like-for-Like % | SMMT Registrations % |
| Volumes: | | | |
| New retail vehicles | 0.0 | 0.0 | (5.3) |
| Motability vehicles | (9.0) | (9.1) | (3.1) |
| Fleet new cars | (17.3) | (17.5) | (7.5) |
| Commercial new vehicles | 1.8 | 1.6 | (0.8) |

The Group saw new retail vehicle volumes decline by 0.0% compared to a UK fall in registrations of 5.3%. This performance represented significant outperformance and the gaining of market share in the new retail channel.

The UK Motability new car market declined by 3.1% during the year, due to volume Manufacturers, in which the Group is heavily represented, reducing supply into this low margin channel on the back of currency pressures and supply constraints in general. The Group saw like-for-like Motability vehicle sales decline by 9.1%. Motability continues to be a major strength of the Group and a key driver of servicing demand since Motability-supplied vehicles have a three-year servicing plan that retains the vehicle to the supplying retailer for servicing.

Strategic Report (continued)

Financial Overview (continued)

New Vehicles (continued)

New vehicle average selling prices continue to rise, driven by both Manufacturer price increases and a growth in the premium mix of the Group's sales. Selling prices averaged £17,286 in the year (2018: £16,534) representing a rise of 4.6%. The Group retained £1,398 of gross profit per new unit sold on a like-for-like basis (2018: £1,381) growing this measure by 1.2% and consequently gross margin percentages on new vehicle retail sales fell from 7.7% in 2018 to 7.4% in the year.

The Group's like-for-like fleet car sales volumes reduced by 17.5%, reflecting the reduced fleet appetite of certain of the Group's volume Manufacturers. The introduction of the WLTP regulations in the year also had a significant impact on the supply to corporate fleet customers particularly in the premium segment. Poor supply levels and uncertainty over the likely impact of revised emission figures under the new testing regime on company vehicle taxation for end users both impacted volumes.

Commercial vehicle sales represent a major strength of the Group and in the year, the Group delivered 16,115 commercial vehicles, representing 4.5% of the UK market. Volumes increased 1.6% on a like-for-like basis, ahead of the market which declined slightly but remained at historic high levels.

Overall in the fleet and commercial channel, gross profit per unit continue to strengthen from £582 to £612 per unit with margin percentages stable. This reflected the decline in lower margin car fleet activity. The Group has further increased its market share of the UK commercial vehicle markets with its acquisition of Vans Direct in January 2019, which sells 3,500 vans annually.

Used Vehicles

During the year ended 31 December 2018, the used car market in the UK recorded marginally declining sales of 2.1%⁵. Lower supply, as a result of declining pre-registration volumes and a contracting daily rental market in the volume sector, kept wholesale used car market prices robust. Whilst the premium segment continued to witness high levels of nearly new cars through high pre-registration and demonstrator activity, residual values were more stable than the previous year.

During the year the Group increased total used vehicle revenues by 13.9% (like-for-like 11.6%). This was driven by a 5.8% increase in total used volume (like-for-like 5.3%) as well as an increase in like-for-like average used car selling prices in the year of 6.0% from £13,396 to £14,203. The Group took an increasing share of the used car market since the market overall witnessed slight declines in activity. The Group saw a continued enhanced performance from its Premium businesses with significant volume growth in used cars. For example, in the Group's Mercedes-Benz and Volkswagen businesses, like-for-like used car volumes rose 40.4% and 34.4% respectively. The overall used car performance has benefitted from the Group's increasing use of technology in stock management and vehicle pricing together with cost-effective digital and TV marketing.

Like-for-like gross profit generated from the sale of used vehicles increased by £2.5m in the period (2.5%), and on a per unit basis this equated to £1,213 (2018: £1,247). Margin percentages fell from 9.3% to 8.5% year-on-year due to a combination of being more price competitive and a growing mix of premium franchise volumes, which have an inherently lower gross margin percentage. The Group successfully grew like-for-like gross profit through a strategy of being price competitive to grow volumes in an uncertain environment with

⁵ Source: SMMT

Strategic Report (continued)

Financial Overview (continued)

Used Vehicles (continued)

consumer confidence under pressure. Decisions around gross profit per unit are influenced by ensuring prices are competitive in the market and that total gross profit is optimised through a balance of margin and volume. Management flex this balance over time taking into account an assessment of market dynamics.

Aftersales

The Group's aftersales operations, which comprise servicing, supply of parts, accident repair, smart repair and forecourt activity, form a vital element of the Group's business model, since significantly higher returns are generated from these activities than those achieved in vehicle sales. While aftersales represents only 8.6% of Group revenues, it accounts for 42.2% of gross profit. The Group has substantial opportunities to grow the volume of these higher margin activities due to the growth in the UK vehicle parc since 2010, with almost 39m⁶ cars and vans now on the road in the UK. Self-help strategies to increase customer retention, such as through the sale of service plans and the delivery of excellent customer experiences aid aftersales performance. The increasing technological complexity of vehicles and innovation in engine and vehicle management systems, has contributed to an increase in the mix of warranty related work undertaken in the Group's service departments and reflects another strength of the franchise retailer business model.

Rising demand for aftersales has led to a trend for inflation in technician salaries over the past two years. Technician resource constraints within the Group have eased considerably as 2018 progressed with increased the stability in technician cohort returning. This in part reflects the enhanced packages offered but also implementation of improved recruitment and induction processes.

As part of the Group's ongoing programme of capital investment in its dealership infrastructure, each refurbishment or redevelopment project undertaken has sought to improve and maximise the productive capacity of the dealership's aftersales departments. Service departments have been extended and restructured to increase the number of ramps available and to enhance efficiency. The Group is now benefitting from this additional aftersales capacity and this is helping to drive aftersales profitability growth.

Manufacturers continue to pursue strategies to increase the efficiency of their parts distribution networks and to seek to reduce the supply push of parts into the retailer networks. Ford are in the process of changing their parts distribution model nationwide. The change transfers all stock and other working capital risk to Ford and away from the retailer. Ford cover the operating costs of running the parts distribution hub and pays tiered handling charges through an agency agreement to the retailer for operating the hub successfully. As a consequence of these changes, Group parts revenue in FY20 is expected to decline by £24.0m and related profitability is expected to decline by £0.8m. Return on investment will be enhanced due to the reduction in capital employed. Cash inflows of £3.0m were seen in FY19 and a £0.9m further cash inflow is expected in FY20 as a consequence of the reductions in working capital secured. Ford parts activity transitioning to the new model will be excluded from the analysis of like-for-like performance in the coming year.

⁶ Source: SMMT

Strategic Report (continued)

Financial Overview (continued)

Aftersales (continued)

The table below sets out the Group's like-for-like aftersales revenues and margins, including both internal and external revenue:

| | 2019 | 2018 | Growth |
|--|--------------|--------------|---------------|
| | £'m | £'m | % |
| Service revenue | 118.5 | 110.2 | 7.6 |
| Parts and other revenue | 178.1 | 167.0 | 6.6 |
| Like-for-like aftersales revenue | 296.6 | 277.2 | 7.0 |
| Service gross margin | 75.4% | 75.8% | |
| Parts and other gross margin | 22.9% | 23.2% | |
| Like-for-like aftersales gross margin | 43.9% | 44.1% | |

Like-for-like aftersales gross profits grew by a significant £7.8m (6.4%) in the Year. Service revenues rose 7.6% on a like-for-like basis, representing the ninth successive year of growth in this key high margin area and representing a major strategic success achieved through strong execution. The Group has over 100,000 customers paying monthly for a three-year or five-year service plan on top of those customers with a Manufacturer service plan and these provide the bedrock for great retail retention levels. Success has also arisen from better execution of the vehicle health check process when vehicles are in for service or repair with resulting required work identified and sold. This has led to a continued increase in average invoice values in service so aiding revenue and profit growth.

Like-for-like margins were 43.9% (2018: 44.1%) due to the impact of higher salary levels for technicians and lower efficiency. Inefficient diagnostic and warranty work increased at a faster rate than more efficient, routine servicing revenues. Parts revenues rose 5.5% on a like-for-like basis with margins at 21.2% (2018: 21.4%), impacted by the higher mix of warranty work carried out in service which exhibits lower parts margins.

Strategy and Active Portfolio Management

To deliver long-term value to the Group's owners, the Group's strategy is to grow a scaled UK automotive retail group through acquiring both volume and premium franchised dealerships. The Board believes that the benefits of scale in the sector are increasing over time. Scale benefits include: a national on-line and off-line co-ordinated marketing strategy to maximise the benefits of The Group's unique national footprint, on-line platforms, scaled contact centres, franchise management dedication, purchasing efficiencies and access to competitive consumer finance packages for the Group's customers. Further consolidation of the sector by large-scale national brands is likely to continue in the years ahead driven by the trends outlined in earlier sections.

The Group has substantial headroom for further growth with the vast majority of its Manufacturer partners, particularly in the Premium space. The Board adopts a rigorous and disciplined capital allocation process in deciding whether to pursue an acquisition. Investment evaluations for specific opportunities involve detailed three-year investment appraisals and utilising set return on investment hurdle rates to ensure appropriate capital allocation.

During the year, the Board has continued to assess several further acquisition opportunities, rigorously applying the consistent valuation criteria outlined above. A number of these opportunities have not resulted in transactions as the valuations sought by the vendors have not met the Board's investment return criteria. The addition of further dealerships and new franchise partners to the Group's portfolio will enable the Board to deliver its goal of creating a balanced and diversified portfolio of franchised businesses, so reducing the Group's exposure to variations in individual Manufacturers' performance. Such growth, however, will only be

Strategic Report (continued)

Strategy and Active Portfolio Management (continued)

undertaken at appropriate valuations to ensure future returns. Whilst further opportunities continue to be assessed, the Group will remain selective and disciplined in its approach, cognisant that the Board is trusted to spend shareholders' capital sensibly with the goal of creating and sustaining long term value.

Six-monthly the Board assesses the Group's strategic position with each Manufacturer to confirm the Board's standpoint on future investment in the franchise. This leads to an Add, Hold, Reduce or Avoid conclusion which underpins the Group's strategic portfolio management. Property flexibility will have increasing importance as network restructuring occurs and retail formats and requirements change for the reasons set out in an earlier section. The Board believes that there will be a trend away from smaller franchise points and greater concentration in larger, urban representation points. This will yield operational gearing benefits of increased sales per outlet. Lease length and structures will take on a greater importance as a result of these changes. Modelling has been undertaken to assess how network changes may impact the Group's dealerships going forward and the impact this may have from a property perspective around the freehold property portfolio and lease commitments. Clearly this is an important area to manage. Acquisitions and disposals must also reflect these trends and the Board are mindful of these potential changes when considering the current portfolio and how it will evolve. In addition, the Board performs a detailed review of underperforming dealerships within the portfolio on a continual basis, applying its strategy of "fix, re-franchise, sell or close". This is an important element of the capital allocation process providing cash for investment in higher return activities. The Group has seen the benefit of this during the year.

Portfolio Changes

Reflective of the capital allocation principles outlined above, a good example of the decision making process relates to the closure in April 2019 of the Group's Retford Honda dealership in Nottinghamshire. Three of the other Honda dealerships operated by the Group are within 25 miles of the Retford dealership and this featured in the Board's assessment regarding the closure of this profitable site. Modelling assumed that 40% of customers will travel to these neighbouring dealerships for servicing in future and the Group would retain significant amounts of the Honda new car business whilst reducing fixed operating costs. The process of securing the disposal of the now surplus freehold property is underway.

On 30 June 2018 the Group acquired Hughes Group Holdings Limited for total consideration of £24.0m, of which £1.5m was deferred for 12 months. The assets acquired include goodwill and other intangibles of £10.9m and freehold property of £6.3m. This acquisition added the Mercedes-Benz dealerships in Beaconsfield and Aylesbury to the Group's existing adjacent market area comprising Reading, Ascot and Slough, as well as introducing the Mercedes-Benz Commercial Van franchise to the Group's portfolio for the first time and a further Skoda outlet to the Group. This is a well-run business, and the Group has retained the operational management team. Integration into the Group has progressed well and is continuing.

On 31 March 2019 the Group sold its Peugeot business in High Wycombe, which had been acquired in June 2018 as part of the above Hughes acquisition. This was a sub-scale operation which was unlikely to make an appropriate return to the Group. Cash generated on the sale was £0.8m including the freehold property with further working capital savings anticipated. In addition, subsequent to the year end, the Group disposed of a further surplus freehold property arising from a previous dealership closure generating cash of £0.6m.

On 7 January 2019 the Group acquired the entire share capital of Vans Direct Ltd, which is a well-established on-line retailer of new vans (www.vansdirect.co.uk) based in Newport, South Wales. This acquisition of a successful on-line, van retailing business complements the Group's existing on-line capability. Total consideration of £9.6m includes £2.5m in respect of an earn-out arrangement that will be paid, subject to delivering two years on-target EBITDA

Strategic Report (continued)

Strategy and Active Portfolio Management (continued)

Portfolio Changes (continued)

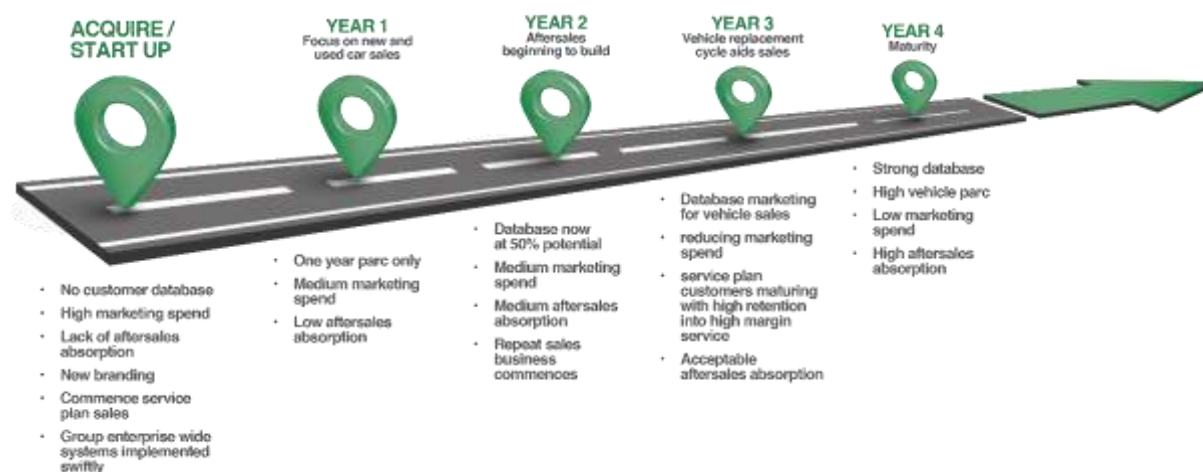
performance. Net assets on acquisition were £1m (including £0.6m cash) with goodwill and other intangibles arising on the transaction of £8.6m. The business is now being integrated into the wider Group with significant van supply opportunities identified alongside opportunities for business, process and efficiency improvements.

Subsequent to these changes, the Group now operates 120 franchised sales outlets, and 3 non-franchised sales outlets, from 104 locations.

Business Model and Competitive Positioning

The Group's business model has remained consistent for the twelve years the Group has operated and enables the successful delivery of enhanced business performance from acquired dealerships, through the implementation of the Group's brand model, business processes and systems. This is delivered by a senior management team that is very stable and highly experienced. Many of the Group's acquisitions are turnaround opportunities and a number are new start-up dealerships sharing similar characteristics, including a weak customer database and consequently an aftersales business performing below its potential. The aftersales activities have significantly higher margins compared to vehicle sales and the Group's business model works to improve and then maximise the aftersales performance and hence improve overall margins. Growing the aftersales potential is fundamentally a function of increasing the sale of new and used cars by the dealership in the locality and ensuring high levels of customer retention into service.

This model, and an indicative timeline for its application to a newly acquired dealership, is set out below:



Strategic Report (continued)

Stakeholder Engagement

Set out below are details of the nature and quality of our key stakeholder relationships:

| Stakeholder | Why it is important to engage | Ways we engage | Stakeholders' key interests |
|-------------------|---|---|---|
| Customers | The Vertu mission statement is "to deliver an outstanding customer motoring experience through honesty and trust". | <ul style="list-style-type: none"> • Customer satisfaction surveys • Trust pilot reviews • Social media engagement • Dedicated customer services team • Focus group meetings | <ul style="list-style-type: none"> • Customer service • Value for money • Product knowledge • Product range • Service provision |
| Colleagues | Our colleagues are essential to support the delivery of the Group strategy. Ensuring that the business has the right Values and culture is of paramount importance to the business model. | <ul style="list-style-type: none"> • Colleague satisfaction survey • Monthly team briefs • Regular colleague appraisals • Apprenticeship programme • Management development courses • Masters awards | <ul style="list-style-type: none"> • Pay and employment conditions • Career opportunities • Training and development • Wellbeing |
| Manufacturers | The Group operates a franchise business model and therefore strong ongoing relationships with manufacturers are fundamental to this. | <ul style="list-style-type: none"> • Monthly financial performance reporting • Manufacturer conferences • Membership of Manufacturer dealer councils • Organisation along franchise lines | <ul style="list-style-type: none"> • New car volume targets • Dealership financial performance • Customer satisfaction scores • Dealership portfolio management |
| Finance providers | Access to finance is essential for the Group to execute its strategy as well as providing customers with the ability to finance vehicle purchases. | <ul style="list-style-type: none"> • Regular review meetings and reporting • Credit reviews • Budget analysis • Monthly compliance reporting • Compliance reviews | <ul style="list-style-type: none"> • Financial performance • Strength of financial position • Business planning and forecasting • Volumes of finance written • Compliance with regulations |
| Suppliers | Group suppliers are essential to delivery of the Group business. | <ul style="list-style-type: none"> • Periodic supplier reviews • Formal feedback and performance review | <ul style="list-style-type: none"> • Payment practices • Credit worthiness • Long-term relationships |
| Investors | Provision of clear and transparent information is essential to inform investment decisions model. | <ul style="list-style-type: none"> • Annual General Meetings • Corporate website • Annual report and accounts • RNS announcements • Investor presentations | <ul style="list-style-type: none"> • Return on investment – share price and dividends • Capital allocation • Strategy |
| Regulators | The Group operates in a highly regulated industry and therefore it is vital to achievement of the business model. | <ul style="list-style-type: none"> • National Franchised Dealer Association (NFDA) and Finance and Leasing Association (FLA) members • FCA engagement • MOT Club • Compliance Committee • Trading Standards engagement | <ul style="list-style-type: none"> • Compliance with laws and regulations • Treating customers fairly |
| Communities | The Group values the importance of making a positive impact and maintaining its physical presence in each of its locations. | <ul style="list-style-type: none"> • Community investment opportunities • Local sponsorship arrangements | <ul style="list-style-type: none"> • Corporate and social responsibility • Environmental impact |

Strategic Report (continued)

Non-underlying Items

The Group delivered an Adjusted profit before tax of £23.7m. In addition, the following items have been treated as non-underlying in arriving at Adjusted profit before tax:

| | Year ended 28 February 2019 | Year ended 28 February 2018 |
|-------------------------------------|--------------------------------|--------------------------------|
| | £'m | £'m |
| Profit on sale of property | - | 4.1 |
| Loss on disposal of business | - | (0.6) |
| VAT receipt – deposit contributions | 3.1 | - |
| Share based payments charge | (0.9) | (1.0) |
| Amortisation | (0.5) | (0.6) |
| Total non-underlying items | 1.7 | 1.9 |

The VAT receipt followed HMRC issuing a clarification over the treatment of deposit allowances to the industry. This clarification allows a dealer provided deposit allowance to be treated as a deduction from the vehicle selling price, thus reducing the output VAT on the sale. The Group had previously treated such allowances as a cost of sale. The £3.1m receipt relates to the recovery of overpaid VAT in previous years in respect of these deposit allowances and has been treated as non-underlying in nature.

Managing Operating Expenses

In an inherently low margin business, it is vital that a disciplined framework of cost control is in place and that this is a core competency for operational management. The Group's cost control framework is built around a highly detailed business planning approach which is undertaken annually for all dealerships and cost centres. Once the business plans are established, costs are benchmarked on a monthly basis. During the year, enhanced systems have been developed to improve this benchmarking and these have now been rolled out to allow graphical presentation of cost trends and detailed analysis to be quickly undertaken to improve cost control.

The Group is also focused on driving productivity and efficiency into the business to enhance cash profits and offset cost headwinds. A committee chaired by the CEO has been in place for the last four years with a remit to identify and execute productivity gains and these have borne fruit. Several significant projects are in place to increase operational efficiencies and to reduce costs in the medium term.

Total operating expenses in the year totalled £294.7m (2018: £277.3m), with like-for-like operating expenses increasing £11.3m (4%). As a percentage of revenues, operating expenses remained at 9.9% (2018: 9.9%). This demonstrates the significant focus which the Group has continued to place upon cost control. The action taken to sell or close underperforming dealerships removes unproductive cost bases from the business, and the continued search for productivity improvements has partially mitigated the significant impact of increases in costs in the year.

The increase in like-for-like operating expenses includes:-

- higher (non-cash) depreciation of £0.7m as a consequence of increased capital investment levels over recent years
- £4.2m in respect of variable remuneration related to the increase in volumes and gross profit generated by the Group
- the recruitment of additional parts and service advisor apprentices, £0.3m
- the recruitment of additional service colleagues to serve the increasing number of service customers has increased costs by £2.8m

Strategic Report (continued)

Managing Operating Expenses (continued)

- higher vehicle cleaning costs of £1.0m reflecting increased resources required as service demand grew and increased pay rates following increases in the rate of National Minimum Wage

Interest charges

Net finance costs in the period totalled £3.7m (2018: £1.9m). Acquisitions in the year led to an increase in the utilisation of the Group's bank borrowings and as a consequence bank interest payable rose by £0.3m. Higher stocking interest payable on new vehicle consignment stock arose reflecting an increase in interest rates charged by Manufacturers, reduced free stocking periods offered by Manufacturers as well as significantly increased vehicle inventory levels as Manufacturers increased supply of new vehicles into the UK in advance of the UK leaving the EU (which was anticipated at the end of March 2019).

| | Year ended 28 February 2019 | Year ended 28 February 2018 |
|------------------------------------|--------------------------------|--------------------------------|
| | £'m | £'m |
| Bank interest payable | 1.0 | 0.7 |
| Vehicle stocking interest expense | | |
| - manufacturer consignment funding | 2.4 | 0.9 |
| - used vehicle stocking loans | 0.5 | 0.4 |
| Pension fund: net interest income | (0.2) | (0.1) |
| | <u>3.7</u> | <u>1.9</u> |

The Group makes limited use of used vehicle stocking facilities, which it classifies as debt. As at 28 February 2019 drawings on these facilities were £23.2m, representing just 21.9% of used vehicle stock value (2018: £12.8m, 14.5%). The utilisation of such facilities by the Group is at substantially lower levels than the industry peer group.

Managing Pension Costs

The Bristol Street defined benefit pension scheme is closed to future membership and accrual. During the year the Group cash contributions to the scheme ceased (2018: £0.4m) so enhancing Free Cash Flow.

This defined benefit scheme showed a surplus as at 28 February 2019 of £6.4m, having accounted for the estimated impact of Guaranteed Minimum Pension (GMP) equalisation within the Scheme, which is consistent with the 2018 surplus of £6.6m. The triennial valuation of the scheme at 5 April 2018 showed the scheme is fully funded on an actuarial basis.

Managing Tax Payments

Taxation represents one of the single biggest costs to the Group. In the year the Group expensed £4.8m in corporation tax, £18.7m in Employers' National Insurance Contributions, £10.2m in business rates and £0.8m in the apprenticeship levy. These four taxes alone total £34.5m (2018: £32.1m).

Through its tax strategy the Group seeks to pay its fair share of tax in compliance with UK legislation. The Group does not engage in any aggressive tax planning and the Group is classified by HMRC as 'low risk'. Within this context, the effective rate of corporation tax for the year was 18.9% (2018: 18.9%). The current year rate is slightly below the standard UK Corporation Tax rate for the Period and the Board expects that the Group's tax rate should remain close to the headline UK Corporation Tax rate in the future as this rate declines to 17% by 2020.

Strategic Report (continued)

Lease Accounting

The Group will adopt the requirements of IFRS16 “Leases” for the first time in FY20. As a result, a balance sheet asset will be recognised together with a corresponding obligation, relating to the Group’s use of properties and other assets leased under multi-year agreements.

Rental payments made under these leases will be accounted for as repayments of the balance sheet liability, which will include an implied interest element, and the asset recognised will be depreciated over the remaining lease term.

The balance sheet position for August 2019, the first reporting date after adoption, will be adjusted for right-of-use assets in the order of £69.5m, with corresponding lease liabilities of £78.7m. FY20 net profit before tax will decrease by an estimated £0.2m as the pre-IFRS 16 rental charge is replaced by higher depreciation and interest. The depreciation will be charged on a straight-line basis; whilst interest is charged on the outstanding lease liabilities and is therefore higher in earlier years and decreases over time. The anticipated impact on reported profit performance and balance sheet over the next three years is shown below:

| Income statement: | Aug'19 | FY20 | FY21 | FY22 |
|---|----------------|----------------|----------------|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| EBITDA | | 14,681 | 11,752 | 10,364 |
| - Depreciation | | (11,731) | (8,944) | (7,631) |
| - Operating profit | - | 2,950 | 2,808 | 2,733 |
| - Finance expenses | - | (3,190) | (2,810) | (2,474) |
| (Decrease)/Increase in net profit before tax | - | (240) | (2) | 259 |
| Balance Sheet | | | | |
| - Right of use assets | 69,517 | 63,907 | 54,963 | 47,310 |
| - Lease liabilities (current) | (13,292) | (11,752) | (10,364) | (10,052) |
| - Lease liabilities (non-current) | (65,358) | (61,334) | (53,780) | (46,181) |
| Decrease in net assets | (9,133) | (9,179) | (9,181) | (8,923) |

The impact of transition to IFRS16 will have no impact on the Group’s cash flows.

Capital Structure

The Group has a largely ungeared balance sheet with shareholders’ funds of £276.6m (2018: £264.4m), representing net assets per share of 73.8p (2018: 68.9p) as at 28 February 2019. The Group has tangible net assets of £168.4m (2018: £174.3m) and the balance sheet is underpinned by a freehold and long leasehold property portfolio, including assets held for resale, of £209.1m (2018: £183.8m). The Group has a robust tangible net assets per share value of 44.9p. The Board believes that a strong balance sheet backed by property assets used in the business, and where debt taken on is long term in nature rather than short term, is in the interests of the business’s owners. This approach reduces the Group’s exposure to interest rate and rent increases and makes the business resilient in a cyclical sector.

The Group finances its operations by a mixture of shareholders’ equity, bank borrowings and trade credit from suppliers and Manufacturer partners. On 28 February 2019, the Group extended its five-year acquisition facility with Barclays Bank plc and Royal Bank of Scotland plc for a further year. This facility, which now matures on 27 February 2024, provides the Group with £62.0m of committed borrowing capacity with the potential to add a further £15.0 million which is currently uncommitted. £44.1 million of this facility was drawn as at 28 February 2019. Interest is payable on this facility at LIBOR plus a rate between 1.3% and 2.1% depending upon the ratio of net debt to EBITDA. In order to reduce the Group’s exposure to interest rate risk, the Group uses interest rate swaps over £10.0m of drawings fixing the underlying LIBOR rate payable at 0.675%, maturing in July 2020 and in respect of £7.0m of drawings, fixing the underlying LIBOR rate payable at 1.424% maturing in February

Strategic Report (continued)

Capital Structure (continued)

2023. In April 2019 the Group entered into an additional interest rate swap, beginning on 31 July 2019, and covering the period to 27 February 2023, over £5,000,000 of the Group's borrowing, swapping LIBOR for a fixed rate of 1.214%. The notional principal amount covered by the interest rate swap increases to £15,000,000 on 31 July 2020 concurrent with the end of the Group's existing £10,000,000 interest rate swap.

In addition to conventional bank borrowing and as is common practice in the automotive retail sector, the Group also utilises used car stocking loans. These loans with third party banks are subject to interest at 1.5% above LIBOR and are secured on the related vehicles. The utilisation of such facilities at 28 February 2019 represents less than 25% of the value of Group used vehicle inventories and is substantially lower than that of industry peers. Adjusted net cash, which excludes the balances drawn on these used car stocking loans, is £22.9m (2018: £32.1m).

The Group operated with positive cash balances for much of the year. Additional facilities are utilised to fund significant peak working capital requirements following registration plate change months and quarter ends. The Group has £73m of overdraft and other money market facilities. On the overdraft, interest is paid on drawn amounts at 1.1% above Base Rate, and on the money market facilities interest was paid at 1.1% above LIBOR. As at 28 February 2019, the Group had cash balances of £66.5m (2018: £41.7m) and, as a consequence, net debt of £0.3m (2018: net cash £19.3m). Net debt includes balances drawn on used vehicle stock facilities of £23.2m (cover of 5.8 times used vehicle stock) (2018: £12.8m).

During the period, the Group comfortably complied with all of the financial covenants in respect of its borrowing facilities, which include net debt to EBITDA and interest and lease costs to EBITDAR.

The cash position at 28 February 2019 reflects the seasonal reduction in working capital, typical of the industry, which arises at the month end prior to a plate change month. As a result of the normal seasonal movements in working capital, the year-end cash position is higher than the normalised cash balances throughout the remainder of the year by approximately £30m.

Capital Allocation

Consideration of capital allocation is central to the Board's decision making. The Board proactively believes that the Group's funding structure should remain conservative and that the application of the Group's debt facilities to fund activities or acquisitions which meet the Group's hurdle rates for investment, will enhance return on equity and increase cash profits in the future.

During the year, the Group continued its Share Buyback Programme. To date from 26 July 2017, 20.7m shares, representing 5.2% of the issued share capital, have been purchased for cancellation for a total of £8.9m. The Board believes that this is an appropriate use of capital and will continue this Buyback programme as a relevant element of returns to shareholders, alongside dividend payments. The Share Buy Back Programme will therefore be recommenced with £3m of further capital allocated to this purpose. The Board will seek to renew approval to repurchase 10% of the issued share capital at the forthcoming Annual General Meeting. The Group has previously stated its dividend policy to seek cover of four times adjusted earnings per share. The Board has amended this policy to three to four times for FY2019 and future years.

During the year, the Group substantially completed a programme of major capital investment to increase the capacity in existing dealerships and to meet revised Manufacturer franchise standards, such spend being in common with most sector participants. The Group's allocation of capital to the existing dealership portfolio will significantly decrease in the coming financial year (see Capital Expenditure section below).

Strategic Report (continued)

Capital Allocation (continued)

As at the date of this report, the Group is actively engaged in the marketing of a number of surplus freehold assets. The Group sold two freehold properties (including the freehold of High Wycombe Peugeot noted above) subsequent to 28 February 2019, generating cash proceeds of £1.3m. This was equivalent to the book value of these property assets.

Impairment Testing

The carrying amounts of the Group's goodwill and other indefinite life assets, property plant and equipment are required to be tested annually for indications of impairment. For the purposes of impairment testing, assets have been grouped together into the smallest group of assets that generate cash flows from continuing use, independent of cash flows from other groups of assets.

A number of key assumptions have been used within the assessment of value in use cash flows including prudent growth rate assumptions both for initial periods of up to five years, followed by a nil growth assumption into perpetuity. Derived cash flows have been discounted at the Group's Weighted Average Cost of Capital of 8%.

The calculations support the carrying value of assets as at 28 February 2019 and as such no impairment adjustments have been made. To give an indication of the sensitivity of the calculations to changes in assumptions, a change in growth rates to minus 1% would result in an impairment of £6.0m whilst an increase in the discount rate applied to 9% would give rise to an impairment of £5.3m.

Capital Expenditure

The cash impact of capital expenditure and disposals during the year, along with the anticipated spend in future years, is set out below:

| | Actual | | | Estimate | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| | FY 2017 £'m | FY 2018 £'m | FY 2019 £'m | FY 2020 £'m | FY 2021 £'m |
| Purchase of property | 5.3 | 4.3 | 9.0 | 1.2 | 1.0 |
| New dealership build | 10.4 | 4.3 | 6.7 | 3.1 | - |
| Existing dealership capacity increases | 5.9 | 8.2 | 11.9 | 10.2 | 4.5 |
| Manufacturer-led refurbishment projects | 2.4 | 3.0 | 1.0 | 0.1 | 4.5 |
| IT and other ongoing capital expenditure | 4.8 | 4.9 | 4.2 | 4.2 | 5.0 |
| Movement on capital creditor | 0.7 | (0.6) | 0.9 | - | - |
| Cash outflow from capital expenditure | 29.5 | 24.1 | 33.7 | 18.8 | 15.0 |
| Proceeds from sale and leaseback and property sales | (1.0) | (14.3) | (4.0) | (1.3) | - |
| Net cashflow from capital investment | 28.5 | 9.8 | 29.7 | 17.5 | 15.0 |

On 6 July 2018 the Group acquired the freehold of its Newcastle Vauxhall dealership, which the Group had previously operated under a lease, whose terms provided for significant future rental increases over its remaining 14 year term. The consideration for the purchase was £7.5m including costs and this transaction provides the Group with improved future flexibility for this property and removes the impact of further rent increases. On 6 April 2019, and subsequent to the balance sheet date, the Group purchased land and buildings adjacent to its existing Ford dealership in Shirley, Birmingham for £1m. This will improve the future operational capacity at this high performing Ford dealership through allowing a significant expansion in its used car capability.

Strategic Report (continued)

Capital Expenditure (continued)

In the year, major projects were undertaken to increase and improve existing dealership capacity. These include the ongoing redevelopment of Reading and Slough Mercedes-Benz dealerships, together with now completed projects at Chesterfield and Guiseley Land Rover. These developments deliver operations with greater capacity for sales and service and will underpin the Group's future profitability and cash generation. The Group capital expenditure budget for FY2020 also includes £0.8m of investment in electric vehicle charging infrastructure in the dealership network to meet the Manufacturers' latest requirements in preparation for the expansion of electric vehicle sales from 2020 onwards.

The Board is confident that the significant reduction in future capital spend anticipated in FY2020 will deliver enhanced Free Cash Flow for the business. A very significant proportion of the dealership estate has now been redeveloped or updated to the latest Manufacturer standards in recent years.

Managing Working Capital

The Group has generated cash from operating activities of £50.9m from an operating profit of £29.0m representing excellent cash conversion of profits. The Group saw cash generated from a reduction in working capital of £18.9m.

The Group has significant levels of working capital in the form of inventory, receivables and payables. These are subject to significant, yet predictable, seasonal fluctuations which coincide with plate change months and quarterly Manufacturer new car campaigns. In addition, Manufacturer new vehicle supply levels and financing changes can also impact working capital patterns over time. The Group benefits from VAT reclaimed on new vehicle inventory invoiced from the Manufacturer which has yet to be paid for in cash. As part of their planning for the UK's exit from the European Union, a number of Manufacturers have increased the level of new vehicle consignment stock since 1 January 2019, increasing the level of inventories invoiced to the Group on which input VAT has been, or will be, reclaimed (prior to the vehicle liabilities being settled).

New vehicle inventory grew by £39.1m as a consequence of these trends, with a corresponding £39.8m increase in trade creditors in the year. The Group reduced other working capital elements such as parts inventory by £4.2m, predominantly due to the change in the Ford parts distribution model. Trade receivables declined £11.7m due to the reduction in fleet vehicle sales volumes and post-acquisition reductions in working capital in the Hughes business purchased on 30 June 2018. Used vehicle inventory declined by £2.3m as the Group reduced inventory levels in advance of the March plate change more aggressively than in the prior year.

Dividends

Cash returns to shareholders are an important part of the Company's capital, allocation decision making process and are a priority for the Board. During the eight-year period since the Group commenced payment of dividends to its owners in 2011, over £28.7m has been returned to the owners of the business through dividends, with the dividend per share increasing by 320% over the same period. The dividend has been funded from cash generated from operations, without any negative impact on capital expenditure programmes or funding of suitable acquisitions.

The Board has proposed an increase in the final dividend for 2019, payable on 29 July 2019 subject to approval at the AGM, to 1.05 pence per share (2018: 0.95p), which, when taken together with the interim dividend paid in January 2019 of 0.55 pence per share (2018: 0.55p), provides a total dividend for the year of 1.60 pence per share (2018: 1.50p). This represents an increase of 6.7% and a dividend cover of 3.2 times (2018: 3.9 times) based upon adjusted earnings per share. The ex-dividend date will be 27 June 2019 and the associated record date 28 June 2019.

Strategic Report (continued)

Dividends (continued)

The proposed full year dividend of 1.60 pence represents an annualised cash dividend, based on the number of shares in issue at 28 February 2019, of £6.0m (2018: £5.7m). The implementation of the Share Buyback Programme has, of course, reduced the cash impact of dividend increases. The distributable reserves in the parent company balance sheet as at 28 February 2019 were £82.7m (2018: £72.2m). At this level of pay-out, the Board does not consider there to be any significant risks to the Group's ability to continue to pay dividends other than those risks listed in the annual report.

Outlook and Priorities for the Year Ahead

In March and April 2019 (the "Period"), the Group has traded in line with management's expectations and trading profit is expected to be in line with the prior year period.

The Group delivered another very strong aftersales performance in the Period with like-for-like service revenues up 9.3% and high, stable margins generated. This reflects excellent execution of the Group in retaining customers and the impact of increased physical capacity and enhanced technical resource levels in the business.

The SMMT has reported a decline in UK private new retail vehicle registrations in the Period of 4.7%. The Group's like-for-like new retail volumes declined 13.1% reflecting above market declines in a number of the Group's volume Manufacturers. Margins remained stable, whilst like-for-like gross profit reduced on lower volumes.

March saw a record market for new commercial vehicle sales in the UK reflecting the underlying strength of the UK economy. UK commercial vehicle registrations were up 9.0% in the Period with the Group delivering volume growth of 9.6%. Fleet car volumes in the Group resumed growth being up 9.4% on a like-for-like basis, gaining share as UK fleet car registrations rose 1.0%. Margins improved and like-for-like gross profit generation moved forward year on year.

Like-for-like used vehicle volumes were flat in the Period with margins stabilising and showing an improvement on the preceding six months.

Operating expenses increased in the Period, but at a much reduced rate of growth compared to previous periods. This reflects strong cost control and actions taken by management. Stocking finance charges on new vehicles continued to rise in line with trends highlighted earlier.

There are a number of challenges and uncertainties facing the UK economy and the automotive retail sector at present and these are outlined in the preceding report. The priorities for the year ahead are:

- maintain excellent financial and capital allocation discipline to ensure that the Group delivers sustainable profitability, cash flow and returns for shareholders, including recommencing the Share Buyback Programme from today
- execute targeted growth of the dealership portfolio in collaboration with Manufacturer partners, taking advantage of network change opportunities as they arise
- continue investment to improve the Group's on-line capability, moving towards seamless, omni-channel sales functionality
- closely manage costs
- increase customer experience levels and productivity through continued investment in training, leadership programmes and initiatives to increase colleague retention levels

Strategic Report (continued)

Outlook and Priorities for the Year Ahead (continued)

By executing the fundamentals well and with its strong management team and financial position, the Group is well placed. The significant investment in the Group's dealership portfolio has seen over £85.0m of capital expenditure over the last three years and is now largely complete. The Board looks to the future from a solid foundation and with cautious optimism.

Key Performance Indicators

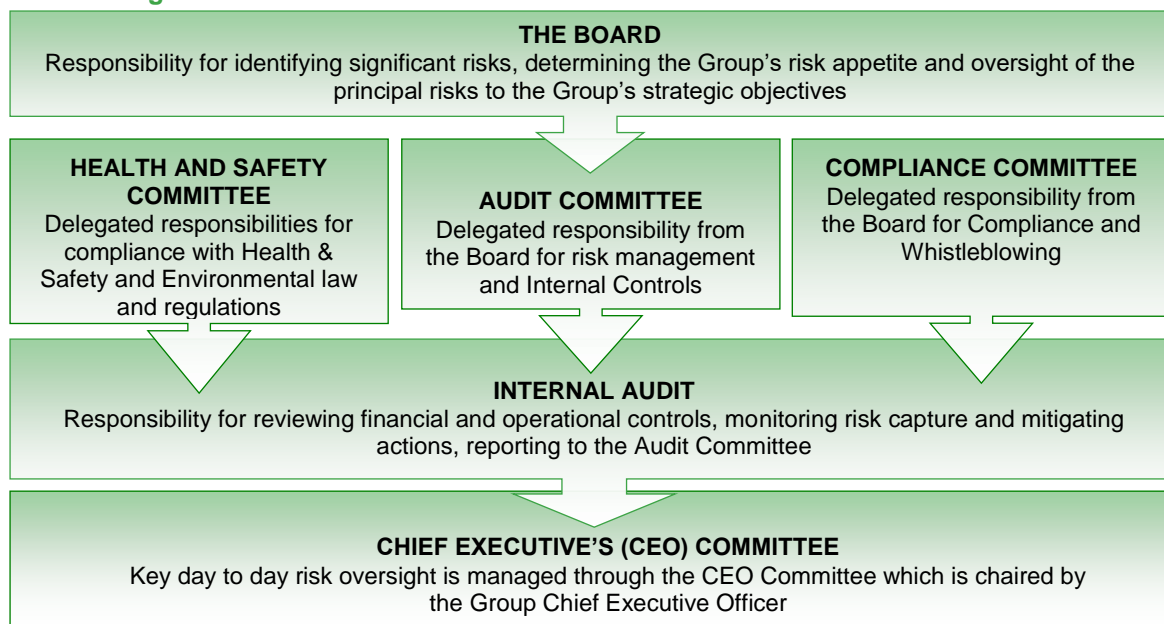
The Group has a number of Key Performance Indicators ("KPI's") by which it monitors its business. These include analysis of results by channel; as set out on page 12, together with the below:

| | KPI | Definition | Performance | Risk Factor Link |
|----------------|-------------------------|--|--|--|
| Financial KPIs | Underlying EPS | Underlying profit after tax divided by weighted average number of shares (note 13) | FY19 – Underlying EPS of 5.10p FY18 – Underlying EPS of 5.79p | 1 2 3 4 5 6 7 8 9 10 11 12 13 14 |
| | Underlying PBT | Profit before tax, amortisation, share based payments charge and exceptional items | FY19 – Underlying PBT £23.7m FY18 – Underlying PBT £28.6m | 1 2 3 4 5 6 7 8 9 10 11 12 13 14 |
| | Gross Margin by channel | Gross profit divided by revenue by channel | See page 12 | 2 3 4 5 6 9 14 |

| | | | | |
|------------------------------|--|---|---|--------------------|
| Strategic / Operational KPIs | Like for Like Used Volume growth | Number of used vehicles sold in dealerships with comparable trading periods in two consecutive years | FY19 – growth of 5.3% FY18 – decline of (0.5%) | 2 3 5 6 9 12 13 |
| | Like for Like New Retail volume compared to UK private registrations | Number of new retail vehicles sold in dealerships with comparable trading periods in two consecutive years compared to the movement in UK private registrations | Group FY19 – growth of 0.0% FY18 – decline of (13.3%) UK private registrations FY19 – decline of (5.3%) FY18 – decline of (7.6%) | 2 3 5 9 12 14 |
| | Like for Like Service Revenue growth | Retail labour sales activity direct to consumers for the servicing and repair of motor vehicles in dealerships with comparable trading periods in two consecutive years | FY19 – Retail growth 7.6% FY18 – Retail growth 4.7% | 2 6 8 9 |
| | Online Growth | Website visits to all Group trading websites | FY19 – 14.0m visitors FY18 – 12.9m visitors | 2 3 7 9 10 11 |
| | Customer Service | Customer service is measured via email survey responses from customers gathered by our manufacturer partners for new vehicles or on Judge Service for used vehicles | 97% (FY18: 97%) of our used vehicle customers would recommend us – Judge Service | 4 7 8 9 |

Strategic Report (continued)

Risk Management Process



Financial and Business Reporting

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. A statement of the Directors' responsibilities for preparing the Annual Report and financial statements is set out on pages 42 and 43. The statement by the auditors about their reporting responsibilities is given on page 71.

Risk Management and Internal Controls

The Board is responsible for establishing and maintaining adequate internal controls over regular financial reporting for the Group, including the consolidation process. There is a comprehensive system of internal controls in place, including the Annual Business Plan ("Plan") which is reviewed and approved by the Board. Monthly actual results are reviewed by management against both the Plan and prior year results. All data to be consolidated in the Group's financial statements is reviewed thoroughly by management to ensure that it complies with relevant accounting policies and the financial reporting presents a true and fair reflection of the financial performance and position of the Group.

The Board has overall responsibility for risk management and is advised of key risks facing the Group on a regular basis with a formal review of the most significant risks annually, or more frequently if required. The Board takes a proactive approach to the management of all forms of risk, and views risk management as a vital constituent of its commitment to provide value protection and growth for its various stakeholders. The internal controls system is designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives and can, therefore, only provide reasonable, rather than absolute, assurance against material misstatement or loss. The Board regularly reviews the risks to which the Group is exposed, as well as the operation and effectiveness of the system of internal controls.

The day to day responsibility for compliance and certain regulatory activities has been delegated to the Compliance Committee, chaired by the COO and made up of members of senior management including the CFO and Company Secretary. This includes the Group's compliance with regulation under the requirements of the Financial Conduct Authority (FCA), the Advertising Standards Authority, the Trading Standards Institute, the Data Protection Act and all other applicable regulations.

Oversight of health and safety and environmental regulatory risk is delegated to the Health and Safety Committee, made up of members of senior management.

The Board's approach involves identification of material risks that may restrict the Group's ability to meet its objectives, the assessment of these risks in terms of impact, likelihood and control effectiveness, and the establishment of risk management strategies. For some key risks, where it is considered necessary, specialist advice is sought from external agencies and professional advisers.

Strategic Report (continued)

Principal Risks and Uncertainties

There are certain risk factors which could result in the actual results of the Group differing materially from expected results. These factors, as set out below, are not an exhaustive list of all the potential risks and uncertainties that could adversely impact the Group's results:

| STRATEGY | | |
|---|--|---|
| Description of risk | Impact | Mitigation |
| 1 Failure to deliver on the strategic goal of the Group to acquire and consolidate UK motor retail businesses | Stalled growth of the Group and associated shareholder returns Reputation risk | <ul style="list-style-type: none"> Maintain strong relationships with manufacturer partners to ensure that the Group remains a valued and relevant candidate for any potential franchised network development opportunities Availability of resources to fund expansion ensured through both committed bank facilities and positive cash generation within the Group Thorough reviews of acquisition opportunities to ensure Group investment hurdles are met Established process for swift integration of acquired businesses into the Group |
| 2 Failure to meet competitive challenges to our business model or sector | Loss of customers to competitors Reduced profitability | <ul style="list-style-type: none"> The Group's scale, technological capability and diversification creates the ability to capitalise on market opportunities Customer experience focus of the Group attracts customer loyalty Ongoing monitoring to identify emerging competitive threats and act on these quickly |
| 3 Advances in vehicle technology provide customers with mobility solutions which bypass the dealer network | Business model becomes obsolete | <ul style="list-style-type: none"> Maintain strong relationships with manufacturer partners to work closely with them as the future shape of the sector evolves Establish sufficient scale with manufacturer partners to ensure the Group is a key part of their route to market Provide manufacturer partners with excellent retail facilities and customers with excellent services, to ensure Group is successful in the event of significant industry consolidation Building on the Group's established on-line sales capability |
| BRAND PARTNERS AND REPUTATION | | |
| Description of risk | Impact | Mitigation |
| 4 Inability to maintain current high quality relationships with manufacturer partners | Impact on our ability to retain existing contracts and to take on new opportunities for growth | <ul style="list-style-type: none"> Group Vision and Values set the tone from the top to deliver strong service to our Group stakeholders Constant focus on improvement in performance and effective communication with our manufacturer partners to ensure that our objectives are closely matched to theirs |

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

ECONOMIC, POLITICAL AND ENVIRONMENTAL

| Description of risk | Impact | Mitigation |
|---|--|---|
| 5 Economic conditions, including the potential consequences of the UK decision to leave the EU, impacting trading | Volume and margin are affected particularly in vehicle sales Amendments to franchise contracts, embracing new legislation | <ul style="list-style-type: none"> Close monitoring of UK and European economic conditions Maintain close relationships with manufacturer partners Focus on retention initiatives particularly in aftersales |
| 6 Market and environmental considerations may drive fluctuation in used vehicle values | Used vehicle margin is affected and value of used vehicle inventory may decline | <ul style="list-style-type: none"> Daily monitoring of used vehicle market to detect pricing movements Real time inventory management and control to enable the Group to react quickly to pricing declines |

LEGAL AND REGULATORY

| Description of risk | Impact | Mitigation |
|---|--|--|
| 7 Litigation and regulatory risk in an environment of ever increasing regulatory scrutiny | Litigation or breaching regulations could have a financial impact or reputational impact | <ul style="list-style-type: none"> Policies and procedures are in place to ensure compliance with relevant regulations, adherence to which is overseen by the Compliance Committee Risk management programme in place aimed at preventing issues in the first instance but also providing appropriate response to any issues that do arise Continuation of Group focus on customer experience and a partnership approach with its manufacturer partners, to minimise impact of regulatory changes, and ensure continued customer relationship |
| 8 Failure to comply with Health and Safety (H&S) Policy | Injury to customers or colleagues | <ul style="list-style-type: none"> Group has a dedicated H&S Manager Group H&S Committee monitors compliance and recommends any corrective or preventative actions Training for all colleagues Specific H&S dashboard developed, monitoring KPI's Independent external H&S audits carried out |

PEOPLE

| Description of risk | Impact | Mitigation |
|---|--|---|
| 9 Failure to attract, develop and retain talent | Unable to deliver on business plans Colleagues who lack motivation and engagement | <ul style="list-style-type: none"> Annual colleague satisfaction survey and action planning based upon the results Significant investment in on-line and formalised training and development programmes delivered by in-house training department and external trainers as appropriate Talent review and succession plans in place |

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

SYSTEMS AND TECHNOLOGY

| Description of risk | Impact | Mitigation |
|--|--|---|
| 10 Failure of Group Information or telecommunication systems | Business is interrupted | <ul style="list-style-type: none"> Robust business continuity process has been developed Operation of this process is regularly tested, reviewed and updated as necessary |
| 11 Group is targeted for malicious cyber attack | Business is interrupted Data is compromised | <ul style="list-style-type: none"> Robust business continuity process has been developed Policy prohibits installation of non-Group software Firewall and anti-virus protocols active and reviewed regularly Penetration and vulnerability testing reviewed regularly to assess new threats |

FINANCE AND TREASURY

| Description of risk | Impact | Mitigation |
|---|---|--|
| 12 Availability of credit and vehicle financing | Inability to secure funding impacting on distribution sales or expansion opportunities | <ul style="list-style-type: none"> Detailed working capital cash flow monitoring in place Maintain relationships with key banks, financing arrangements in place until 27 February 2023 Leverage Group relationship with OEM finance companies and retail finance providers |
| 13 Use of estimates | Variance in accounting judgement impacts profitability | <ul style="list-style-type: none"> Key accounting judgements are reviewed on a regular basis to ensure these remain appropriate Regular review of changes in accounting standards framework to assess any likely impact on the Group |
| 14 Currency risk | Fluctuation in exchange rates impact the profitability of our manufacturer partners which may change their prices or support packages to the dealer network | <ul style="list-style-type: none"> Portfolio of manufacturer partners spreads potential risk No material foreign exchange transactions are undertaken directly by the Group |

Strategic Report (continued)

Viability Statement

Assessment of Prospects

The Group's business model and strategy are central to an understanding of its prospects. The Group's strategy is to grow a scaled automotive retail group in both volume and premium motor retail franchises, by acquisition or organic growth through enhanced performance. Further details of the Group's strategy can be found in the Strategic Report. The nature of the Group's activities is long-term and the business model is open-ended.

The Assessment Process and Key Assumptions

The Group's prospects are assessed primarily through its strategic planning process. This process includes a detailed annual business plan review, led by the CEO through the Chief Executive's Committee.

The Board participates fully in the annual process through both the review and approval of the annual business plan and through annual strategic reviews. Part of the Board's role is to consider whether the plan continues to take appropriate account of the external environment including macroeconomic, political, social and technological changes. The output of the annual review process is an analysis of the risks that could prevent the plan from being delivered and financial forecasts highlighting the impact of the strategic plan. The latest updates to the strategic plan were finalised in February 2019 following this year's review.

This considered the Group's current position and the development of the business as a whole, and the Board assessed the viability of the Company over the three year period to 28 February 2022.

The Directors believe that a three year period is appropriate as the Group's financial forecasting encompasses this period and the Group's key bank financing arrangement is in place for five years which includes this forecast period.

Financial forecasts were prepared for the three year period to 28 February 2022, so that two years nine months remains at the time of approval of this year's annual report. The first year of the financial forecasts comprised of the Group's detailed business plan. Years two and three of the forecasts are extrapolated from the first year, based on the overall content of the strategic plan.

The key assumptions in the financial forecasts, include:

- The core group with no acquisitive growth beyond a known pipeline, reflecting the Strategic and Brand Partners principal risks set out on page 29 of the Strategic Report.
- Prudent growth assumptions in both volume and margin, reflecting the risks set out on pages 29 to 31 of the Strategic Report.

The Board carried out a robust assessment of the principal risks facing the Group and the purpose of the principal risks on pages 29 to 31 is primarily to summarise those matters that could prevent the Group from implementing its strategy. A number of other aspects of the principal risks, because of their nature or potential impact, could also threaten the Group's ability to continue in business in its current form if they were to occur. This was considered as part of the assessment of the Group's viability, as explained below.

Strategic Report (continued)

Viability Statement (continued)

Assessment of Viability

Although the strategic plan reflects the Directors' estimate of the future prospects of the business, the Board has also considered the potential impact on the Group of a number of scenarios over and above those included in the plan, that would represent serious threats to its liquidity. The principal risks and mitigation steps that the Board considered as part of this viability assessment are set out in pages 29 to 31 of the Strategic Report. The Group also mitigates the principal risks it faces through the diverse revenue generation from all parts of the vehicle cycle, range of franchise representation and investment in complementary business streams together with regular monitoring to identify change quickly. The Board believes that the Group is well placed to manage its business risk successfully.

Based on their assessment of prospects and viability as set out above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 28 February 2022.

Going Concern

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Basis of Preparation paragraph in note 1 to the Consolidated Financial Statements.

Robert Forrester
Chief Executive Officer
8 May 2019

Karen Anderson
Chief Financial Officer
8 May 2019

Advisors

Nominated Advisor and Broker

Zeus Capital Limited
82 King Street
Manchester
M2 4WQ

Solicitors

Womble Bond Dickinson (UK) LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Auditors
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 4AZ

Tax Advisors

Deloitte LLP
One Trinity Gardens
Broad Chare
Newcastle upon Tyne
NE1 2HF

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Financial PR Advisors

Camarco
107 Cheapside
London
EC2V 6DN

Company Secretary

Karen Anderson (resigned 1 March 2019)
Nicola Loose (appointed 1 March 2019)
cosec@vertumotors.com

Registered office

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Vertu House
Fifth Avenue Business Park
Team Valley
Gateshead
NE11 0XA

Corporate and Social Responsibility Report

Introduction

Corporate and Social Responsibility (“CSR”) is at the very core of our Group’s culture and values and the CSR strategy falls into four main areas:

- Health and Safety
- Environmental Management
- Colleagues
- Vertu in the Community

1. Health and Safety

A consistent Group-wide approach is taken with regards to Health and Safety and environmental matters. A Health and Safety Committee meets monthly to consider all aspects of our Health and Safety performance, including reviewing any incidents, and considering how to spread best practice across the Group. All line managers receive comprehensive, externally provided training to ensure they understand relevant legislation and the scope of their responsibility in this critical area. There are clear lines of responsibility which are communicated to all colleagues. The General Manager is the main responsible individual at each dealership for all Health and Safety matters supported by a dealership Health and Safety Co-ordinator. A Group Health and Safety Manager is responsible for monitoring compliance with Health and Safety systems and providing support and advice to the General Managers, as well as continually assessing the quality of our systems, outputs and recommending improvements. The Health and Safety Committee also reports monthly to the Board, and key findings are communicated regularly to Senior and General Managers to retain a focus on Health and Safety matters.

Our Health and Safety Dashboard, which focuses on key risk areas within the Dealerships, is a cornerstone of our processes with consistent reporting on any shortfalls being provided to the Board. This has allowed us to quickly identify any locations where the required level of concentration on this critical area is falling short and allows us to generate corrective actions.

In order to manage the Health and Safety risk involved in driving telematics devices are fitted into the cars of the Group’s younger drivers, as they are our largest risk population, and this system gives us real time reporting on driver behaviour. The resultant improvement in driver behaviour continues to have a positive impact on the number of at fault accidents we suffer.

During the year, each location has had an independent external audit to assess adherence to our Health and Safety Operating System. The results of these audits have been encouraging with most Dealerships scoring very highly, and only a small number of failed audits which resulted in immediate corrective action. The audit output has also provided a list of improvements to be addressed at each dealership and attending to these will again raise the bar on delivering a safe environment for Customers and Colleagues.

2. Environmental Management

• Responsible Sourcing

All of the Group’s business locations are situated within the UK and operate in strict compliance with all applicable labour relations laws. We have no presence, either directly or via sub-contractors, in any areas which present a material risk of the exploitation of men, women or children in the workplace. We work with vehicle manufacturers and other suppliers who manage their supply chains in a responsible way. The Group’s modern slavery statement has been published on the Group’s website.

Corporate and Social Responsibility Report (continued)

2. Environmental Management (continued)

- **Reducing Carbon and Waste**

The Group's strategy on environmental matters is to ensure legal and regulatory compliance as well as seeking to manage costs through effective resource allocation. During the year, the Group complied with the Energy Savings Opportunity Scheme Regulations 2014 ('ESOS') to undertake a mandatory energy assessment of our sites. We used the results of this assessment to identify further energy saving opportunities and to encourage best practice throughout the Group.

3. Colleagues

The Group seeks to fulfil the career aspirations and potential of all colleagues. The Board seeks to create an environment in which every colleague enjoys coming to work, feels motivated in everything that they do and takes pride in their contribution to the Group. The enthusiasm and dedication of colleagues is a vital factor in the Group's success. In order to develop a culture that is positive and contributes to the Group performance, seven core values are used extensively in the business to signpost desired behaviours. These are set out below:

- **Values**

- **Passion**

We are proud of our Company and dedicated to its purpose. We are enthusiastic, enjoy challenges and are eager for success.

- **Respect**

We are friendly and courteous in all our relationships with colleagues, customers and suppliers.

- **Professionalism**

We are reliable and consistent and we excel in the standards and presentation of our people, products and premises.

- **Integrity**

We are trustworthy and honest in all that we say and do and take responsibility for our own actions.

- **Recognition**

We appreciate the endeavours of our colleagues. We praise their achievements and enjoy celebrating their success.

- **Opportunity**

We have a vision of what can be achieved and provide colleagues with personal development, supportive training and exciting career progression.

- **Commitment**

We are all determined to achieve total customer satisfaction by providing a service built on trust.

Corporate and Social Responsibility Report (continued)

3. Colleagues (continued)

• Employment Policies

The Group's aim is to attract and retain the best people in the automotive retail sector while observing best practice in employment policies and procedures through a commitment to:

- Offering equal opportunities in recruitment and promotion;
- The continuous development of all colleagues;
- Encouraging internal promotion;
- Using progressive, consistent and fair selection methods;
- Offering family friendly policies and ensuring colleagues are treated with respect and dignity in an environment where no form of intimidation or harassment is tolerated.

All appointments are made solely based on a person's suitability for a particular post and without reference to gender, sexual orientation, age, ethnic origin, religion or disability (except when there is a genuine occupational requirement). The principle of equality also applies to career development opportunities and training.

Employment career progression and development of disabled people is considered on merit with regard only to the ability of the applicant to carry out the function required. Arrangements to enable disabled people to carry out the function required will be made if it is reasonable to do so. A colleague becoming disabled would, where appropriate, be offered retraining and support to continue in their role where possible.

The Group pays attractive salaries and additional benefits to dedicated people. The Group is keen to ensure that colleagues prepare for retirement and offer a Group Personal Pension arrangement with varying levels of employer contribution based on seniority, in addition to a default auto-enrolment pension scheme into which all qualifying colleagues are enrolled if they choose not to opt out. The Group encourages colleagues to become shareholders in the Company through participation in the Group's share schemes; including an all-colleague Share Incentive Plan. The Group also offers private health and life insurance to senior management colleagues as well as a reward platform, childcare voucher and cycle to work scheme which are open to all colleagues.

Number of Group colleagues by gender:

| | At 28 February 2019 | | | At 28 February 2018 | | |
|-----------------------|---------------------|-------|-------|---------------------|-------|-------|
| | Female | Male | Total | Female | Male | Total |
| Directors | 1 | 6 | 7 | 1 | 5 | 6 |
| Group Senior Managers | 6 | 48 | 54 | 6 | 43 | 49 |
| All Colleagues | 1,369 | 4,222 | 5,591 | 1,321 | 3,997 | 5,318 |

• Communication

The Group is committed to providing colleagues with information on matters of interest to them on a regular basis. Individual achievement is recognised publicly and privately to reinforce behaviours in line with the Group's Values and Mission Statement. 'Working together' is vital when developing a successful team and at the very heart of this is good communication. The Group utilises many formal and informal channels to achieve this. For example, the CEO and CFO produce blogs several times a week and regular news updates are posted onto a Group wide intranet site. Additionally, the Group produces newsletters, which feature news stories from colleagues working across the Group's network of dealerships. Each General Manager undertakes a monthly Team Brief, updating colleagues in small groups on relevant issues impacting the Group and the dealership. These meetings seek to reinforce the Group's values and contribute to the creation of a Group culture.

Corporate and Social Responsibility Report (continued)

3. Colleagues (continued)

- Communication (continued)

The Group operates several award schemes covering all colleagues. These schemes are intended to recognise and reward talented and committed individuals throughout the Group. One such scheme is the CEO Awards, which are announced each December and sees a number of managers recognised for their outstanding performance. The Group also operates 'The Masters' Club Awards', whereby a number of high performing non-management colleagues from across the Group are recognised for their individual performance. The recipients range from sales executives, service advisors and technicians to drivers, cleaners, valeters and receptionists, with a category to cover every dealership based colleague. The Group also recognises colleagues with long service, with specific recognition for those reaching 10 and 20 years within the Group. These award programmes are designed to reward and reinforce behaviours underpinning both Group financial performance and other strategic objectives including the delivery of an outstanding customer experience.

4. Vertu in the Community

The scope of our involvement in the community includes both charity and community support.

- Charity Support

The Group is proud to work with a diverse and broad range of national charities and local projects. In the last two years the Group has raised more than £62,000 for Children in Need. This year the Group also supported BEN (Motor and Allied Trades Benevolent Fund), a not-for-profit organisation that partners with the automotive industry to provide life-long support to its people and their families.

- Community Support

As the Group has expanded, so has the scope of its involvement in the community as part of our wider corporate and social responsibility strategy. The projects chosen for support reflect the diversity and depth within the business, and also the desire of colleagues to be an active part of the communities served by their dealership. Across the country, the dealerships support a range of local charities, including St Oswald's Hospice in Newcastle, the Burnley Pendle and Rossendale Young Carers and JPC Community Farm in Stokesley.

In the local community, the dealerships also support a range of sporting and recreational initiatives including, the Dunston Silver Band, Worcester U17s football club and the Newcastle Eagles Basketball Club, plus a variety of youth sports clubs and emerging individual talent across the country. In the last year dealerships have supported a number of local schools with funding for sports activities, equipment and events.

Directors' Report

The Directors present their annual report and the audited financial statements on the affairs of the Group and Company, for the year ended 28 February 2019.

Principal Activities

The principal activities of the Group are the sale of new cars, motorcycles and commercial vehicles and used vehicles, together with related aftersales services. The principal activity of the Company is the provision of management services to all subsidiary statutory entities.

Business Review and Future Developments

The review of the business for the year is contained in the Strategic Report. This includes details of likely future developments of the Group.

Results and Dividends

The results for the year are set out in the consolidated income statement on page 73. The Group's profit from ordinary activities after taxation for the year was £20,536,000 (2018: £24,681,000).

The dividend paid in the year to 28 February 2019 was £5,657,000 (1.50p per share) (2018: £5,678,000 (1.45p per share)). A final dividend in respect of the year ended 28 February 2019 of 1.05p per share, is to be proposed at the annual general meeting on 24 July 2019. The ex-dividend date will be 27 June 2019 and the associated record date 28 June 2019. The dividend will be paid on 29 July 2019, and these financial statements do not reflect this final dividend payable.

Company Number

The registered number of the Company is 05984855.

Business at the Annual General Meeting ("AGM")

At the AGM, a separate shareholders' resolution is proposed for each substantive matter. We will issue to shareholders the Company's annual report and financial statements together with the notice of AGM, giving not less than the requisite period of notice. The notice will set out the resolutions the Directors are proposing and explanatory notes for each. At the AGM, Directors' terms of appointment are available for inspection and, as well as dealing with formal AGM business, the Board takes the opportunity to update shareholders on the Company's trading position. The Chairman and each committee chairman are available to answer questions put by shareholders present.

Appointment and Powers of the Company's Directors

Appointment and removal of Directors is governed by the Company's articles of association (the Articles), the Companies Acts and related legislation. A Director may be appointed by an ordinary resolution of the Company's shareholders following recommendation of the Nominations Committee as approved by the Board, or following retirement by rotation if the Director chooses to seek re-election. Alternatively, the Directors may appoint a Director to fill a vacancy or as an additional Director provided that the individual retires at the next Annual General Meeting (and offers themselves to election if appropriate).

Subject to the Articles (which shareholders may amend by special resolution), relevant legislation and any directions given by special resolution, the Company and its Group is managed by its board of Directors. By resolutions passed at Company general meetings, the shareholders have authorised the Directors: (i) to allot and issue ordinary shares; and (ii) to make market purchases of the Company's ordinary shares (in practice exercised only if the Directors expect it to result in an increase in earnings per share). The authorities conferred on the Directors at the 2018 Annual General Meeting will expire on the date of the 2019 General Meeting. Details of movements in the Company's share capital are given in note 30 to the consolidated financial statements.

Directors' Report (continued)

Appointment and Powers of the Company's Directors (continued)

The Directors who served during the year ended 28 February 2019 and up to the date of this Annual Report were:

P Jones
R T Forrester
K Lever
P Best
D P Crane (appointed 26 July 2018)
A P Goss (appointed 3 September 2018)
K Anderson (appointed 1 March 2019)
M Sherwin (resigned 1 March 2019)
N Stead (resigned 31 December 2018)

D Crane, A Goss and K Anderson will all retire and offer themselves for election for the first time at the 2019 Annual General Meeting. K Lever and P Jones will also retire and offer themselves for re-election. At the date of the AGM, the unexpired term of the service contract of K Lever and P Jones will be 2 years and 1.5 years respectively. The process to appoint a new Chairman is underway but is unlikely to be concluded by the AGM.

Directors who held office at 28 February 2019 and their respective interests in the Company's issued ordinary share capital are shown in the table below. All holdings shown are beneficial. There is no current policy requiring Directors to hold a minimum number of Company shares.

| | 28 February 2019 | 28 February 2018 |
|---------------|-----------------------------|-----------------------------|
| | Ordinary Shares | Ordinary Shares |
| P Jones | 1,750,000 | 1,522,000 |
| R T Forrester | 6,959,510 | 6,929,868 |
| M Sherwin | 492,796 | 489,253 |
| K Lever | 100,800 | 40,800 |
| D P Crane | 161,940 | n/a |
| P Best | - | - |
| A P Goss | - | - |

Details of related party transactions, which include transactions between Directors and Group companies, are given in note 37 to the consolidated financial statements.

Indemnities to Directors

In line with market practice and the Company's Articles, each Director has the benefit of an ongoing deed of indemnity from the Company, which includes provisions in relation to duties as a Director of the Company or an associated company, qualifying third party indemnity provisions and protection against derivative actions. Copies of these are available for shareholders' inspection at the AGM. Directors' and Officers' insurance has also been established for all Directors and Officers to provide cover for their reasonable actions on behalf of the Group.

Directors' Report (continued)

Share Capital

As at 28 February 2019, the Company's issued share capital comprised a single class: ordinary shares of 10 pence each of which 376,605,968 were in issue. The Articles permit the creation of more than one class of share, but there is currently none other than ordinary shares. Details of the Company's share capital are set out in note 30 to the consolidated financial statement. All issued shares are fully paid. During the year ended 28 February 2019, the Group continued its Share Buyback Programme under which 8,328,549 ordinary shares of 10p each were repurchased at an average share price of 41p. At 1 March 2018, 1,815,553 shares were held by Estera Trust (Jersey) Limited ("Trustee"), the trustee of the Company's employee benefit trust. The shares are held for the purpose of the trust and may be used to transfer shares to individuals exercising share options in the Company. During the year ended 28 February 2019, 232,767 of the shares purchased by the trust were transferred to individuals pursuant to exercises of options or sold to satisfy the resulting tax. The Trustee waives its right to dividends on any Company shares held in the trust and such holdings are disclosed within 'Treasury Shares' in the financial statements. 1,582,786 ordinary shares in the Company remained held by the Trustee at 28 February 2019.

The rights and obligations attaching to the Company's ordinary shares are set out in the Articles. The Company is currently authorised to issue up to two-thirds of its current issued share capital pursuant to a resolution passed at its 2018 AGM.

Voting Rights, Restrictions on Voting Rights and Deadlines for Voting Rights

Shareholders (other than any who, under the Articles or the terms of the shares they hold, are not entitled to receive such notices) have the right to receive notice of, and to attend and to vote at, all general and (if any) applicable class meetings of the Company. A resolution put to the vote at any general or class meeting is decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is properly demanded. At a general meeting, every member present in person has, upon a show of hands, one vote, and on a poll, every member has one vote for every 10 pence nominal amount of share capital of which they are the holder. In the case of joint holders of a share, the vote of the member whose name stands first in the register of members is accepted to the exclusion of any vote tendered by any other joint holder. Unless the Board decides otherwise, a shareholder may not vote at any general or class meeting or exercise any rights in relation to meetings whilst any amount of money relating to his shares remains outstanding. A member is entitled to appoint a proxy to exercise all or any of their rights to attend, speak and vote on their behalf at a general meeting. Further details regarding voting can be found in the notes to the notice of the AGM. To be effective, electronic and paper proxy appointments and voting instructions must be received by the Company's registrars not later than 48 hours before a general meeting. The Articles may be obtained from Companies House in the UK or upon application to the Company Secretary. Other than those prescribed by applicable law and the Company's procedures for ensuring compliance with it, there are no specific restrictions on the size of a holding nor on the transfer of shares, which are governed by the Articles and prevailing legislation. The Directors are not aware of any agreement between holders of the Company's shares that may result in restrictions on the transfer of securities or the exercise of voting rights. No person has any special rights of control over the Company's share capital.

Contracts

In 2018 Biffa plc, of which Mr K Lever is a director and shareholder, acquired SWRnewstar Limited, which provides the Group's waste services. There have been no negotiations with SWRnewstar Limited since this date and Mr Lever will not be involved in any renewal or review of the Group's contract with SWRnewstar Limited. None of the other Directors had an interest in any contract with the Group (other than their service agreement or appointment terms and routine purchases of vehicles for their (or their family's) own use) at any time during the financial year to 28 February 2019.

The Company and members of its Group are party to agreements relating to banking, properties, employee share plans and motor vehicle franchises which alter or terminate if the Company or Group Company concerned undergoes a change of control. None is considered significant in terms of its likely impact on the business of the Group as a whole other than the motor vehicle franchises.

Directors' Report (continued)

Derivatives and Financial Instruments

The Group's treasury activities are operated within policies and procedures approved by the Board, which include defined controls on the use of financial instruments managing the Group's risk. The major financial risks faced by the Group relate to interest rates and funding. The policies agreed for managing these financial risks are summarised below.

The Group finances its operations by a mixture of shareholders' equity funds and bank borrowings and trade credit from both suppliers and manufacturer partners. To reduce the Group's exposure to movements in interest rates, the Group seeks to ensure that it has an appropriate balance between fixed and floating rate borrowings and utilises interest rate swaps where appropriate to manage the risk of interest rate rises on its long-term bank borrowing.

Details of the current borrowing facilities of the Group are given on pages 22 to 23 of the Strategic Report.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and other reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Colleagues

The policies of the Group on equal opportunities, including those of disabled colleagues and colleague involvement, are set out in the Corporate and Social Responsibility Report on pages 35 to 38.

Health and Safety

The policies of the Group on health and safety, as well as goals and controls in place are set out in the Corporate and Social Responsibility Report on page 35.

Political Donations

The Group made no political donations and incurred no political expenditure during the year (2018: nil).

Directors' Statement as to Disclosure of Information to Auditors

In the case of each person who was a Director of the Group at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information of which the Group and Company's auditors are unaware, and;
- each of the Directors has taken all the steps that they ought to have taken as a Director, as far as is reasonably practical, in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law).

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 Group and the Company and of the profit or loss of the Group for that period.

Directors' Report (continued)

Statement of Directors' Responsibilities (continued)

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and 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 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 the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website (www.vertumotors.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Main Board Directors section of this Annual Report, confirms that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report and Strategic Report include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Karen Anderson
Chief Financial Officer
8 May 2019

Corporate Governance Report

Chairman's Corporate Governance Statement

I am pleased to present the Board's Annual Report on Corporate Governance. The Company's Values underpin the Group's strategy and support its commitment to corporate governance.

As Vertu is an AiM listed company, the Board formally adopted the QCA Corporate Governance Code ("QCA Code") with effect from 28 February 2019. The QCA Code provides a practical framework to assist the Company in developing its governance standards and this year's report is the first structured in accordance with the QCA Code principles. The Company historically reported compliance against the UK Corporate Governance Code and will no longer do so, although the Board will continue to review the UK Corporate Governance Code as appropriate for the Company.

As the Chairman, my role is to lead the Board, ensuring it operates effectively and I take overall responsibility for the governance framework of the Company. I have worked with the Company Secretary and the Executive Directors to develop this new approach to reporting.

Peter Jones
Non-executive Chairman

The principles of the QCA Code

Principle 1: Establish a strategy and business model which promotes long-term value for shareholders.

Vertu Motors plc was incorporated in 2006 to acquire franchised motor retail dealerships to create a large franchised motor retail group in the United Kingdom. The Group's Vision and strategy is set out in more detail in the strategic report on pages 5 to 33.

Principle 2: Seek to understand and meet shareholder needs and expectations.

Effective communication with the Company's shareholders is crucial. The Company's advisers collate all feedback received from shareholders following results meetings with the Executive and these are fed back to the Board. The Board will also instigate contact with material shareholders to obtain feedback on other proposals from time to time.

The Executive, Chairman and Committee Chairmen are available to shareholders as and when requested. The Company Secretary can be contacted by shareholders as set out on page 35 and the Board welcomes input from shareholders.

The Executive Directors contact all material shareholders to give them the opportunity to meet with the Executive after release of the annual and interim results each year. The Company also publishes an on-line video of the results presentation to allow other shareholders and stakeholders to view the results presentation.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success.

There are a number of important stakeholders in the Group, engagement with these stakeholders is shown on page 19.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Company operates a risk management framework which is described in more detail on pages 28 to 31 together with a summary of the principal risks facing the Group.

Principle 5: Maintain the Board as a well-functioning balanced team led by the Chair.

The Board has four Non-executive Directors including the Chairman, together with three Executive Directors. The Chairman was considered independent on appointment and all of the other Non-executive Directors are considered to be independent.

Corporate Governance Report (continued)

The principles of the QCA Code (continued)

Principle 5: Maintain the Board as a well-functioning balanced team led by the Chair (continued).

Any potential conflicts of interest with individual Directors are reviewed annually to ensure that there is no impact on a director's judgement. The Board's committees have non-executive membership or leadership, where appropriate.

Attendance records are set out on page 50. Each Non-executive Director is expected to commit a sufficient amount of time to the role to enable them to understand the Group's business as well as attend the necessary meetings and assist with certain specific projects. The time commitment varies for each individual Director but as a minimum 2 days per month is expected. All Executive Directors are full-time and are ordinarily expected to devote their full time and attention to the Group.

Principle 6: Ensure that, between them, the Directors have the necessary up-to-date experience, skills and capabilities.

Details of the Directors are set out on pages 49 and 50 together with their skills and experience.

The Board includes a mix of sector and non-sector experience and has welcomed Non-executive Directors from a variety of backgrounds and experience to bolster the executive and provide sufficient challenge in the boardroom. The Nominations Committee continually reviews board composition to ensure that the Board provides the Group with the strategic oversight, vision and governance that it needs. Ordinarily, Non-executive Directors serve for a maximum of six years.

Ken Lever, Pauline Best and Andrew Goss are considered to be independent and Peter Jones was considered to be independent on appointment. Ken Lever is the Senior Independent Director.

The Board seeks to ensure that the necessary financial and human resources are in place for the Group to be able to meet its objectives, to review management performance and to ensure that its obligations to its shareholders are understood and met. Whilst the executive responsibility for running the Group rests with the Chief Executive (R T Forrester), the Chief Financial Officer (K Anderson) and the Chief Operating Officer (D P Crane) the Non-Executive Directors fulfil an essential role in ensuring that the strategies proposed by the Executive Directors are fully discussed and critically examined prior to adoption. They also scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance, both financial and non-financial.

The Nominations Committee has carried out an assessment of the skills and experience of the Directors to identify any areas of weakness that can be addressed through training or future recruitment to the Board. The Board is currently satisfied that its current composition includes an appropriate balance of experience and skills including experience in the motor retail sector, experience with motor manufacturers and other relevant areas.

All Non-executive Directors are asked to visit Group locations to see the operation of the business day to day.

The Board receives regular briefings on new regulations impacting the Group, which in the 2018-2019 year included General Data Protection Regulations, proposed changes to FCA regulation and the QCA Code.

All Directors have access to the Company Secretary for advice on their responsibilities or relevant regulation. The Senior Independent Director also acts as a sounding board for Directors to ensure they benefit from his experience.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

The Board has adopted an annual Board evaluation process to assess how the Board is performing and to identify any areas of improvement. This evaluation process was initiated in January 2019 by an anonymous survey by the Board. Survey results have been reviewed to agree on actions for the coming year. As a result of the 2019 review, the Board has allocated additional time for strategy discussions, has improved formal reporting from the Board committees to the Board and has undertaken a review of Board remuneration strategy.

Corporate Governance Report (continued)

The principles of the QCA Code (continued)

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement (continued).

This evaluation process will be repeated annually, alongside a review of progress against previous recommendations.

The Executive Directors have annual appraisals with the CEO appraised by the Chairman, as well as receiving 360-degree feedback reviews on an annual basis.

The Nominations Committee has responsibility for succession planning for the Board and recommended Andrew Goss, David Crane and Karen Anderson for appointment in the last year. Where appropriate the Committee uses external advisers to assist with candidate identification and benchmarking, including for the work currently ongoing for the appointment of a new Chairman for the Group.

Succession planning for other senior management roles is conducted by the HR Director and CEO with input from other members of management as appropriate.

Principle 8: Promote a corporate culture that is based on ethical values and behaviours.

The Group's values are embedded into the operation of the Group. All new colleagues receive a business-card sized copy of the Values on starting with the Group and Values are reinforced during induction on an ongoing basis. The Vision and Values are displayed in all Group premises and discussed in monthly meetings. An annual colleague survey asks whether management and Directors act in accordance with the Values and any identified shortcomings are acted upon. Results from this survey are also reviewed by the Board and site visits enable the Directors to assess dealership culture in person.

Acting in accordance with the Values is a material part of appraisals for all colleagues.

The Group has clear policies on its zero-tolerance approach on bribery and corruption, tax evasion and modern slavery. These are reinforced by annual on-line training for all colleagues and the Group operates an independent whistleblowing system so that colleagues can report any issues. Breach of the Group Values is a disciplinary matter where appropriate.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

Led by the Chairman, the Board is responsible for generating shareholder value over the long-term by setting the Group's strategic direction. Management and the Board has established delegated authorities and controls to ensure efficient management of the Group's operations alongside appropriate control of risk. The matters reserved for the Board ensure that material transactions are undertaken only after Board review. The Schedule of Matters Reserved for the Board includes:

- Strategy and management – responsibility for long-term success of the Company and Group, commercial strategy, and approval of the expansion of the Group through acquisition or any significant disposals
- Financial reporting and controls – review and approval of the annual business plan and capital budget, major capital expenditure projects and any significant changes to these, all trading or results statements and the annual financial statements
- Internal controls – reviewing the effectiveness of internal control processes to support strategy
- Risk – approval of the Group's risk appetite, determining the nature and extent of significant risks the Group is willing to take to achieve its objectives

Full details of the matters reserved for the Board are set out on the Company's website.

Executive Management have limits on the decisions delegated to them by the Board.

The various Board committees have clear terms of reference that are available on the Company's website and reviewed annually, and regularly report back to the Board. Details of the Board committee responsibilities set out on page 48.

Corporate Governance Report (continued)

The principles of the QCA Code (continued)

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (continued).

| Key Areas of Board Focus During the Year | | | | |
|--|--|--|--|--|
| STRATEGY | FINANCIAL PERFORMANCE | GOVERNANCE | SHAREHOLDER ENGAGEMENT | RISK |
| Group strategy review Business development Reviewing M&A opportunities Approval of annual business plan and capital budget Interim and final dividend Review of colleague engagement survey | Approval of the FY2018 full year results and FY2019 interim results Monthly management accounts and comparison against annual business plan Long range forecast and funding requirement planning | Re-appointment of auditors Monitoring Compliance and Health and Safety Committees Adoption of QCA Code into reporting. | Annual General Meeting Meetings with key shareholders on results roadshows. | Annual review of key Group risks and mitigating controls |

Board meetings are structured to allow the Board sufficient time to discuss and review financial performance, achievement of objectives, development of the Group's strategy, operational performance and risk and internal controls. Standing agenda items are discussed at each Board meeting, which include:

- Chief Executive's Report – update on performance, strategic opportunities, property matters and management
- Chief Financial Officer's Report – includes the latest financial information for the Group
- Chief Operations Officer's Report – update on industry, ancillary business performance and manufacturer issues.
- Health and Safety Report – Summary of training undertaken throughout the Group, risk management plus commentary on any reported incidents
- Compliance Report – summary of regulatory developments and minutes of the latest Compliance Committee meeting
- Investor Relations ('IR') Report – update on market trends, share register movements and summary of IR activity
- Risk Matrix – consideration of key strategic risks

The Company will continue to review corporate governance reporting to ensure visibility to its stakeholders and to keep abreast of best practice.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company releases all material announcements through a regulatory news service and on its website and also encourages shareholders and other stakeholders to sign up to receive email updates via its website. The Company's website contains historic annual reports and announcements as well as other governance-related material.

The 2019 AGM will take place on 24 July 2019. The AGM gives all shareholders an opportunity to meet the Board and ask any questions they have regarding the Group. The Board encourages participation of private shareholders at the AGM, however, the Board understands that it is not always possible for shareholders to attend. For this reason instructions are sent to shareholders to enable them to appoint a proxy electronically via an on-line proxy form, should they be unable to attend the AGM in person. Details of voting on resolutions at the AGM are made available on the Company's website.

Corporate Governance Report (continued)

The principles of the QCA Code (continued)

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders (continued).

The table below shows the key committees and their responsibilities.

| | AUDIT COMMITTEE | REMUNERATION COMMITTEE | NOMINATION COMMITTEE | CEO COMMITTEE | COMPLIANCE COMMITTEE | HEALTH AND SAFETY COMMITTEE |
|------------------------------|---|---|---|---|---|---|
| Members | PLC BOARD COMMITTEES | | | | | |
| | <ul style="list-style-type: none"> • K Lever (Chair) • N Stead ¹ • A P Goss ² | <ul style="list-style-type: none"> • P Best (Chair) • N Stead ¹ • P Jones • K Lever • A P Goss ² | <ul style="list-style-type: none"> • P Jones (Chair) • N Stead ¹ • K Lever • P Best • A P Goss ² | <ul style="list-style-type: none"> • R T Forrester (Chair) • D Crane • K Anderson • N Loose • 10 Senior Managers | <ul style="list-style-type: none"> • M Sherwin (Chair) ³ • K Anderson • N Loose • 2 Senior Managers | <ul style="list-style-type: none"> • 4 Senior Managers • H & S Manager |
| Delegated authorities | <ul style="list-style-type: none"> • Financial reporting • Financial risk management • Internal control | <ul style="list-style-type: none"> • Remuneration policy • Incentive plans • Performance targets | <ul style="list-style-type: none"> • Balance of the Board • Leadership of the Group • Director succession planning | <ul style="list-style-type: none"> • Review, communication, delivery and management of Group strategy and day to day operations | <ul style="list-style-type: none"> • Compliance with laws and regulations (excluding Health & Safety and environmental) • Whistleblowing procedures • Communication with regulators where required | <ul style="list-style-type: none"> • Compliance with Health & Safety and environmental law and regulations • Developing Group best practices |
| Reviews | <ul style="list-style-type: none"> • Full year and half year results • Accounting policies • Terms of engagement of auditors • Internal audit | <ul style="list-style-type: none"> • Achievement of performance targets for short and long term incentives • Senior management pay structure | <ul style="list-style-type: none"> • Composition of the Board • Skills, knowledge & experience on the Board • Diversity | <ul style="list-style-type: none"> • Group HR and IT strategy • Allocation of resources (financial and colleague) • Group performance | <ul style="list-style-type: none"> • Adequacy and effectiveness of Group policies in response to current law and regulation • Licences and consents required • Internal regulatory audit | <ul style="list-style-type: none"> • Health & Safety policies and procedures • Health & Safety audits • Accident statistics and causes |
| Recommends | <ul style="list-style-type: none"> • Re-appointment of auditors • Audit tender • Auditors' remuneration | <ul style="list-style-type: none"> • Level and structure of Executive remuneration • Remuneration policy | <ul style="list-style-type: none"> • Appointments to the Board | <ul style="list-style-type: none"> • Annual business plan to the Board • Group Vision | <ul style="list-style-type: none"> • Training • Policy change • Remedial or pre-emptive action | <ul style="list-style-type: none"> • Training • Policy change • Remedial or pre-emptive action |
| Monitors | <ul style="list-style-type: none"> • Integrity of financial statements • Effectiveness of internal controls and risk management • Internal audit function • Legal & regulatory requirements • External audit | <ul style="list-style-type: none"> • Appropriateness of Remuneration policy | <ul style="list-style-type: none"> • Independence of Non-Executive Directors • Succession planning | <ul style="list-style-type: none"> • Performance against key performance indicators, plans and prior year • Compliance with Group risk management strategy, policy and procedures | <ul style="list-style-type: none"> • Appropriate retail finance metrics • Indicators of non-compliance with policy • Any relevant complaints • Legal and regulatory developments | <ul style="list-style-type: none"> • Accidents and near misses • Changes to law and regulations • New sites to the Group and redevelopments • Other changes in working practice |
| Approves | <ul style="list-style-type: none"> • Statements in Annual Report concerning internal controls and risk management | <ul style="list-style-type: none"> • Remuneration policy • Remuneration packages for Executive Directors • Design of long term incentive plans | <ul style="list-style-type: none"> • Appointments for Executive Directors • Skills profile for Non-Executive Directors | <ul style="list-style-type: none"> • Appointments to dealership management positions • Performance related remuneration of dealership colleagues • Operational process and changes | <ul style="list-style-type: none"> • Reports to the Board • Submissions to relevant authorities • Changes to relevant policies and processes • Training programmes • Whistleblowing procedures | <ul style="list-style-type: none"> • Reports to the Board • Changes to relevant policies • Training programmes |

¹ N Stead served on this committee until resignation from the Plc Board on 31 December 2018.

² A P Goss served on this committee following appointment to the Plc Board on 3 September 2018.

³ From 1 March 2019, D Crane has taken over chairmanship of the Compliance Committee.

Corporate Governance Report (continued)

Board of Directors

Peter Jones – Non-Executive Chairman

Appointed 1 January 2015

Peter (62) has an extensive industry background including his joint ownership of the successful independent motor group Bramall and Jones Ltd; Commercial Director at Inchcape Retail; CEO of C.D. Bramall plc and Commercial Director of Rover Cars UK & Ireland. From 2008 to 2013, Peter served as an Executive Director of Lookers plc including the CEO role from October 2009 to the end of December 2013.

Peter has significant boardroom experience as well as in depth knowledge and experience of the sector and acts as Chair of the Nominations Committee.

Ken Lever – Non-Executive Director

Appointed 1 June 2015

Ken (65) is a former partner of Arthur Andersen and has held senior executive director roles in many listed companies including Alfred McAlpine plc, Albright & Wilson plc and Tomkins plc. Ken was CFO of Numonyx in Switzerland from April 2008 to September 2010, and was CEO of Xchanging plc from June 2011 until December 2015. Ken is Chairman of Biffa plc and RPS Group plc and a Non-executive Director of Blue Prism plc and Gresham House Strategic plc. From 2007 to 2013, Ken was a Member of the Accounting Council of the Financial Reporting Council (formerly the UK Accounting Standards Board).

Ken is highly experienced in public company boardrooms as well as PLC transactions and also brings technical financial experience to the Board and his role as Chair of the Audit Committee.

Pauline Best – Non-Executive Director

Appointed 31 May 2016

Pauline (55) is an experienced Human Resources professional who was the Global People and Organisation Director of Specsavers and whose previous roles include Global Leadership and People Capability Director for Vodafone and Human Resources Director of Talkland.

Pauline's human resources and people experience is invaluable as Chair of the Remuneration Committee and she also brings that perspective to the Board.

Andrew Goss - Non-Executive Director

Appointed 3 September 2018

Andrew (61) brings to the Group 39 years of experience in the automotive sector, having held senior roles in Citroen UK, Nissan Europe, Lexus (GB), Toyota (GB), Porsche and most recently Jaguar Land Rover. Between 2010 and 2013 Andrew headed Jaguar Land Rover's business in North America as its President and CEO, and between 2013 and 2018 he sat on the Jaguar Land Rover Board as Global Sales Operations Director. During this period he also represented Jaguar Land Rover in its joint venture interests in China and in its Spark 44 advertising agency.

Robert Forrester – Chief Executive Officer

Appointed 6 November 2006

Robert (49) was a Director of Reg Vardy plc between 2001 and 2006 where he held the roles of Finance Director and Managing Director. Robert qualified as a chartered accountant with Arthur Andersen. He was also a member of the Economic Growth Board of the Confederation of British Industry. Robert founded the Company in 2006.

David Crane – Chief Operations Officer

Appointed 26 July 2018

David (51) was appointed as Commercial Director of the Group in February 2007 having been previously at Reg Vardy PLC since 1999. He was Commercial Director of Reg Vardy PLC between 2004 and 2006, until the sale of Reg Vardy PLC to Pendragon PLC in February 2006, at which point he was appointed Group Services Director of Pendragon PLC. Prior to his employment with Reg Vardy PLC he was Aftersales Operations Manager at Renault UK between 1991 and 1999. He was appointed to the position of COO in March 2016.

Corporate Governance Report (continued)

Board of Directors (continued)

Karen Anderson – Chief Financial Officer

Appointed 1 March 2019

Karen (47) was the Finance Director of the Group from 2006 to 2010 through its initial flotation and growth period, and has now stepped back into the Chief Financial Officer role from her role as Deputy CFO and Company Secretary.

From 2001 to 2006 she was employed by Reg Vardy PLC, where she ultimately held the position of Group Financial Controller. Karen qualified as a chartered accountant with Arthur Anderson. She was also a Trustee Director of the Group's defined benefit pension scheme, the Bristol Street Pension Scheme from 2007 to 2019.

Karen has a wealth of motor industry finance experience together with detailed knowledge of the operations of the Group, having helped to found the Company in 2006.

Board Attendance

During the financial year the Board met 9 times in person and on other occasions by telephone. The number of meetings attended by each Director was as follows:

| | Board Meetings | | Audit Committee Meetings | | Nomination Committee Meetings | | Remuneration Committee Meetings | |
|------------------------|----------------|----------|--------------------------|----------|-------------------------------|----------|---------------------------------|----------|
| | Scheduled | Attended | Scheduled | Attended | Scheduled | Attended | Scheduled | Attended |
| P Jones | 16 | 15 | - | 3 | 4 | 4 | 8 | 8 |
| R T Forrester | 16 | 15 | - | 1 | - | - | - | - |
| M Sherwin | 16 | 16 | - | 3 | - | - | - | - |
| N Stead ¹ | 13 | 12 | 3 | 3 | 3 | 3 | 7 | 7 |
| K Lever | 16 | 15 | 3 | 3 | 4 | 4 | 8 | 8 |
| P Best | 16 | 15 | - | 2 | 4 | 4 | 8 | 8 |
| D P Crane ² | 9 | 8 | - | 1 | - | - | - | - |
| A P Goss ³ | 7 | 7 | 2 | 2 | 2 | 2 | 4 | 4 |

¹ resigned on 31 December 2018

² appointed on 26 July 2018

³ appointed on 3 September 2018

Director appointment and re-election

All Directors appointed by the Board must retire and seek election at the first Annual General Meeting following their appointment. One third of the other Directors are then required to retire and submit themselves for re-election each year so that all Directors are required to retire and submit themselves for re-election at least once in every three years. The Board is satisfied that plans are in place for orderly succession for appointments to the Board and senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

By order of the Board

Nicola Loose
Company Secretary
8 May 2019

Corporate Governance Report (continued)

Audit Committee Report

Audit Committee Membership and Meetings

During the year the Audit Committee was comprised of Committee Chairman, K Lever and two other Non-Executive Directors of the Group, namely, N Stead until his resignation from the Board on 31 December 2018 and A P Goss following his appointment to the Board on 3 September 2018. The Committee met three times during the financial year and attendance is shown in the table on page 50.

Only members of the Committee are required to attend Committee meetings, however, other individuals (such as the Chief Executive, Chief Financial Officer, Chief Operations Officer or Company Secretary and external auditors) are able to attend by invitation.

The key responsibilities of the Committee are set out in the table on page 48

Activities during the year

During the year the Committee focused on the following matters:

- Review of the interim and year-end financial statements for the Group
- Review of the consistency and appropriateness of the accounting policies
- Review of the methods used to account for significant transactions, completeness of disclosures and material areas in which significant judgements had been applied
- Review of the effectiveness of internal controls, risk assessment process, the assurance process and changes to significant risks
- Approval of the terms of engagement, strategy, scope and effectiveness of external auditors

Significant Issues

As part of the reporting and review process, the Committee has discussed the significant issues considered in relation to the financial statements and how those issues were addressed.

During the year the Committee considered the following key risks, accounting issues and judgements:

| Significant issue | Action taken |
|--|--|
| Carrying value of goodwill, other intangibles and tangible assets | <p>Management performed a detailed impairment review on the goodwill, other intangibles and tangible assets, in the consolidated financial statements of the Group. The Committee challenged the methodology, assumptions, and sensitivity analysis used by management. The Committee also considered the independent review by the external auditors.</p> <p>The Committee concluded that the carrying amounts shown in notes 15, 16 and 18 of the consolidated financial statements were appropriate and approved the disclosures.</p> |
| Viability and Going Concern | <p>Management have reviewed the Group's current financial position and have prepared financial projections covering a three year period. The projections assume that profits earned from new car sales will remain stable throughout 2019/20; the used car and aftersales businesses and recent acquisitions will continue to show growth; UK interest rates will grow gradually over the next three years; manufacturer partners will remain in production and supply on normal terms of trade, and there will be no significant downturn in the global economic environment.</p> <p>These projections, even after allowing for sensitivity analysis to accommodate a reasonable downside scenario (including weaker trading and adverse movements in interest rates), indicate that the Group would be able to manage its operations so as to comfortably remain within its current funding facilities and in compliance with its banking covenants.</p> <p>The Committee challenged the assumptions used and also considered the review conducted by the external auditors. The Committee concluded that the Board is able to make the Viability and Going Concern statements on pages 32 and 33.</p> |

Corporate Governance Report (continued)

Audit Committee Report (continued)

Significant Issues (continued)

| Significant issue | Action taken |
|----------------------------------|---|
| Pension benefits | <p>Assets and obligations under the “Bristol Street Pension Scheme”, which is a defined benefit scheme in which accrual ceased on 31 May 2003, are recognised in the balance sheet.</p> <p>The valuation of the scheme assets and the present value of the obligations are calculated by external advisors.</p> <p>The Committee reviewed the assumptions applied in calculating the scheme assets and obligation (set out in note 29 at 28 February 2019 and confirmed that these were appropriate.</p> |
| Manufacturer bonus income | <p>Income is received from manufacturer partners in the form of rebates and volume related bonuses. A Group wide income recognition policy is in place in respect of this income. Management allocate responsibility to Divisional Finance Directors, as nominated ‘franchise experts’ to ensure bonus programmes are fully understood and communicated to Dealership teams. The Group’s internal audit function reviews the treatment of manufacturer bonus income recognition on a dealership by dealership basis. The Committee also considered the review performed by the external auditors.</p> <p>The Committee concluded that it was satisfied with the income recognition policy, and with the appropriateness of the controls currently in operation, over manufacturer bonus income recognition.</p> |
| Revenue recognition | <p>The Group’s main product/service lines are the sale of motor vehicles, parts and aftersales services. The Group operates an income recognition policy that ensures that revenue is recognised in line with satisfaction of the performance obligation, as set out in note 1.</p> <p>Given the complexity of the initial sale of a vehicle which can represent several bundled products, judgement is involved in isolating the constituent parts of the transaction and ensuring revenue is recognised appropriately.</p> <p>The committee reviewed the assumptions set out in the revenue recognition policy and considered the review performed by the external auditors and confirmed that the assumptions applied are appropriate.</p> |

Financial and Business Reporting

The Committee is responsible for monitoring the integrity of the financial statements including the Group’s annual and half-yearly results and ensuring they are fair, balanced and understandable.

The external auditors also provide an auditors’ report to the members providing an independent opinion on the truth and fairness of the Group’s financial statements. This report can be found on pages 66 to 72.

Risk Management and Internal Controls

The Group has well established risk management and internal control processes. These are regularly subject to audit and the results are reported to the Audit Committee and the Board for their review.

Day to day management of risk is delegated to the Chief Executive’s Committee, which consists of the Chief Executive, the Chief Financial Officer, the Company Secretary, the Chief Operations Officer, the Chief Marketing Officer, the HR Director, and the seven Divisional Operations Directors of the Group.

The Audit Committee confirms that the effectiveness of the system of internal control, covering all material controls including financial, operational and compliance controls and risk management systems, has been reviewed during the year under review and up to the date of approval of the Annual Report.

Internal Audit

The Group Risk team report regularly on the audits carried out in each dealership which, for the financial year ended 28 February 2019, covered both balance sheet and sales process audits as well as audits of key financial control processes. The Group Risk team met with the Committee without the presence of management.

Corporate Governance Report (continued)

Audit Committee Report (continued)

External Audit

The Audit Committee has recommended to the Board that a resolution be put to shareholders at the Annual General Meeting to reappoint PricewaterhouseCoopers LLP as auditors of the Company for a further year subject to their continued satisfactory performance. PricewaterhouseCoopers LLP have been appointed as auditors to the Company for the previous eleven financial years. In accordance with ethical standards requirements the audit partner responsible for the engagement was subject to rotation after each five year period. February 2018 was the fifth and final year for which Randal Casson was the audit partner. For the year ended 28 February 2019 the audit partner was Jonathan Greenaway. No tender has been conducted. The Committee reviewed the effectiveness, independence and objectivity of the external auditors and no matters of concern were raised during the financial year to 28 February 2019.

The external auditors attend some of the Committee meetings and the Committee meets with the external auditors without management present.

Independence of the Independent Auditors

Both the Audit Committee and the Independent Auditors have in place safeguards to avoid the Independent Auditors' objectivity and independence being compromised. The Group's policy with regard to services provided by the Independent Auditors, PricewaterhouseCoopers LLP, is as follows:

- Statutory audit services

The Independent Auditors, who are appointed annually by the shareholders, undertake this work. The Independent Auditors also provide regulatory services and formalities relating to shareholder and other circulars. The Committee reviews the Independent Auditors' performance on an ongoing basis.

- Further assurance services (this includes work relating to acquisitions and disposals)

The Group's policy is to appoint advisors to undertake such work where their knowledge and experience is appropriate for the assignment. Where PricewaterhouseCoopers LLP are used the Board reviews their independence and expertise on every assignment. Other professional services firms are employed in certain cases on acquisition and disposal related assignments.

- Other non-audit services

The Independent Auditors are not permitted to provide internal audit, risk management, litigation support or remuneration advice. The provision of other non-audit services, is assessed on a case by case basis, depending on which professional services firm is best suited to perform the work. These safeguards, which are monitored by the Committee, are regularly reviewed and updated to ensure they remain appropriate. The appointment of PricewaterhouseCoopers LLP to provide non-audit services requires Board approval for any assignment with fees above a set financial limit. The Independent Auditors report to the Committee on the actions they take to comply with the professional and regulatory requirements and best practice designed to ensure their independence, including the rotation of key members of the audit team. PricewaterhouseCoopers LLP have formally confirmed this to the Board. The disclosure of non-audit fees paid to PricewaterhouseCoopers LLP during the year is included in note 7 to the consolidated financial statements.

K Lever

Chairman of Audit Committee
8 May 2019

Remuneration Committee Report

Annual Statement from the Chairman of the Remuneration Committee

Introduction

On behalf of your Board, I am pleased to present our Directors' Remuneration Report for the year ended 28 February 2019. This Directors' Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee ("the Committee") in accordance with the Companies Act 2006, as well as with the spirit, principles and, as far as is reasonably practical, the requirements of the Quoted Companies Alliance Remuneration Guidance, the Investment Association's Principles of Remuneration and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, notwithstanding that, as the Company is listed on AiM, these regulations do not all strictly apply. This report is split into two sections;

- the Directors' remuneration policy sets out the Company's intended policy on Directors' remuneration from 1 March 2019; and
- the annual report on remuneration sets out payments and awards made to the Directors and details the link between Company performance and remuneration for the year to 28 February 2019 and is subject to an advisory shareholder vote at this year's AGM.

The information in the Directors' Remuneration Report set out on pages 60 to 65 highlighted as being subject to audit, has been audited by the Group's auditors.

Remuneration outcomes for the year to 28 February 2019

Annual bonus opportunities are based both on the achievement of adjusted profit before tax targets and customer outcome targets including manufacturer new car and service CSI performance and Judge Service results. Bonuses of 71.9% and 72.9% of basic salary were awarded to Executive Directors R T Forrester and M Sherwin in respect of profit related bonus and customer outcome bonus for the year ended 28 February 2019, which reflects the financial results and customer satisfaction scores of the Group for the year relative to expectations at the beginning of the financial year. R T Forrester and M Sherwin received equal proportions of their available annual profit bonus and customer outcome bonus for the year ended 28 February 2019. The amount of available annual profit bonus and customer outcome bonus when expressed as a percentage of basic salary varies between R T Forrester and M Sherwin which generates the 1.0% difference between the 71.9% and 72.9% numbered outlined above. D P Crane was promoted to Executive Director on 26 July 2018 and has been awarded bonuses of 44.1% of basic salary in respect of his employment throughout the year ended 28 February 2019.

The long-term incentive awards made to R T Forrester and M Sherwin under the Long Term Incentive Plan ("LTIP") during the year ended 28 February 2019, detailed later in this report, may vest in May 2021, but are subject to a two year holding period thereafter. These awards took the form of £Nil value share options where the vesting is subject to targets based on the achievement of absolute growth in the Company's total shareholder return ('TSR'), and an absolute target for the Company's return on shareholders' equity ('ROE').

Options over 200,000 shares were granted to D P Crane on 8 November 2018. Such options were granted under the Group's CSOP scheme to a number of the Group's senior managers and details of these awards are given later in this report and in note 30 to the consolidated accounts. D P Crane was not included in the 2018 LTIP issue, hence his inclusion in the CSOP scheme post his appointment to the PLC Board was considered appropriate by the Remuneration Committee. D P Crane will be included in any 2019 LTIP and excluded from any 2019 CSOP award.

Key remuneration decisions for the year to 29 February 2020

The Executive Director annual bonus structure agreed for the year commencing 1 March 2019 will weight 15% - 20% of on-target bonus potential to customer outcome measures. For the year commencing 1 March 2019, a further £15,000 bonus potential has been made available to Executive Directors based on specific colleague stability targets. The customer outcome measures include used vehicle and service customer feedback as well as new vehicle manufacturer measured customer satisfaction scores. The balance of on-target bonus potential relates to the profitability of the Group. Profit targets have been updated to reflect the expected results for the coming year.

Remuneration Committee Report (continued)

Annual Statement from the Chairman of the Remuneration Committee (continued)

In developing the remuneration policy for Executive Directors R T Forrester, D P Crane and K Anderson for the year commencing 1 March 2019, the Committee considered the form and level of awards to be made under the LTIP. In summary, the Committee decided that these awards will again be £Nil cost share options under the LTIP, but are considering a change to the performance targets against which vesting will be measured. Shareholders will be consulted regarding the proposed changes with the final changes to the LTIP to be proposed to the Annual General Meeting. The awards for the forthcoming year have yet to be finalised.

Conclusion

The Directors' remuneration policy which follows this annual statement sets out the Committee's principles on remuneration for the future and the annual report on remuneration provides details of remuneration for the year ended 28 February 2019. The Committee will continue to be mindful of shareholder views and interests, and we believe that our Directors' remuneration policy continues to be aligned with the achievement of the Company's business objectives. Material changes to remuneration policy will only be made after consultation with major shareholders. We hope that we can rely on your votes in favour of the annual report on remuneration.

By Order of the Board:

P. Best

Chairman of Remuneration Committee
8 May 2019

Remuneration Committee Report (continued)

Remuneration Policy

The policy of the Committee is to ensure that the Executive Directors are fairly rewarded for their individual contributions to the Group's overall performance and to provide a competitive remuneration package to Executive Directors, including long-term incentive plans, to attract, retain and motivate individuals of the calibre required to ensure that the Group is managed successfully in the interests of shareholders. In addition, the Committee's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related, consistent with the balance of remuneration paid to Directors and Senior Management in the automotive retail sector.

Future Policy Table

The main elements of the remuneration package of Executive Directors are set out below:

| Purpose and link to strategy | Operation | Maximum potential value | Performance metrics |
|--|--|--|---|
| BASIC SALARY | | | |
| Attract and retain high calibre Executive Directors to deliver strategy. | Paid in 12 equal monthly instalments during the year. | Reviewed periodically to reflect experience, role, responsibility and performance of the individual and the Group, and to take into account rates of pay for comparable roles in similar companies. When selecting comparators, the Committee has regard to, <i>inter alia</i> , the Group's revenue, profitability, market worth and business sector. There is no prescribed maximum increase. Annual rates are set out in the annual report on remuneration for the current year and the following year. | None |
| BENEFITS | | | |
| Provide benefits consistent with role. | Currently these consist of the option of two company cars, or access to an employee car ownership scheme, health insurance, critical illness and life assurance and the opportunity to join the Company's share incentive plan ("SIP"). The Committee reviews the level of benefit provision from time to time and has the flexibility to add or remove benefits to reflect changes in market practices or the operational needs of the Group. | The cost of providing benefits is borne by the Company and varies from time to time. | None |
| ANNUAL BONUS | | | |
| Incentivises achievement of business objectives by providing rewards for performance against annual profit targets, customer outcome targets including manufacturer new car and service customer satisfaction ("CSI") scores as well as used car Judge Service results, and colleague stability targets. | Paid in cash after the end of the financial year to which it relates. | It is the policy of the Committee to cap maximum annual bonuses. The level of such caps are reviewed annually. The maximum profit bonus for 2019/20 is 96%, 66% and 143% of basic salary for K Anderson, D P Crane and R T Forrester. In all cases the maximum profit bonus available represents 200% of the profit bonus available at the 2019/20 Group profit target. The maximum customer outcome bonus and colleague stability bonus is 100% of the on target available bonus for that measure. | Targets are based on adjusted profit before tax of the Group and customer outcome measures. The Committee sets threshold and maximum targets on an annual basis. A sliding scale operates between threshold and maximum performance. No bonus is payable where performance is below the threshold. Payment of any bonus is subject to overriding discretion of the Committee. |

Remuneration Committee Report (continued)

Remuneration Policy (continued)

Future Policy Table (continued)

| Purpose and link to strategy | Operation | Maximum potential value | Performance metrics |
|---|---|---|--|
| LONG-TERM INCENTIVES | | | |
| Alignment of interests with shareholders by providing long-term incentives delivered in the form of shares. | <p>Grant of £Nil cost options under the LTIP. Options vest at least 3 years from grant subject to the achievement of performance conditions, with a further 2 year holding period required following the vesting period (applicable to LTIP options granted post 29 February 2016) and may not be exercised after the 10th anniversary of grant.</p> <p>The Committee may, at its discretion, structure awards as qualifying LTIP awards consisting of both an HMRC tax qualifying option and an LTIP award. Qualifying LTIP awards enable the participant and the Company to benefit from tax advantaged treatment in respect of part of the award without increasing the pre-tax value delivered to participants. The qualifying LTIP awards will be structured as a tax qualifying option and an LTIP award with the vesting of the LTIP award scaled back to take account of any gain made on the exercise of the tax advantaged option.</p> | <p>Maximum permitted annual award of options under the LTIP is 125% of basic salary.</p> <p>Tax qualifying options may be granted. Shares subject to a tax qualifying option granted as part of a qualifying LTIP award are not taken into account for the purposes of the individual limits because, as referred to in the operation column, the LTIP award will be scaled back to reflect the gain made on the exercise of the tax advantaged option.</p> | Since the 2016 awards, vesting has been subject to targets based on the achievement of return on shareholders' equity and absolute growth in the Group's total shareholder return ("TSR"). The metrics for use from 2019 onwards are under review. |
| PENSION | | | |
| Attract and retain Executive Directors for the long-term by providing funding for retirement. | All Executive Directors are entitled to participate in money purchase arrangements, or to receive a cash allowance in lieu of pension contributions. | The Group makes payments of up to 16.5% of basic salary into any pension scheme or similar arrangement as the Executive Director may reasonably request. Such payments are not counted for the purposes of determining bonus or LTIP levels. | None |

Notes to the Policy Table

Performance conditions

The Committee selected the performance conditions as they are central to the Group's strategy and are the key metrics used by the Executive Directors to oversee the operations of the business. The performance targets for the annual bonus are determined annually by the Committee, with maximum bonus typically requiring a substantial out-performance of the Company's financial target.

The initial performance target for the annual bonus is based on adjusted profit before tax. This target takes account of both the Group's budget for the year and of market expectations after taking account of the pre-close update issued at the end of the previous year. For the year ending 28 February 2020 an initial performance target of £24.1m has been applied, and may be adjusted during the year to reflect the impact of acquisitions and disposals.

The performance target for the LTIP is currently based on both absolute growth in the Company's total shareholder return ('TSR') and an absolute target for return on equity. A performance target based on Group profitability is currently being considered for future LTIP issues.

Remuneration Committee Report (continued)

Remuneration Policy (continued)

Future Policy Table (continued)

Notes to the Policy Table (continued)

Differences from remuneration policy for all employees

All employees of the Company are entitled to base salary or hourly rate and various other colleague benefits. The opportunity to earn a bonus is made available to all management colleagues in the Group. The maximum opportunity available is based on the seniority and responsibility of the role.

Share options are only granted under the LTIP to Main Board Directors, or members of the Chief Executive Committee.

Statement of consideration of employment conditions of employees elsewhere in the Group

The Committee receives reports on an annual basis on the level of any pay rises awarded across the Group and takes these into account when determining salary increases for Executive Directors. In addition, the Committee receives regular reports on the structure of remuneration for senior management in the tier below the Executive Directors and uses this information to ensure a consistency of approach for the most senior managers in the Group. The Committee also approves the award of any long-term incentives.

The Committee does not specifically invite colleagues to comment on the Directors' remuneration policy, but it does take note of any comments made by colleagues.

Statement of consideration of shareholder views

The Chairman of the Committee consults with major shareholders from time to time or where any significant remuneration changes are proposed, in order to understand their expectations with regard to Executive Directors remuneration and reports back to the Committee. The most recent time the Committee consulted with certain major shareholders is in relation to the amendments to the LTIP performance criteria proposed for future grants. This consultation is currently ongoing. Any concerns raised by individual shareholders are considered, and the Committee also takes into account emerging best practice and guidance from major institutional shareholders and advisors.

Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to offer a market competitive remuneration package sufficient to attract high calibre candidates who are appropriate to the role but without paying any more than is necessary.

Any new Executive Director's regular remuneration package would include the same elements and be in line with the policy table set out earlier in this Directors' remuneration policy, including the same limits on performance related remuneration.

Where an internal candidate is promoted to the Board the original grant terms and conditions of any bonus or share award made before that promotion will continue to apply, as will membership of any of the Group's pension arrangements.

Reasonable relocation and other similar expenses may be paid if appropriate.

Remuneration Committee Report (continued)

Directors' Service Contracts, Notice Periods and Termination Payments

| Provision | Policy | Details |
|--|---|---|
| Notice periods in Executive Directors' service contracts | 12 months by Company or Executive Director | Executive Directors may be required to work during the notice period. |
| Compensation for loss of office | No more than 12 months' basic salary and benefits (including company pension contributions). | |
| Treatment of annual bonus on termination | Bonuses which have already been declared are payable in full. In the event of termination by the Company (except for cause) pro-rated bonus to the end of the notice period is payable at the discretion of the Remuneration Committee. | |
| Treatment of LTIP awards | <p>Unvested awards will normally lapse on cessation of employment. However, for Good leavers the Committee shall determine whether the award is released on the normal release date or on some other date.</p> <p>The extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period.</p> <p>Following release, good leavers may exercise their options within 12 months (or such a period as the Committee determines).</p> <p>Good leaver awards that have vested but not been released (i.e. during the holding period) will ordinarily continue to the normal release date when they will be released to the extent vested. The Committee retains the discretion to release awards earlier.</p> <p>LTIP awards of other leavers will cease to be exercisable following notice of cessation of employment, unless the Committee determines otherwise in exceptional circumstances.</p> | Good leaver circumstances comprise death, illness, injury, disability, retirement, transfer of employing business outside Group or exceptional circumstances at the discretion of the Committee. |
| Exercise of discretion | Intended only to be relied upon to provide flexibility in exceptional or inequitable circumstances. | The Committee's determination will take into account the particular circumstances of the Executive Director's departure and the recent performance of the Company and will be detailed in the next published Remuneration Committee Report. |
| Outside appointments | Subject to approval | Board approval must be sought. |
| Non-Executive Directors | Re-election | All Non-Executives are subject to re-election every three years. No compensation payable if required to stand down. |

In the event of the negotiation of a settlement agreement between the Company and a departing Director, the Committee may make payments it considers reasonable in settlement of potential legal claims. Such payments may also include reasonable reimbursement of professional fees in connection with such agreements.

The Committee may also include the reimbursement of fees for professional or outplacement advice in the termination package, if it considers it reasonable to do so. It may also allow the continuation of benefits for a limited period.

Date of Service Contracts/Letters of Appointment

| DIRECTOR | Date of service contract/ letter of appointment |
|---|--|
| P. Jones | 1 January 2015 |
| R. T. Forrester | 20 December 2006 |
| M. Sherwin (resigned 1 March 2019) | 4 January 2010 |
| K. Anderson (appointed 1 March 2019) | 1 March 2019 |
| D. P. Crane (appointed 26 July 2018) | 25 July 2018 |
| N. Stead (resigned 31 December 2018) | 8 December 2011 |
| A. P. Goss (appointed 3 September 2018) | 31 August 2018 |
| K. Lever | 1 June 2015 |
| P. Best | 1 June 2016 |

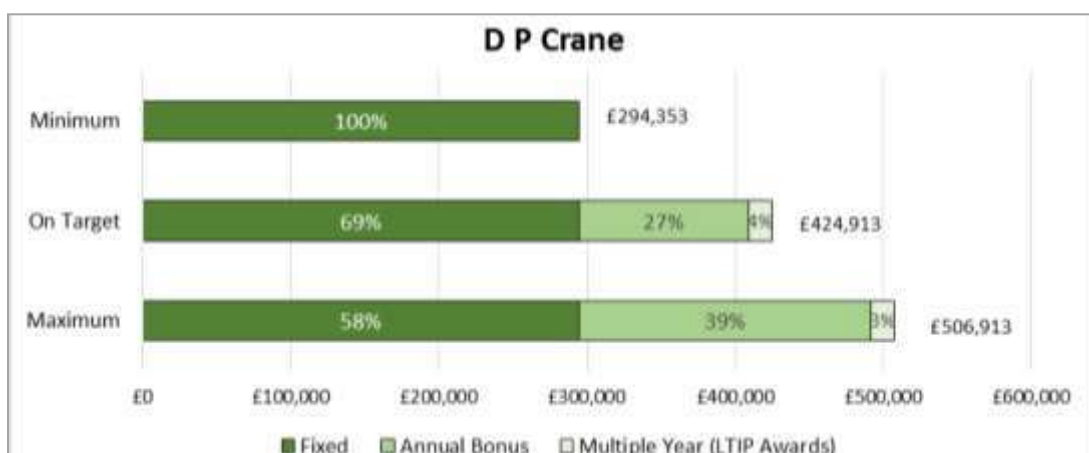
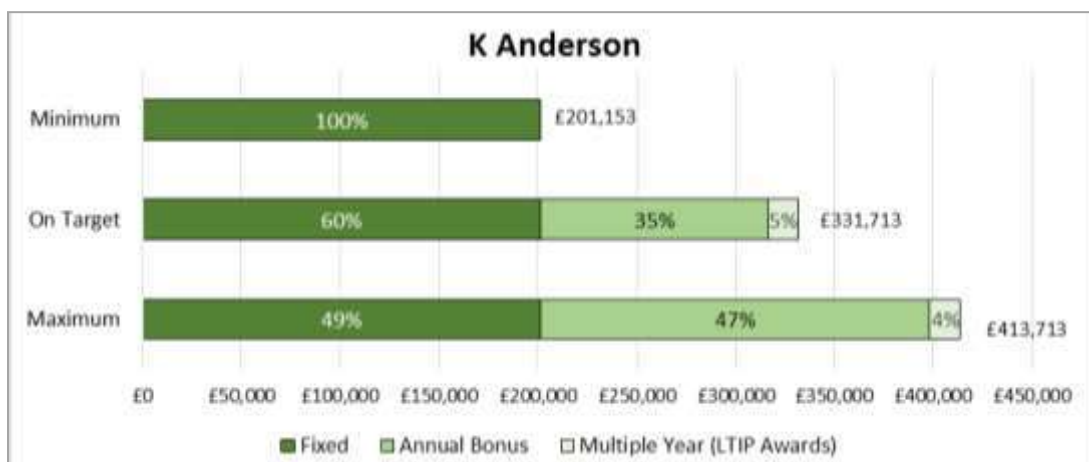
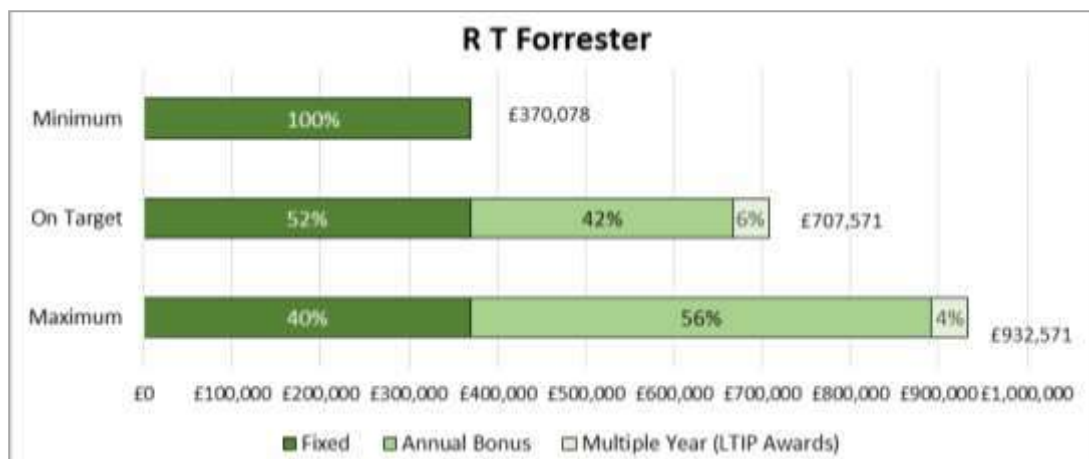
Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

Directors' Remuneration Report

Total 2019/20 Remuneration Opportunity

The chart below illustrates the remuneration that would be paid to each of the Executive Directors under three different performance scenarios: (i) Minimum; (ii) On-target; and (iii) Maximum.

The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual variable (annual bonus awards); and (iii) Multiple year (LTIP awards) which are set out in the future policy table above. The element included for multiple year (LTIP Awards) relates to options which are capable of vesting in the financial year to 29 February 2020. Subsequent to 28 February 2019, 37% of the September 2016 LTIP awards vested with the remaining 63% lapsing as a result of not satisfying the relevant performance conditions. The vested options, are subject to a two year holding period. The value included below is based on the closing share price on 28 February 2019 and the number shares under option which vested in the financial year to 29 February 2020.



Directors' Remuneration Report (continued)

Total 2019/20 Remuneration Opportunity (continued)

Each element of remuneration is defined in the table below:

| Element | Description |
|-----------------------------|--|
| Fixed | Base salary for the 2019/20 financial year plus pension and benefits. |
| Annual Bonus | Annual bonus awards based on adjusted profit before tax, customer outcome measures and colleague retention targets. |
| Multiple Year (LTIP Awards) | Value of LTIP awards which are capable of vesting in the year ending 29 February 2020. Estimated value based on closing share price at 28 February 2019. |

The on-target scenario assumes that for the annual bonus, adjusted profit is in line with financial targets.

Non-Executive Directors' Fee Policy

The policy for the remuneration of the Non-Executive Directors is as set out below. Non-Executive Directors are not entitled to a bonus, they cannot participate in the Company's share option scheme and they are not eligible for pension arrangements.

| Purpose and link to strategy | Operation | Maximum potential value | Performance metrics |
|---|--|---|---------------------|
| NON-EXECUTIVE DIRECTOR ('NED') FEES | | | |
| To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy | <p>NED fees are determined by the Board within the limits set out in the Articles of Association and are paid in 12 equal monthly instalments during the year.</p> <p>Non-Executive Directors may be eligible for benefits such as the use of secretarial support or other benefits that may be appropriate.</p> | <p>Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed maximum annual increase.</p> <p>The cost of providing benefits is borne by the Company and varies from time to time.</p> | None |

Directors' Remuneration Report (continued)

Information subject to audit

Single Total Figure of Remuneration

The remuneration of the Directors who served during the period from 1 March 2018 to 28 February 2019 is as follows:

| | Salary or fees £'000 | | Taxable Benefits ⁴ £'000 | | Pension £'000 | | Bonus £000 | | Long Term Incentive Plan ⁵ £'000 | | Single total figure £'000 | |
|--------------------------------|-------------------------|------|---|------|------------------|------|---------------|------|---|------|---------------------------------|------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Executive Directors | | | | | | | | | | | | |
| R T Forrester | 315 | 294 | 3 | 3 | 52 | 52 | 246 | 227 | - | - | 616 | 576 |
| M Sherwin | 210 | 210 | 3 | 3 | 35 | 35 | 166 | 165 | - | - | 414 | 413 |
| D P Crane ¹ | 117 | - | 2 | - | 19 | - | 51 | - | - | - | 189 | - |
| Non-Executive Directors | | | | | | | | | | | | |
| P Jones | 70 | 70 | 1 | 1 | - | - | - | - | - | - | 71 | 71 |
| K Lever | 55 | 55 | - | - | - | - | - | - | - | - | 55 | 55 |
| N Stead ² | 33 | 40 | 1 | 1 | - | - | - | - | - | - | 34 | 41 |
| P Best | 40 | 40 | 1 | 1 | - | - | - | - | - | - | 41 | 41 |
| A P Goss ³ | 20 | - | 1 | - | - | - | - | - | - | - | 21 | - |

1. D P Crane was appointed on 26 July 2018, his remuneration for the year to 28 February 2019 is calculated from the date of appointment to 28 February 2019.
2. N Stead resigned on 31 December 2018, his fee for the year to 28 February 2019 represents payments made from 1 March 2018 until the date of resignation.
3. A P Goss was appointed on 3 September 2018, his fee for the year to 28 February 2019 is calculated from the date of appointment to 28 February 2019.
4. Benefits in kind include vehicle insurance, together with medical and life assurance premiums
5. The LTIP awards eligible for vesting during the year ended 28 February 2019 lapsed in full at the end of the performance period.

Annual Bonus

Group Performance Related Bonus

Bonuses are earned by reference to the financial year and paid following the end of the financial year. The target adjusted profit before tax was £27.5m. The profit bonuses accruing to the Executive Directors in respect of the year ended 28 February 2019 are shown below:

| Performance measure | Adjusted PBT £'000 | R T Forrester % Basic salary payable | M Sherwin % Basic salary payable | D P Crane % Basic salary payable |
|---------------------------|-----------------------|--|--|--|
| Actual Performance | 23,706 | 61.6% | 62.4% | 35.3% |
| Threshold performance | 20,625 | 53.6% | 54.3% | 30.8% |
| Maximum | 35,700 | 130.0% | 130.0% | 150.0% |

Customer Outcome Bonus

In addition to the profit related bonus above, a customer outcome bonus is available if the Group achieves stretching targets in respect of customer satisfaction including manufacturer new car and service CSI as well as used car Judge Service scores. To earn on target earnings of £56,000 for R T Forrester, £38,000 for M Sherwin and £10,500 for D P Crane in this area, 65% of Group sales departments and 60% of Group service departments had to achieve their respective manufacturer's national average target at each quarter end, and the Group had to achieve an overall "Would Recommend" score of 95%, as measured by Judge Service, at the end of each quarter. For performance below these targets reduced bonuses are payable. R T Forrester received £51,975, M Sherwin received £35,270 and D P Crane received £10,243 in respect of such bonuses out of potential maximum customer outcome bonus for the financial year of £84,000, £57,000 and £15,750 respectively.

Pensions

The Group operates a group personal pension plan for eligible colleagues. R T Forrester, M Sherwin and D P Crane elected to cease active membership of the plan and receive a payment of 16.5% of current basic salary rather than Company pension contributions during the year ended 28 February 2019.

Directors' Remuneration Report (continued)

Directors' Share Options

The movement in share options held by the Directors during the year ended 28 February 2019 is as follows:

| | Number at 1 March 2018/upon appointment | Exercised in Year | Lapsed in Year | Granted in Year | Number at 28 February 2019 ² |
|------------------------|---|----------------------|----------------|-----------------|--|
| R T Forrester | 798,012 | - | (205,128) | 262,208 | 855,092 |
| M Sherwin ¹ | 598,510 | - | (153,846) | 196,656 | 641,320 |
| D P Crane | 1,112,837 | - | (76,923) | 200,000 | 1,235,914 |

¹ As M Sherwin resigned on 1 March 2018, it was agreed by the Remuneration Committee that the proportion of shares that vest should be measured by using the existing performance criteria at the end of the existing performance period in line with the existing scheme rules and that any such proportion of shares that may be deemed to have vested under this arrangement may be exercised in accordance with the Scheme rules during the period of twelve months immediately following the date of vesting.

² 37% of the September 2016 LTIP issue vested subsequent to 28 February 2019. The remaining 63% lapsed as a result of not satisfying the relevant performance criteria. This included options held by R T Forrester, M Sherwin and D P Crane of 182,289, 136,717 and 68,358 respectively.

Details of share options granted during the year are as follows:

| | Scheme | Date of Grant | Earliest Exercise Date | Expiry Date | Exercise price (pence) | Market value on date of grant (pence) | Number of options granted |
|---------------|--------|-----------------|---------------------------|-----------------|------------------------------|---|------------------------------|
| R T Forrester | LTIP | 17 July 2018 | May 2023 ¹ | 17 July 2028 | Nil | 50.85p | 262,208 |
| M Sherwin | LTIP | 17 July 2018 | May 2023 ¹ | 17 July 2028 | Nil | 50.85p | 196,656 |
| D P Crane | CSOP | 8 November 2018 | 8 November 2021 | 8 November 2028 | 38p | 38p | 200,000 |

1. Options may meet performance criteria for vesting in 2021 but are subject to a two year retention period preventing their exercise until May 2023.

LTIP Options vesting criteria

Vesting of one half of the LTIP options is dependent on absolute growth in the Company's TSR. TSR calculations will be based on the average of opening and closing share prices over a 10 Business Day period prior to the commencement and end of the performance period. Vesting of the remaining half of the LTIP options is dependent on the Group's return on shareholders' equity ('ROE').

The TSR performance condition, applying to half of the LTIP options granted is:

| Growth in Company TSR | Proportion of awards subject to TSR condition vesting |
|---|--|
| Less than 26% absolute growth | 0% |
| More than 26% but less than 42% absolute growth | Straight line vesting 0 – 100% |
| 42% or more than 42% absolute growth | 100% |

The ROE performance condition, applying to the remaining half of the LTIP options granted after 29 February 2016, is:

| Group ROE ¹ | Proportion of awards subject to ROE condition vesting |
|--------------------------------|--|
| Less than 8% | 0% |
| More than 8% but less than 10% | Straight line vesting 0 – 100% |
| 10% or more than 10% | 100% |

1. ROE is measured as average annual adjusted profit after tax as stated in the financial statements for the performance period, divided by average Group Net Assets.

CSOP Options vesting criteria

Options issued on 8 November 2018 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 50.9p and then 100% of the options vest. At an average share price of 44.6p 50% of the options are exercisable. At prices between 44.6p and 50.9p, options will vest on a straight-line basis between 50% and 100%. At a share price below 44.6p none of the options are exercisable.

Directors' Remuneration Report (continued)

Information not subject to audit

Statement of Directors' Shareholding

The Directors who held office at 28 February 2019 and their connected persons had interests in the issued share capital of the Company as at 28 February 2019 as follows:

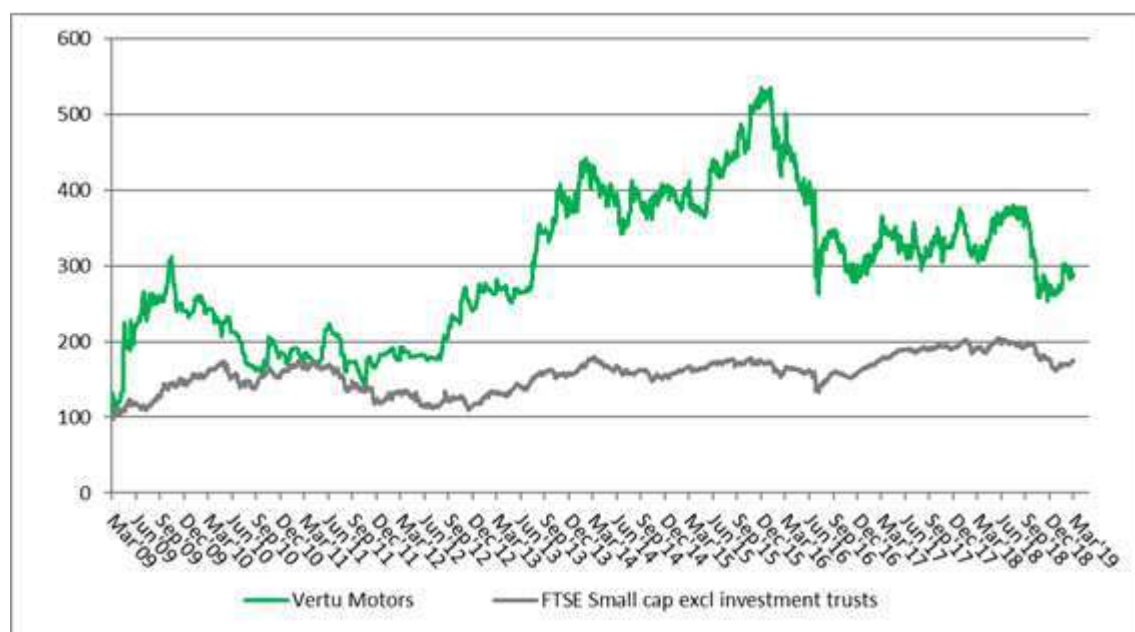
| | Number of shares held (including by connected persons) | | Vested unexercised share options | | Unvested share options subject to performance conditions | |
|---------------|--|------------------|----------------------------------|------------------|--|------------------|
| | 28 February 2019 | 28 February 2018 | 28 February 2019 | 28 February 2018 | 28 February 2019 ¹ | 28 February 2018 |
| R T Forrester | 6,959,510 | 6,929,868 | - | - | 855,092 | 798,012 |
| M Sherwin | 492,796 | 489,253 | - | - | 641,320 | 598,510 |
| D Crane | 161,940 | - | 513,583 | - | 722,331 ² | - |
| P Jones | 1,750,000 | 1,522,000 | - | - | - | - |
| K Lever | 100,800 | 40,800 | - | - | - | - |
| N Stead | - | 80,500 | - | - | - | - |
| P Best | - | - | - | - | - | - |
| A Goss | - | - | - | - | - | - |

¹ 37% of the September 2016 LTIP issue vested subsequent to 28 February 2019. The remaining 63% lapsed as a result of not satisfying the relevant performance criteria. This included options held by R T Forrester, M Sherwin and D P Crane of 182,289, 136,717 and 68,358 respectively.

² 500,000 of the unvested share options are CSOP options subject to vesting criteria relating to share price performance.

Performance Graph

The chart below shows the Company's eight-year annual Total Shareholder Return ("TSR") performance against the FTSE small cap index (excluding investment trusts), which is considered to be an appropriate comparison to other public companies of a similar size.



The middle market price of the shares as at 28 February 2019 was 38.6p (28 February 2018: 43.1p) and the range during the financial year was 33.6p to 50.6p (2018: 40.5p to 51.8p).

Change in Remuneration of Chief Executive

The following table sets out the change in the Chief Executive's salary, benefits and bonus between the years ended 28 February 2018 and 28 February 2019 compared with the average percentage change in each of those components for the employees of the Group.

| | Increase in base salary | Change in benefits | Change in bonus |
|-----------|-------------------------|--------------------|-----------------|
| CEO | 7.1% | - | 8.4% |
| Employees | 3.2% | - | 2.0% |

Directors' Remuneration Report (continued)

Relative Importance of Spend on Pay

The table below sets out the total spend on pay in the years ended 28 February 2018 and 28 February 2019 compared with other disbursements from profit (i.e. the distributions to shareholders).

| | Spend in the year ended 28 February 2019 £'000 | Spend in the year ended 28 February 2018 £'000 | % |
|---|---|---|--------|
| Spend on remuneration (including Directors) | 192,024 | 179,271 | 7.1% |
| Profit distributed by way of dividend | 5,657 | 5,678 | (0.4%) |

Shareholders' Vote on Remuneration at the 2019 AGM

| 2018 Directors' Remuneration Report | Number | Proportion of votes cast (%) |
|--|--------------------|---------------------------------|
| Votes cast in favour | 195,555,453 | 99.99 |
| Votes cast against | 18,279 | 0.01 |
| Total votes cast in favour or against | 195,573,732 | 100 |
| Votes withheld | 587,634 | |

Implementation of Remuneration Policy for the year ending 28 February 2020

The annual salaries and fees to be paid to Directors in the year ending 28 February 2020 are set out in the table below, together with any increase expressed as a percentage.

| | Annual Salary/fees | | Increase % |
|-------------------------|------------------------------|------------------------------|---------------|
| | 29 February 2020 £'000 | 28 February 2019 £'000 | |
| R T Forrester | 315 | 315 | - |
| M Sherwin ² | - | 210 | N/A |
| K Anderson ² | 170 | - | N/A |
| D P Crane ¹ | 250 | 200 | 25% |
| P Jones | 70 | 70 | - |
| K Lever | 55 | 55 | - |
| N Stead | - | 33 | - |
| P Best | 40 | 40 | - |
| A P Goss ¹ | 40 | 40 | - |

¹ D P Crane was appointed on 26 July 2018 and A P Goss was appointed on 3 September 2018. The annual salary for the year ended 28 February 2019 shown above is based on the full year equivalent of the amount they received while in office.

² M Sherwin resigned on 1 March 2019 and therefore there is no comparative date for the year ending 29 February 2020. On the same date K Anderson was appointed and therefore there is no comparative data for the financial year ended 28 February 2019.

The Committee intends to grant options to Executive Directors R T Forrester, K Anderson and D P Crane under the LTIP in 2019/20. It is intended that such options will be £Nil cost options over a value of shares subject to a maximum of 125% of basic salary. The awards for the forthcoming year are yet to be finalised.

Consideration by the Directors of Matters Relating to Directors' Remuneration

The Committee

The Committee is responsible for reviewing and recommending the framework and policy for remuneration of the Executive Directors. The Committee's terms of reference are available from the Company Secretary. The members of the Committee during the financial year were P Best (Chairman), N Stead (until 31 December 2018), P Jones, K Lever and A Goss (from 3 September 2018).

Independent Auditors' Report to the members of Vertu Motors plc

Report on the audit of the financial statements

In our opinion:

- Vertu Motors plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 28 February 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements 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 consolidated and company balance sheets as at 28 February 2019; the consolidated income statements and statements of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements of changes in equity 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 group 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, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall group materiality: £2,400,000 (2018: £2,400,000), based on 0.08% of revenue.
- Overall company materiality: £2,280,000 (2018: £2,280,000), based on 1% of total assets.
- Three full scope audit components have been identified, alongside the company.
- This approach provides coverage of 75% of the group's revenue.
- Carrying value of goodwill (Group).
- Valuation of non-new vehicle inventory (Group).
- Manufacturer bonus income (Group).
- Valuation of pension scheme liabilities (Group)
- Carrying value of investments (Company).

Independent Auditors' Report to the members of Vertu Motors plc (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| Group | |
| <i>Carrying value of goodwill</i> <p>The Group has significant goodwill balances in respect of acquisitions made across various CGU's. The recoverable amount of the CGU is impacted by various factors, a number of which are outside of Vertu's control, which could affect whether results are in line with expectations.</p> <p>Where this is the case and a CGU has been subject to poor historical performance, there is a risk around the recoverability of this goodwill. There is inherent uncertainty and judgement in forecasting future cash flows, and therefore this is a particularly judgmental area of the audit.</p> | <p>To address this risk, we have done the following:</p> <ul style="list-style-type: none">Assessed the Group's budgeting procedures as a basis for value in use calculations;Compared historical performance to historical forecasts to assess accuracy in the budget process;Assessed the appropriateness of CGU's used for Goodwill purposes;Key inputs are assessed, for example discount rates, inflation and forecast revenues and costs;We performed sensitivity analysis on the forecasts, including prudent downside performance scenarios to assess headroom. <p>Key observations</p> <p>We are satisfied with management's conclusion not to impair goodwill based on the audit evidence obtained.</p> |
| <i>Valuation of non-new vehicle inventory</i> <p>The Group holds significant levels of vehicle inventory. Non new vehicle valuations can vary depending upon a number of external factors, and as a result large price fluctuations can be experienced in short periods. Therefore, valuation and provisions in relation to non-new stock is an area of particular judgment.</p> | <p>To address the risk of valuation on non-new vehicle inventory we have:</p> <ul style="list-style-type: none">performed detailed testing over the non-new vehicle stock held at year end, where possible looking to post year-end sales to support year end carrying values;used forward looking market data to assess current and expected future trading conditions. |

Independent Auditors' Report to the members of Vertu Motors plc (continued)

| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|---|--|
| | <p>Key observations</p> <p>We are satisfied based on the procedures performed that the valuation of non-new vehicle stock held at 28 February 2019 was reasonable based on the audit evidence received.</p> |
| <p><i>Manufacturer bonus income</i></p> <p>The Group receives a level of manufacturer bonus which has a large impact on the overall result. Due to the complex nature of some of these arrangements, there is often judgement required in relation to whether targets have been met at a point in time. As a result, the related income recognised is a judgemental part of the audit.</p> | <p>To address this risk in respect of manufacturer bonus income, we have:</p> <p>Agreed manufacturer bonus income recognised in the year to February 2019 through to supporting documentation and post year end cash receipts where applicable;</p> <p>compared prior year judgements to the final commercial income received</p> <p>Key observations</p> <p>We are satisfied with the recognition of manufacturer bonus income in the year based on the audit evidence received.</p> |
| <p><i>Valuation of pension scheme liabilities</i></p> <p>There is inherent judgement in valuing the Group's post-retirement benefit liabilities within the pension scheme. The nature of the calculation means that small movements in key assumptions could have a significant effect on the pension deficit. In addition, factors impacting the pension liability can be outside of management's control.</p> | <p>To address this risk in respect of valuation of pension scheme liabilities, we have:</p> <p>used our actuarial specialists to review the appropriateness of the assumptions used;</p> <p>compared key inputs, such as mortality/life expectancy, discount rate and inflation rate to market data;</p> <p>considered the adequacy of the group's disclosure in respect of the sensitivity of the scheme liabilities to changes in key inputs.</p> <p>Key observations</p> <p>We concluded that the key inputs used in calculating the pension liability were within an acceptable range when compared with market data.</p> |

Independent Auditors' Report to the members of Vertu Motors plc (continued)

Company

Carrying value of investments

The Company has significant investments in respect of acquisitions made across various subsidiaries. The recoverable amount of the subsidiary is impacted by various factors, a number of which are outside of management's control, which could affect whether results are in line with expectations.

Where a subsidiary has been subject to poor historical performance, there is a risk around the recoverability of this investment. There is inherent uncertainty and judgement in forecasting future cash flows which are above more recent results, and therefore this is a particularly judgmental area of the audit.

To address this risk, we have done the following:

Assessed the Group's budgeting procedures as a basis for value in use calculations;

Compared historical performance to historical forecasts to assess accuracy in the budget process;

Key inputs are assessed, for example discount rates, inflation and forecast revenues and costs;

We performed sensitivity analysis on the forecasts, including prudent downside performance scenarios to assess headroom.

Key observations

We are satisfied with management's conclusion not to impair investments based on the audit evidence obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Vertu Motors group has grown organically through acquisition, and as a result has a number of subsidiary entities with geographically disbursed dealership locations. Much of the day to day accounting function is performed at these individual dealerships, with the support of a central group accounting function.

As a result of this structure there are three components which required a full scope audit of their financial information, due to their size and contribution to the financial results of the group. These were Bristol Street First Investments Limited, Bristol Street Fourth Investments Limited and Albert Farnell Limited. Vertu Motors Plc is also subject to full scope audit of its financial information, due to the separate presentation of these financial statements within this report.

The audit work over these components is performed principally from the central group accounting function, however site visits to all in scope components are carried out as part of our audit procedures, in order to verify the existence of stock, and to carry out testing over sales records.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent Auditors' Report to the members of Vertu Motors plc (continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | <i>Group financial statements</i> | <i>Company financial statements</i> |
|--|---|--|
| Overall materiality | £2,400,000 (2018: £2,400,000). | £2,280,000 (2018: £2,280,000). |
| How we determined it | 0.08% of revenue. | 1% of total assets. |
| Rationale for benchmark applied | We applied our professional judgement to determine an amount that was relevant to both revenue and profit before tax, which are measures used to assess the performance and growth objectives of the Group, as well as the scale of the Group's operations. | We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1,500,000 and £2,280,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £120,000 (Group audit) (2018: £120,000) and £114,000 (Company audit) (2018: £114,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

ISAs (UK) require us to report to you when:

the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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.

Independent Auditors' Report to the members of Vertu Motors plc (continued)

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 28 February 2019 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 Group and Company and their 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 the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, 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 Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

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.

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 this 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 Vertu Motors plc (continued)

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 received 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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility

Jonathan Greenaway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
8 May 2019

Consolidated Income Statement

For the year ended 28 February 2019

| | | Underlying items 2019 | Non- underlying items 2019 (Note 8) | Total 2019 | Underlying items 2018 | Non- underlying items 2018 (Note 8) | Total 2018 |
|---|------|--------------------------|--|----------------|--------------------------|--|----------------|
| | Note | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Revenue | | 2,982,200 | - | 2,982,200 | 2,796,068 | - | 2,796,068 |
| Cost of sales | | (2,660,095) | - | (2,660,095) | (2,488,360) | - | (2,488,360) |
| Gross profit | | 322,105 | - | 322,105 | 307,708 | - | 307,708 |
| Operating expenses | 6 | (294,714) | 1,622 | (293,092) | (277,257) | 1,894 | (275,363) |
| Operating profit | | 27,391 | 1,622 | 29,013 | 30,451 | 1,894 | 32,345 |
| Finance income | 11 | 276 | - | 276 | 66 | - | 66 |
| Finance costs | 11 | (3,957) | - | (3,957) | (1,964) | - | (1,964) |
| Profit before tax | | 23,710 | 1,622 | 25,332 | 28,553 | 1,894 | 30,447 |
| Taxation | 12 | (4,470) | (326) | (4,796) | (5,885) | 119 | (5,766) |
| Profit for the year attributable to equity holders | | 19,240 | 1,296 | 20,536 | 22,668 | 2,013 | 24,681 |
| Basic earnings per share (p) | 13 | | | 5.45 | | | 6.31 |
| Diluted earnings per share (p) | 13 | | | 5.37 | | | 6.21 |

Consolidated Statement of Comprehensive Income

For the year ended 28 February 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|------|---------------|---------------|
| Profit for the year | | 20,536 | 24,681 |
| Other comprehensive (expense) / income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Actuarial (losses) / gains on retirement benefit obligations | 29 | (269) | 4,422 |
| Deferred tax relating to actuarial losses / (gains) on retirement benefit obligations | 29 | 46 | (752) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Cash flow hedges | 31 | 67 | (93) |
| Deferred tax relating to cash flow hedges | 31 | (11) | 18 |
| Other comprehensive (expense) / income for the year, net of tax | | (167) | 3,595 |
| Total comprehensive income for the year attributable to equity holders | | 20,369 | 28,276 |

Consolidated Balance Sheet

As at 28 February 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|------|------------------|------------------|
| Non-current assets | | | |
| Goodwill and other indefinite life assets | 15 | 112,182 | 94,381 |
| Other intangible assets | 16 | 2,599 | 1,316 |
| Retirement benefit asset | 29 | 6,430 | 6,551 |
| Property, plant and equipment | 18 | 224,818 | 198,004 |
| Derivative financial instruments | 26 | 44 | - |
| Total non-current assets | | 346,073 | 300,252 |
| Current assets | | | |
| Inventories | 20 | 618,675 | 558,386 |
| Trade and other receivables | 22 | 62,940 | 66,272 |
| Cash and cash equivalents | 23 | 66,519 | 41,709 |
| | | <u>748,134</u> | <u>666,367</u> |
| Property assets held for sale | 21 | 1,324 | 2,449 |
| Total current assets | | 749,458 | 668,816 |
| Total assets | | 1,095,531 | 969,068 |
| Current liabilities | | | |
| Trade and other payables | 24 | (717,204) | (654,956) |
| Deferred consideration | 17 | (1,500) | - |
| Current tax liabilities | | (3,742) | (3,304) |
| Contract liabilities | 28 | (9,590) | (8,448) |
| Borrowings | 25 | (23,166) | (12,811) |
| Total current liabilities | | (755,202) | (679,519) |
| Non-current liabilities | | | |
| Borrowings | 25 | (43,600) | (9,585) |
| Derivative financial instruments | 26 | (69) | (92) |
| Deferred consideration | 17 | (2,600) | (100) |
| Deferred income tax liabilities | 27 | (7,594) | (6,477) |
| Contract liabilities | 28 | (9,823) | (8,877) |
| Total non-current liabilities | | (63,686) | (25,131) |
| Total liabilities | | (818,888) | (704,650) |
| Net assets | | 276,643 | 264,418 |
| Capital and reserves attributable to equity holders of the Group | | | |
| Ordinary share capital | 30 | 37,661 | 38,552 |
| Share premium | 30 | 124,939 | 124,934 |
| Other reserve | 30 | 10,645 | 10,645 |
| Hedging reserve | 31 | (19) | (75) |
| Treasury share reserve | 30 | (602) | (690) |
| Capital redemption reserve | 30 | 2,066 | 1,175 |
| Retained earnings | | 101,953 | 89,877 |
| Shareholders' equity | | 276,643 | 264,418 |

These financial statements on pages 73 to 115 have been approved for issue by the Board of Directors on 8 May 2019:

Robert Forrester
Chief Executive

Karen Anderson
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 28 February 2019

| | Note | 2019 £'000 | 2018 £'000 |
|--|-------|-----------------|----------------|
| Cash flows from operating activities | | | |
| Operating profit | | 29,013 | 32,345 |
| Profit on sale of property, plant and equipment | 6 & 8 | (520) | (3,529) |
| Amortisation of other intangible assets | 16 | 543 | 614 |
| Depreciation of property, plant and equipment | 18 | 10,722 | 9,714 |
| Impairment charges | 6 | - | 513 |
| Movement in working capital | 33 | 18,861 | (13,332) |
| Share based payments charge | | 904 | 954 |
| Cash generated from operations | | 59,523 | 27,279 |
| Tax received | | 157 | 350 |
| Tax paid | | (4,860) | (6,468) |
| Finance income received | | 99 | 14 |
| Finance costs paid | | (3,953) | (2,321) |
| Net cash generated from operating activities | | 50,966 | 18,854 |
| Cash flows from investing activities | | | |
| Acquisition of businesses, net of cash, overdrafts and borrowings acquired | 17 | (31,514) | (1,181) |
| Acquisition of freehold and long leasehold land and buildings | | (9,008) | (4,346) |
| Purchases of intangible assets | | (150) | (411) |
| Purchases of other property, plant and equipment | | (24,681) | (19,802) |
| Proceeds from disposal of business (net of cash and overdrafts) | | - | 1,528 |
| Proceeds from sale and leaseback transaction | | - | 14,150 |
| Proceeds from disposal of property, plant and equipment | | 3,964 | 165 |
| Net cash outflow from investing activities | | (61,389) | (9,897) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | 32 | 44,455 | 4,140 |
| Repayment of borrowings | 32 | - | (166) |
| Sale of treasury shares | | 64 | 62 |
| Repurchase of own shares | | (3,629) | (5,451) |
| Dividends paid to equity holders | | (5,657) | (5,678) |
| Net cash inflow / (outflow) from financing activities | | 35,233 | (7,093) |
| Net increase in cash and cash equivalents | 32 | 24,810 | 1,864 |
| Cash and cash equivalents at beginning of year | | 41,709 | 39,845 |
| Cash and cash equivalents at end of year | 23 | 66,519 | 41,709 |

Consolidated Statement of Changes in Equity

For the year ended 28 February 2019

| | Ordinary share capital £'000 | Share premium £'000 | Other reserve £'000 | Hedging reserve £'000 | Treasury share reserve £'000 | Capital redemption reserve £'000 | Retained earnings £'000 | Shareholders' equity £'000 |
|--|---------------------------------------|---------------------------|---------------------------|-----------------------------|---------------------------------------|---|-------------------------------|----------------------------------|
| As at 1 March 2018 | 38,552 | 124,934 | 10,645 | (75) | (690) | 1,175 | 89,877 | 264,418 |
| Profit for the year | - | - | - | - | - | - | 20,536 | 20,536 |
| Actuarial losses on retirement benefit obligations | - | - | - | - | - | - | (269) | (269) |
| Tax on items taken directly to equity | - | - | - | (11) | - | - | 46 | 35 |
| Fair value gains | - | - | - | 67 | - | - | - | 67 |
| Total comprehensive income for the year | - | - | - | 56 | - | - | 20,313 | 20,369 |
| Sale of treasury shares | - | 5 | - | - | 88 | - | (29) | 64 |
| Repurchase of own shares | - | - | - | - | - | - | (3,455) | (3,455) |
| Cancellation of repurchased shares | (891) | - | - | - | - | 891 | - | - |
| Dividend paid | - | - | - | - | - | - | (5,657) | (5,657) |
| Share based payments charge | - | - | - | - | - | - | 904 | 904 |
| As at 28 February 2019 | 37,661 | 124,939 | 10,645 | (19) | (602) | 2,066 | 101,953 | 276,643 |

The repurchase of own shares in the year was made pursuant to the share buyback programme announced on 26 July 2017 and under the authority renewed at the AGM on 25 July 2018.

Ordinary shares to the value of £3,455,000 had been repurchased in the year ended 28 February 2019 (2018: £5,441,000), of which £Nil was unpaid at 28 February 2019 (2018: £174,000). 8,918,549 of repurchased shares were cancelled in the year ended 28 February 2019 and accordingly, the nominal value of these shares has been transferred to the capital redemption reserve.

The other reserve is a merger reserve, arising from shares issued for shares as consideration to the former shareholders of acquired companies.

Consolidated Statement of Changes in Equity (continued)

For the year ended 28 February 2018

| | Ordinary share capital £'000 | Share premium £'000 | Other reserve £'000 | Hedging reserve £'000 | Treasury share reserve £'000 | Capital redemption reserve £'000 | Retained earnings £'000 | Shareholders' equity £'000 |
|---|---------------------------------------|---------------------------|---------------------------|-----------------------------|---------------------------------------|---|-------------------------------|----------------------------------|
| As at 1 March 2017 | 39,727 | 124,932 | 10,645 | - | (756) | - | 71,881 | 246,429 |
| Profit for the year | - | - | - | - | - | - | 24,681 | 24,681 |
| Actuarial gains on retirement benefit obligations | - | - | - | - | - | - | 4,422 | 4,422 |
| Tax on items taken directly to equity | - | - | - | 18 | - | - | (752) | (734) |
| Fair value losses | - | - | - | (93) | - | - | - | (93) |
| Total comprehensive income for the year | - | - | - | (75) | - | - | 28,351 | 28,276 |
| Sale of treasury shares | - | 2 | - | - | 66 | - | (6) | 62 |
| Repurchase of own shares | - | - | - | - | - | - | (5,625) | (5,625) |
| Cancellation of repurchased shares | (1,175) | - | - | - | - | 1,175 | - | - |
| Dividend paid | - | - | - | - | - | - | (5,678) | (5,678) |
| Share based payments charge | - | - | - | - | - | - | 954 | 954 |
| As at 28 February 2018 | 38,552 | 124,934 | 10,645 | (75) | (690) | 1,175 | 89,877 | 264,418 |

Notes to the Consolidated Financial Statements

1. Accounting Policies

Basis of preparation

Vertu Motors plc is a Public Limited Company which is listed on the Alternative Investment Market (AIM) and is incorporated and domiciled in England. The address of the registered office is Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead, Tyne and Wear, NE11 0XA. The registered number of the Company is 05984855.

The consolidated financial statements of Vertu Motors plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), International Financial Reporting Standards Interpretations Committee ("IFRS-IC") interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on the going concern basis under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

The Directors consider the forecast future cash flows to offset the net current liabilities position at 28 February 2019, as set out in the Viability Statement on pages 32 to 33.

The consolidated financial statements include the results of all subsidiaries owned by Vertu Motors plc listed on pages 122 to 123 of the annual report. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 28 February 2019 by virtue of s479A of Companies Act 2006. Certain other subsidiaries, which are also listed below, have taken the exemption from preparing individual accounts for the year ended 28 February 2019 by virtue of s394A of Companies Act 2006. In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the parent company Vertu Motors plc has given a statutory guarantee of all the outstanding liabilities as at 28 February 2019 of the subsidiaries listed below, further details of which are provided in note 35.

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2019 by virtue of s479A Companies Act 2006 are:

| | |
|---|------------------------------------|
| Bristol Street First Investments Limited | Vertu Motors (Chingford) Limited |
| Bristol Street Fourth Investments Limited | Vertu Motors (Property 2) Limited |
| Vertu Motors (Knaresborough) Limited | Vertu Motors (Continental) Limited |
| Vertu Motors (VMC) Limited | Macklin Property Limited |
| South Hereford Garages Limited | Tyne Tees Finance Limited |
| South Hereford Garages Trade Parts LLP | Grantham Motor Company Limited |
| Vertu Motors (Property) Limited | Albert Farnell Limited |
| All Car Parts Limited | Sigma Holdings Limited |
| Hughes Group Holdings Limited | |

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2019 by virtue of s394A of Companies Act 2006 are:

| | |
|---|--|
| Gordon Lamb Limited | Gordon Lamb Holdings Limited |
| Blake Holdings Limited | National Allparts Limited |
| Bristol Street (No.1) Limited | Peter Blake (Chatsworth) Limited |
| Bristol Street (No.2) Limited | Peter Blake (Clumber) Limited |
| Bristol Street Fifth Investments Limited | Peter Blake Limited |
| Bristol Street Fleet Services Limited | Typocar Limited |
| Bristol Street Group Limited | Vertu Fleet Limited |
| Bristol Street Limited | Vertu Motors (Finance) Limited |
| BSH Pension Trustee Limited | Vertu Motors (Retail) Limited |
| Merifield Properties Limited | Boydslaw 103 Limited |
| Motor Nation Car Hypermarkets Limited | Vertu Motors (Pity Me) Limited |
| Dunfermline Autocentre Limited | Widnes Car Centre Limited |
| Widnes Car Centre (1994) Limited | Vertu Motors (Durham) Limited |
| Compare Click Call Limited | Dobies (Carlisle) Limited |
| K C Motability Solutions Limited | Vertu Motors (AMC) Limited |
| Bristol Street Commercials (Italia) Limited | Brookside (1998) Limited |
| Newbolds Garage (Mansfield) Limited | Nottingham TPS LLP |
| Gordon Lamb Group Limited | Vertu Motors Property 2 Holdings Limited |

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Basis of preparation (continued)

| | |
|---------------------------------------|------------------------------|
| Aceparts Limited | SHG Holdings Limited |
| Why Pay More For Cars Limited | Blacks Autos Limited |
| Hillendale Group Limited | Easy Vehicle Finance Limited |
| Hillendale LR Limited | The Taxi Centre Limited |
| International Concessionaires Limited | |

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are set out in note 4.

The Directors consider that the accounting policies set out below are the most appropriate and have been consistently applied.

Standards and interpretations adopted by the Group in the year ended 28 February 2019

Amendments to IFRS 2 – Classification and Measurement of Share-based payment Transactions
Annual Improvements to IFRS Standards 2014-2016 cycle
Amendments to IAS 40 – Transfers to Investment Property
IFRIC 22 – Foreign Currency Transactions and Advance Consideration

IFRS 15 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' became effective for all accounting periods commencing on or after 1 January 2018 and was initially applied by the Group on 1 March 2018. IFRS 15 provides a detailed framework for the timing and amount of revenue recognised. The standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The Group applied IFRS 15 using the cumulative effect method and thus comparatives have not been restated. There have been no changes to the timing and/or measurement of revenue across the Group's revenue streams identified.

IFRS 9 'Financial Instruments'

IFRS 9, 'Financial Instruments' became effective for the Group on 1 March 2018. Under IFRS 9, financial assets are classified according to the business model for their realisation, as determined by the expected contractual cash flows. This is in contrast to IAS 39 where assets were classified by nature. IFRS 9 requires the classification to determine the accounting treatment i.e. amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification requirements of financial assets and liabilities under IFRS 9 is largely in line with that of IAS 39.

There has been no impact on the classification and measurement of financial liabilities on transition to IFRS 9. Comparative figures have not been restated.

New standards and interpretations issued but not yet effective and not early adopted

IFRS 16 'Leases'

In addition to the above, IFRS 16, 'Leases', is effective for periods beginning on or after 1 January 2019 and replaces IAS 17, 'Leases'. The new standard requires lessees to recognise a right-of-use asset and a lease liability based on discounted future lease payments for almost all leased assets with some exemptions available for short-term or low value leases.

The impact of this standard on the Group will be the recognition of right-of-use assets and lease liabilities, predominantly in respect of the Group's operating leased property portfolio, as well as an increase in depreciation and interest charges which will replace the straight-line operating lease expense recognised under IAS 17. The Group's minimum lease payments under non-cancellable operating leases amounted to £99.2m, on an undiscounted basis, as disclosed in note 36.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

New standards and interpretations issued but not yet effective and not early adopted (continued)

IFRS 16 'Leases'

Transition

For lessees, transition options include a retrospective approach in which comparative financial information will be restated at the date of transition and the right-of-use asset and lease liability will be calculated as if IFRS 16 had been applied from inception of the lease. A modified retrospective approach is also available in which comparative information is not required to be restated and instead, the cumulative effect of adopting IFRS 16 is recognised as an adjustment to the opening balance of retained earnings at 1 March 2019. Due to the volume and age of the leases in the Group's property portfolio, the modified retrospective approach will be applied with additional disclosure of any financial information required to increase comparability of financial periods given where necessary.

Impact

On transition, the Group will recognise a right of use (ROU) asset with an estimated value of £75.6m, a corresponding lease liability of £84.6m, and a subsequent adjustment to opening reserves of £8.9m. While net cashflows will be unchanged under IFRS 16, the IAS 17 rental charge is replaced by depreciation and interest charges. The expected impact on adjusted profit before tax in future financial periods based on current leases in place is as follows:

| | 2020 £'000 | 2021 £'000 | 2022 £'000 |
|--|---------------|---------------|---------------|
| Expected increase depreciation | (11,731) | (8,944) | (7,631) |
| Expected increase in finance expenses | (3,190) | (2,810) | (2,474) |
| Expected decrease in rental expenses | 14,681 | 11,752 | 10,364 |
| Adjusted profit before tax impact | (240) | (2) | 259 |

Other standards

Annual Improvements to IFRS Standards 2015-2017 cycle – various standards

IFRS 9 – Financial Instruments – Amendments to prepayment features with negative compensation and modifications of financial liabilities

IAS 19 – Employee Benefits – Amendments to plan amendments, curtailments and settlements

IFRIC 2 – Uncertainty over Income Tax Treatments

IAS 28 – Investments in Associates and Joint Ventures – Amendments to Long-term interest in associates and joint ventures

IAS 1 – Presentation of Financial Statements – Amendments to the definition of material

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - Amendments to the definition of material

IFRS 3 – Business Combinations – Amendments to clarify the definition of a business

IFRS 17 – Insurance contracts

IFRS 10 – Consolidated Financial Statements – Amendments to the sale or contribution of assets between an investor and its associate or joint venture

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

Other new standards and interpretations in the year have not been included in the list above as they are not considered relevant to the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Vertu Motors plc and its subsidiary undertakings. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. 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.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Basis of consolidation (continued)

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. Acquisition related costs are expensed to the income statement as incurred.

Other intangible assets

Intangible assets, when acquired separately from a business combination, 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 between four and six years.

Intangible assets, for example, franchise relationships, brands and customer relationships acquired as part of a business combination, are capitalised separately from goodwill if the asset is separable and if the fair value can be measured reliably on initial recognition. Such assets are stated at fair value less accumulated amortisation. Amortisation is provided on a straight-line basis over their expected useful lives. Intangible assets with an indefinite useful life, such as franchise relationships, are tested annually for impairment. Other intangible assets arising as part of a business combination are typically allocated a useful life of between ten and 20 years.

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 year end. Freehold 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, as follows:

| | |
|---|-----------------------------|
| Freehold buildings | 2% |
| Long leasehold buildings | Lease term |
| Short leasehold buildings | Lease term (under 25 years) |
| Franchise standards property improvements | 20% |
| Vehicles and machinery | 10% - 20% |
| Furniture, fittings and equipment | 20% - 50% |

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, except where amounts are material and are disclosed separately in 'non-underlying items'.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Inventories

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

The timing of recognition of new vehicle inventory as an asset of the Group is dependent on the terms of the purchase which vary by manufacturer. Some manufacturers invoice on release from their factory, although the vehicle may not be physically present at a Group location, title has passed and therefore the vehicle is recognised in inventory upon receipt of the invoice. Some manufacturers operate traditional consignment stock arrangements where unpaid vehicles may be physically present at dealerships however title is retained by the manufacturer. If the vehicle consignment is unsold after a period of time it begins to accrue interest from the manufacturer and at the point interest starts to accrue, the vehicle is recorded as an asset with a corresponding creditor, to reflect the asset and funding element of the transaction. This is in order to record the economic substance of the transaction rather than just the legal form. Other vehicle inventory is recognised upon title passing to the Group, typically on physical receipt.

As part of its normal trading activities the Group has contracted to repurchase, at predetermined values and dates, certain vehicles previously sold. The Group recognises its residual interest in these vehicles through the inclusion of such vehicles within inventory, at the lower of the repurchase price or estimated recoverable value, with a liability equal to the repurchase price within the trade payables.

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 consolidated 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.

Trade payables

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

Impairment of financial and non-financial assets

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

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Impairment of financial and non-financial assets (continued)

At each reporting date, the Group assesses whether there is an indication that a non-financial 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 generating units ("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 CGU. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are recognised in the income statement in the 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.

Derivative financial instruments

The Group manages its interest rate risk through hedging instruments. The Group recognises hedging instruments at fair value with any gain or loss on measurement recognised in the income statement. The Group does not hold or issue derivative financial instruments for speculative purposes.

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 only derivative financial instrument held by the Group throughout the year is a cash flow hedge swapping floating for fixed interest rates. 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 other reserve. Any gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance income or costs.

Amounts accumulated in equity are recycled in the income statement in the years 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 fair values of derivative financial instruments used for hedging purposes are disclosed in note 26.

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 finance income or costs.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

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 substantively 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, 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:

- a. 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
- b. in respect of deductible temporary differences associated with investments in subsidiaries, 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 value added tax 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.

Sale of motor vehicles, parts and aftersales services

Sales of vehicles and parts are recognised when the customer has control of the goods. In practice this means that revenue is recognised when vehicles or parts are invoiced and physically despatched or when a service has been undertaken. Manufacturer incentives (e.g. free service when purchasing a vehicle) do not impact the Group as the legal obligation lies with the manufacturer. This treatment has not changed following the adoption of IFRS 15.

Sale of warranty products

Revenue will be recognised in line with the performance obligation, i.e. the period in which the customer can exercise their rights under the warranty, and therefore recognised over the life of the warranty, as was the case under IAS 18.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Revenue (continued)

Finance commissions

Finance commissions are received for the arrangement of vehicle financing and related insurance products where the Group acts as agent on behalf of a principal. Commissions are based on agreed rates and income is recognised when the finance and/or insurance package that the customer has entered into commences. Typically, this is on delivery of the vehicle. Where the commission received relates to a specific vehicle sale, it is recognised within revenue. Where the commission received relates to a central rebate, it is recognised within cost of sales. This treatment remains unchanged following the adoption of IFRS 15.

Manufacturer rebates

Vehicle specific rebates from manufacturers are recognised when it is probable that the economic benefit will flow to the Group and the value can be reliably measured. In practice, this means that vehicle specific manufacturer rebates are recognised when the vehicle to which the rebate relates, has been invoiced and physically despatched. In the case of non-vehicle specific related rebates from suppliers, these are recognised in the income statement upon achievement of the specific agreed supplier criteria. Manufacturer rebates are recognised within cost of sales.

Disaggregation of revenue:

The table below shows revenue disaggregated by the Group's main product/service lines:

| | 2019 | 2018 |
|-----------------------------|-------------------------|-------------------------|
| | £'000 | £'000 |
| Aftersales | 257,137 | 228,247 |
| Used cars | 1,217,596 | 1,068,931 |
| New car retail & Motability | 862,824 | 836,370 |
| New fleet & commercial | 644,643 | 662,520 |
| Total | <u>2,982,200</u> | <u>2,796,068</u> |

Timing of revenue recognition:

| | | |
|-------------------------------|-------------------------|-------------------------|
| Recognised at a point in time | 2,977,583 | 2,792,278 |
| Recognised over time | 4,617 | 3,790 |
| Total | <u>2,982,200</u> | <u>2,796,068</u> |

All of the Group's revenue was generated in the United Kingdom.

Contract liabilities

Where the Group receives consideration for a sale in advance of the performance obligation being satisfied, the amount received is held on the balance sheet within contract liabilities and released to the income statement in line with the relevant revenue recognition policy.

Contract liabilities are presented separately on the balance sheet. Consequently, £8,448,000 has been reclassified from Trade and Other Payables to Current Contract Liabilities at 28 February 2018.

Pension costs

The Group operates a trust based defined benefit pension scheme, Bristol Street Pension Scheme, one section of which was closed to new entrants and future accrual in May 2003, with another closed to new entrants on 23 July 2003 and future accrual in October 2013.

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 or liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets. Defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of defined

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Pension costs (continued)

benefit obligations 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.

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

A Group personal pension arrangement under which the Group pays fixed contributions into an individual's funds, is also in place. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior years. Contributions into this scheme are charged to the income statement in the year in which they are payable.

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.

Non-underlying items

Non-underlying items are presented separately in the Income Statement to enhance comparability of trading performance between periods. Details of the items included as non-underlying are provided in note 8.

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

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"), Robert Forrester, Chief Executive Officer, who is responsible for allocating resources and assessing performance of the operating segment.

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 lifetime 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.

Dividend distribution

Final dividends to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when they are paid.

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt market prices and interest rates. The Group's treasury management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group used derivative financial instruments to reduce exposure to interest rate movements on drawn debt. The outstanding derivative instruments held by the Group at the balance sheet date are set out in note 26.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide principles on interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity.

The Board adopts an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

Market Risk – Cash Flow Interest Rate Risk

The Group's interest rate risk arises from long-term borrowings, which are issued at variable rates that expose the Group to cash flow interest rate risk. The Group's borrowings are denominated in sterling.

The interest rate exposure of the Group is managed within the constraints of the Group's business plan and the financial covenants under its facilities. The Group has performed calculations to analyse its interest rate exposure taking into account refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent major interest-bearing positions. No significant issues were highlighted as a result of these sensitivities being performed.

Credit Risk

Credit risk arises from cash and deposits with banks as well as credit exposures to customers. Individual customer risk limits are set based on external credit reference agency ratings and the utilisation of these credit limits is regularly monitored. Further disclosure on credit exposure is given in note 22.

Liquidity Risk

Ultimate responsibility for liquidity risk rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Disclosed within note 25 are the undrawn banking facilities that the Group has at its disposal, in order to further reduce liquidity risk.

The table below analyses the Group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. All borrowings are denominated in sterling.

| | Less than one year £'000 | Between two and five years £'000 | Total £'000 |
|---|---|---|------------------------|
| Bank borrowings | 1,811 | 46,812 | 48,623 |
| Other borrowings | 23,166 | - | 23,166 |
| Contract liabilities | 9,590 | 9,823 | 19,413 |
| Trade and other payables (excluding social security and other taxes) | 711,267 | - | 711,267 |
| At 28 February 2019 | 745,834 | 56,635 | 802,469 |

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management (continued)

Liquidity Risk (continued)

| | Less than one year £'000 | Between two and five years £'000 | Total £'000 |
|---|--------------------------------|--|----------------|
| Bank borrowings | 205 | 10,821 | 11,026 |
| Other borrowings | 12,811 | - | 12,811 |
| Contract liabilities | 8,448 | 8,877 | 17,325 |
| Trade and other payables (excluding social security and other taxes) | 649,137 | - | 649,137 |
| At 28 February 2018 | 670,601 | 19,698 | 690,299 |

Other borrowings represent amounts repayable under used car stocking facilities.

3. Capital risk management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group must ensure that sufficient capital resources are available for working capital requirements and meeting principal and interest payment obligations as they fall due.

Consistent with others in this industry, the Group monitors capital on the basis of the gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as total shareholders' equity.

The Group had net debt of £247,000 at 28 February 2019 as disclosed in note 32 to the consolidated financial statements (2018: net cash of £19,313,000).

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are considered to approximate their fair values. The fair value of long-term borrowings approximates to the carrying value reported in the balance sheet, as the majority are variable rate borrowings.

4. Critical accounting estimates and judgements

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

Valuation of goodwill

The valuation of goodwill acquired is performed in accordance with IFRS 3 and is therefore based on provisional values ascribed within the measurement period subsequent to acquisition. Management judgement has been used in determining the existence and value of separately identifiable assets acquired as part of the business combination.

Valuation of other intangible assets

When a business combination takes place, the Group is required to assess whether there are any additional intangible assets arising separately from goodwill. Management judgement is required to determine whether an intangible asset can be separately identified, what fair value should be ascribed to the asset and its attributable useful life.

Impairment of goodwill and other indefinite life assets

The Group tests annually, or whenever events or changes in circumstances occur, to determine whether goodwill or other indefinite life assets have suffered any impairment, in accordance with the accounting policy stated above and in note 15. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Notes to the Consolidated Financial Statements (continued)

4. Critical accounting estimates and judgements (continued)

Estimated useful life of intangibles, property, plant and equipment and impairment testing

The Group estimates the useful life and residual values of intangible assets, property, plant and equipment and reviews these estimates at each financial year end. The Group also tests for impairment when a trigger event occurs, or annually, as appropriate.

Pension benefits

During the year ended 28 February 2019, the Group operated one defined benefit pension scheme, the “Bristol Street Pension Scheme”. The obligations under this defined benefit scheme are recognised in the balance sheet and represent the present value of the obligations calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, annual rates of return and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of the assumptions used for the scheme in the year ended 28 February 2019 are provided in note 29.

Revenue recognition

The Group’s main product/service lines are the sale of motor vehicles, parts and aftersales services. The Group operates an income recognition policy that ensures that revenue is recognised in line with satisfaction of the performance obligation, as set out in note 1.

Given the complexity of the initial sale of a vehicle which can represent several bundled products, judgement is involved in isolating the component parts of the transaction and ensuring revenue is recognised appropriately.

5. Segmental information

The Group adopts IFRS 8 “Operating Segments”, which determines and presents operating segments based on information provided to the Group’s Chief Operating Decision Maker (“CODM”), Robert Forrester, Chief Executive Officer. The CODM receives information about the Group overall and therefore there is one operating segment.

The CODM assesses the performance of the operating segment based on a measure of both revenue and gross margin. However, to increase transparency, the Group has included below an additional voluntary disclosure analysing revenue and gross margin within the reportable segment.

| Year ended 28 February 2019 | Revenue | Revenue | Gross | Gross Margin | Gross |
|-------------------------------|----------------|--------------|-------------------------|--------------|-------------|
| | £’m | Mix % | Margin £’m | Mix % | Margin % |
| Aftersales ¹ | 257.1 | 8.6 | 136.0 | 42.2 | 43.9 |
| Used cars | 1,217.6 | 40.9 | 102.0 | 31.7 | 8.4 |
| New car retail and Motability | 862.8 | 28.9 | 63.9 | 19.8 | 7.4 |
| New fleet and commercial | 644.7 | 21.6 | 20.2 | 6.3 | 3.1 |
| | 2,982.2 | 100.0 | 322.1 | 100.0 | 10.8 |
| Year ended 28 February 2018 | Revenue | Revenue | Gross | Gross Margin | Gross |
| | £’m | Mix % | Margin ² £’m | Mix % | Margin % |
| Aftersales ¹ | 228.2 | 8.2 | 123.5 | 40.1 | 44.0 |
| Used cars | 1,068.9 | 38.2 | 98.7 | 32.1 | 9.2 |
| New car retail and Motability | 836.5 | 29.9 | 64.1 | 20.8 | 7.7 |
| New fleet and commercial | 662.5 | 23.7 | 21.4 | 7.0 | 3.2 |
| | 2,796.1 | 100.0 | 307.7 | 100.0 | 11.0 |

¹ Margin in aftersales expressed on internal and external turnover. A significant part of the role of the service department is to support the vehicle sales department and therefore this is considered to be an important measure for the purpose of monitoring the departmental performance

² Following a growth in the Group’s Smart Repair operations the expense in respect of this department’s productive colleague cost has been reclassified from operating expenses to cost of sales, in order to align the treatment with cost reporting throughout the rest of the Group’s aftersales operations. The effect of this reclassification is a decrease in operating expenses and an increase in cost of sales of £1,184,000 for the year ended 28 February 2018.

Notes to the Consolidated Financial Statements (continued)

6. Underlying operating expenses

| | 2019 £'000 | 2018 £'000 |
|---|-----------------------------|-----------------------------|
| Wages and salaries excluding share based payments charge (note 9) | 167,119 | 156,117 |
| Depreciation on property, plant and equipment (note 18) | 10,722 | 9,714 |
| (Profit) / loss on disposal of property, plant and equipment | (520) | 10 |
| Operating lease rentals – property | 11,581 | 10,588 |
| Operating lease rentals – plant and equipment | 312 | 401 |
| Operating lease rentals – vehicles | 4,933 | 4,384 |
| Auditors' remuneration (note 7) | 225 | 222 |
| Rental income | (175) | (259) |
| Impairment charges (notes 15 & 18) | - | 513 |
| Other expenses | 100,517 | 95,567 |
| | 294,714 | 277,257 |

7. Auditors' remuneration

| | 2019 £'000 | 2018 £'000 |
|--|-----------------------------|-----------------------------|
| Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements | 220 | 217 |
| Fees payable to the Company's auditors and its associates for other services: | | |
| - audit of Group's subsidiaries | 5 | 5 |
| | 225 | 222 |

8. Non-underlying items

| | 2019 £'000 | 2018 £'000 |
|---|-----------------------------|-----------------------------|
| Share based payments charge | (904) | (1,031) |
| Amortisation | (543) | (614) |
| Profit on disposal of freehold property | - | 4,149 |
| Loss on disposal of Boston Volkswagen | - | (610) |
| VAT reclaim on dealer deposit contributions | 3,069 | - |
| | 1,622 | 1,894 |
| Tax on non-underlying items above | (326) | 119 |
| | 1,296 | 2,013 |

Non-underlying items are presented separately in the Income Statement to enhance comparability of trading performance between periods.

During the Period the Group received VAT repayments of £3.1m resulting from a retrospective claim following HMRC's clarification of the VAT treatment of dealer deposit contributions.

Notes to the Consolidated Financial Statements (continued)

9. Employee benefit expense

| | 2019 | 2018 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Wages and salaries | 169,546 | 159,247 |
| Social security costs | 18,712 | 17,289 |
| Pension costs – defined contribution plans | 3,766 | 2,735 |
| | 192,024 | 179,271 |
| Share based payments charge (note 30) | 904 | 1,031 |
| | 192,928 | 180,302 |

Employee benefit expense included in:

| | 2019 | 2018 |
|----------------------------|----------------|----------------|
| | £'000 | £'000 |
| Operating expenses | 167,119 | 156,117 |
| Cost of sales | 24,905 | 23,154 |
| Share based payment charge | 904 | 1,031 |
| | 192,928 | 180,302 |

Details of the remuneration of the Directors who served during the year from 1 March 2018 to 28 February 2019 and the year from 1 March 2017 to 28 February 2018 are given in the Directors' Remuneration Report on pages 60 to 65.

10. Average monthly number of people employed (including Directors)

| | 2019 | 2018 |
|--|---------------|---------------|
| | Number | Number |
| Sales and distribution | 2,018 | 2,020 |
| Service, parts and accident repair centres | 2,069 | 1,986 |
| Administration | 1,285 | 1,265 |
| | 5,372 | 5,271 |

11. Finance income and costs

| | 2019 | 2018 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Interest on short-term bank deposits | 99 | 18 |
| Net finance income relating to defined benefit pension schemes (note 29) | 177 | 48 |
| Finance income | 276 | 66 |
| Bank loans and overdrafts | (1,063) | (673) |
| Vehicle stocking interest | (2,894) | (1,291) |
| Finance costs | (3,957) | (1,964) |

12. Taxation

| | 2019 | 2018 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Current tax | | |
| Current tax charge | 5,439 | 5,861 |
| Adjustment in respect of prior years | (483) | (283) |
| Total current tax | 4,956 | 5,578 |
| Deferred tax | | |
| Origination and reversal of temporary differences | (137) | 512 |
| Adjustment in respect of prior years | (12) | (254) |
| Rate differences | (11) | (70) |
| Total deferred tax (note 27) | (160) | 188 |
| Income tax expense | 4,796 | 5,766 |

Notes to the Consolidated Financial Statements (continued)

12. Taxation (continued)

| | 2019 £'000 | 2018 £'000 |
|---|-----------------------------|-----------------------------|
| Profit before taxation from continuing operations | 25,332 | 30,447 |
| Profit before taxation multiplied by the rate of corporation tax in the UK of 19% (2018: 19.1%) | 4,813 | 5,815 |
| Non-qualifying depreciation | 527 | 499 |
| Non-deductible expenses | 213 | 174 |
| Effect on deferred tax balances due to rate change | (11) | (70) |
| Property adjustment | (146) | (63) |
| Permanent benefits | (105) | (52) |
| Adjustments in respect of prior years | (495) | (537) |
| Total tax expense included in the income statement | 4,796 | 5,766 |

The Group's effective rate of tax is 18.93% (2018: 18.94%).

13. Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares during the year or the diluted weighted average number of ordinary shares in issue in the year.

The Group only has one category of potentially dilutive ordinary shares, which are share options. A calculation has been undertaken to determine the number of shares that could have been acquired at fair value (determined at the average annual market price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

The number of shares calculated, as set out above, is compared with the number of shares that would have been issued assuming the exercise of the share options.

Underlying earnings per share is calculated by dividing underlying earnings attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year.

| | 2019 £'000 | 2018 £'000 |
|---|-----------------------------|-----------------------------|
| Profit attributable to equity shareholders | 20,536 | 24,681 |
| Non-underlying items (note 8) | (1,296) | (2,013) |
| Underlying earnings attributable to equity shareholders | 19,240 | 22,668 |
| Weighted average number of shares in issue ('000s) | 377,024 | 391,317 |
| Potentially dilutive shares ('000s) | 5,512 | 5,948 |
| Diluted weighted average number of shares in issue ('000s) | 382,536 | 397,265 |
| Basic earnings per share | 5.45p | 6.31p |
| Diluted earnings per share | 5.37p | 6.21p |
| Basic underlying earnings per share | 5.10p | 5.79p |
| Diluted underlying earnings per share | 5.03p | 5.71p |

Notes to the Consolidated Financial Statements (continued)

14. Dividends per share

Dividends of £5,657,000 were paid in the year to 28 February 2019 (2018: £5,678,000), 1.50p per share (2018: 1.45p). A final dividend in respect of the year ended 28 February 2019 of 1.05p per share, is to be proposed at the annual general meeting on 24 July 2019. The ex-dividend date will be 27 June 2019 and the associated record date 28 June 2019. This dividend will be paid, subject to shareholder approval, on 29 July 2019 and these financial statements do not reflect this final dividend payable.

15. Goodwill and other indefinite life assets

| 2019 | Goodwill £'000 | Franchise relationships £'000 | Total £'000 |
|---|-------------------|-------------------------------------|----------------|
| Cost | | | |
| At 1 March 2018 | 74,303 | 20,192 | 94,495 |
| Acquisitions (note 17) | 11,583 | 6,218 | 17,801 |
| At 28 February 2019 | 85,886 | 26,410 | 112,296 |
| Accumulated impairment charges | | | |
| At 1 March 2018 and at 28 February 2019 | (114) | - | (114) |
| Net Book Value | | | |
| At 28 February 2019 | 85,772 | 26,410 | 112,182 |
| At 28 February 2018 | 74,189 | 20,192 | 94,381 |
| 2018 | | | |
| Cost | | | |
| At 1 March 2017 | 74,403 | 20,192 | 94,595 |
| Disposals | (100) | - | (100) |
| At 28 February 2018 | 74,303 | 20,192 | 94,495 |
| Accumulated impairment charges | | | |
| At 1 March 2017 | - | - | - |
| Impairment charges | (114) | - | (114) |
| At 28 February 2018 | (114) | - | (114) |
| Net Book Value | | | |
| At 28 February 2018 | 74,189 | 20,192 | 94,381 |
| At 28 February 2017 | 74,403 | 20,192 | 94,595 |

Impairment

In accordance with IAS 36, 'Impairment of Assets', the Group tests the following assets for impairment annually:

- Goodwill and other indefinite life assets
- Other assets where there is any indication that the relevant asset may be impaired

In the years ended 28 February 2019 and 28 February 2018, the acquired goodwill and other indefinite life assets were tested for impairment. During the year ended 28 February 2019, no impairment charges were incurred (2018: £114,000) to align the carrying value with value in use.

For the purposes of impairment testing of goodwill and other indefinite life assets, the Directors recognise the Group's Cash Generating Units ("CGU"s) to be connected groupings of dealerships acquired together.

Notes to the Consolidated Financial Statements (continued)

15. Goodwill and other indefinite life assets (continued)

A summary of the goodwill purchased is presented below:

| | 2019 | 2018 |
|------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Bristol Street Group Limited | 13,860 | 13,860 |
| Albert Farnell Limited | 13,279 | 13,279 |
| Hillendale Group Limited | 5,159 | 5,159 |
| SHG Holdings Limited | 7,842 | 7,842 |
| Bury Land Rover | 4,415 | 4,415 |
| Sigma Holdings Limited | 11,879 | 11,879 |
| Gordon Lamb Group Limited | 5,754 | 5,754 |
| Hughes Group Limited | 4,706 | - |
| Vans Direct Limited | 6,877 | - |
| Other acquisitions | 12,001 | 12,001 |
| | 85,772 | 74,189 |

A summary of franchise relationships acquired is presented below:

| | 2019 | 2018 |
|---------------------------|---------------|---------------|
| | £'000 | £'000 |
| Albert Farnell Limited | 7,373 | 7,373 |
| Hillendale Group Limited | 1,749 | 1,749 |
| Bury Land Rover | 2,595 | 2,595 |
| SHG Holdings Limited | 1,497 | 1,497 |
| Sigma Holdings Limited | 3,771 | 3,771 |
| Gordon Lamb Group Limited | 3,207 | 3,207 |
| Hughes Group Limited | 6,218 | - |
| | 26,410 | 20,192 |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use post-tax cash flow projections to perpetuity.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to gross profits and direct costs during the year:

- Management estimates discount rates using pre-tax rates that reflect current market assessments and the time value of money and the risks specific to the CGUs.
- Growth rates are based upon industry forecasts
- Changes in gross profits and direct costs are based on past practices and expectations of future changes in the market.

An annual growth rate typically between 0% and 3% is assumed for the first five years depending on past performance of the CGU, after which a growth rate of 0% is assumed to perpetuity. A risk adjusted pre-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 8% (2018: 8%) is applied.

Sensitivity analysis has been performed on the impairment test based on two potential scenarios with the following results:

- If the growth rate in the first five years reduces to -1%, the Group would incur a goodwill impairment charge of £6.0m.
- If the pre-tax WACC increased to 9%, the Group would incur a goodwill impairment charge of £5.3m.

Notes to the Consolidated Financial Statements (continued)

16. Other intangible assets

| 2019 | Earn out £'000 | Software costs £'000 | Brand £'000 | Customer relationships £'000 | Total £'000 |
|---|-------------------|----------------------------|----------------|------------------------------------|----------------|
| Cost | | | | | |
| At 1 March 2018 | 400 | 2,116 | - | 855 | 3,371 |
| Acquisitions (note 17) | - | 5 | 541 | 1,130 | 1,676 |
| Additions | - | 150 | - | - | 150 |
| Disposals | (400) | (1) | - | - | (401) |
| At 28 February 2019 | - | 2,270 | 541 | 1,985 | 4,796 |
| Accumulated amortisation | | | | | |
| At 1 March 2018 | 400 | 1,147 | - | 508 | 2,055 |
| Charge for the year | - | 453 | - | 90 | 543 |
| Disposals | (400) | (1) | - | - | (401) |
| At 28 February 2019 | - | 1,599 | - | 598 | 2,197 |
| Net book value at 28 February 2019 | - | 671 | 541 | 1,387 | 2,599 |
| Net book value at 28 February 2018 | - | 969 | - | 347 | 1,316 |
| 2018 | | | | | |
| Cost | | | | | |
| At 1 March 2017 | 400 | 3,464 | - | 855 | 4,719 |
| Additions | - | 412 | - | - | 412 |
| Disposals | - | (1,760) | - | - | (1,760) |
| At 28 February 2018 | 400 | 2,116 | - | 855 | 3,371 |
| Accumulated amortisation | | | | | |
| At 1 March 2017 | 312 | 2,472 | - | 417 | 3,201 |
| Charge for the year | 88 | 435 | - | 91 | 614 |
| Disposals | - | (1,760) | - | - | (1,760) |
| At 28 February 2018 | 400 | 1,147 | - | 508 | 2,055 |
| Net book value at 28 February 2018 | - | 969 | - | 347 | 1,316 |
| Net book value at 28 February 2017 | 88 | 992 | - | 438 | 1,518 |

The earn out disposed of in the year to 28 February 2019 relates to an acquisition in a previous accounting period for which the earn out period is now complete.

17. Business combinations

a) Acquisition of Hughes Group Holdings Limited

On 30 June 2018, the Group acquired the entire issued share capital of Hughes Group Holdings Limited ("Hughes Group") which operated Mercedes-Benz, Jeep, SKODA and Peugeot outlets in Buckinghamshire. The consideration payable on completion amounted to £22,452,000 and was settled by a £20,000,000 drawing on the Group's bank loan facility and the Group's existing cash resources. A further £1,500,000 deferred consideration is payable after one year. The excess of consideration over the provisional fair value of net assets acquired was £10,924,000 of which £6,218,000 has been allocated to franchise relationships. The financial statements of Hughes of Beaconsfield Limited for the year ended 31 December 2017 showed revenues of £150,996,000 and profit before taxation of £2,146,000.

Notes to the Consolidated Financial Statements (continued)

17. Business combinations (continued)

Details of the fair value of the net assets acquired and goodwill arising are as follows:

| | Fair Value £'000 |
|---------------------------------------|---------------------------------|
| Intangible assets | 6,218 |
| Property, plant and equipment | 6,894 |
| Inventories | 27,060 |
| Trade and other receivables | 7,696 |
| Cash and cash equivalents | (783) |
| Trade and other payables | (24,772) |
| Borrowings | (1,750) |
| Corporation tax | (23) |
| Deferred tax | (1,294) |
| Net assets acquired | 19,246 |
| Goodwill | 4,706 |
| Consideration | 23,952 |
| | |
| - Deferred consideration | 1,500 |
| - Consideration payable on completion | 22,452 |
| Total consideration | 23,952 |

Acquisition related costs (included in the consolidated income statement for the year ended 28 February 2019) totalled £257,000 in respect of this acquisition.

The goodwill arising on acquisition is attributable to the anticipated profitability of the distribution of the Group's products through the acquired dealerships.

If the acquisition of Hughes of Beaconsfield Limited had occurred on 1 March 2018, Group revenues would have been £53,762,000 higher and Group profit attributable to equity holders would have been £83,000 higher.

On 31 March 2019, the Group sold the Peugeot business acquired with this acquisition. The transaction generated cash proceeds equal to the net book value and fair value of the assets sold shown within the total assets acquired above.

b) Acquisition of Vans Direct Limited

On 4 January 2019, the Group acquired the entire issued share capital of Vans Direct Limited ("Vans Direct"), a well-established on-line retailer of new vans. The estimated consideration payable on completion amounted to £7,108,000 and was settled by a £7,100,000 drawing on the Group's bank loan facility and the Group's existing cash resources. A further amount of deferred consideration may be payable in two years as a result of an earn-out arrangement subject to Vans Direct achieving specific performance criteria over a period of two financial years following acquisition. The maximum payable under this arrangement, which has been recognised as deferred consideration at 28 February 2019, is £2,500,000. The excess of consideration over the provisional fair value of net assets acquired was £8,548,000 of which £1,130,000 has been allocated to customer relationships and £541,000 has been allocated to the brand. The financial statements of Vans Direct Limited for the 9 month period ended 31 July 2018 showed revenues of £24,563,000 and profit before taxation of £492,000.

Notes to the Consolidated Financial Statements (continued)

17. Business combinations (continued)

Details of the estimated fair value of the net assets acquired and goodwill arising are as follows:

| | Fair Value £'000 |
|---------------------------------------|-----------------------------|
| Intangible assets | 1,676 |
| Property, plant and equipment | 166 |
| Inventories | 591 |
| Trade and other receivables | 702 |
| Cash and cash equivalents | 579 |
| Trade and other payables | (803) |
| Corporation tax | (163) |
| Deferred tax | (17) |
| Net assets acquired | 2,731 |
| Goodwill | 6,877 |
| Consideration | 9,608 |
| - Deferred consideration | 2,500 |
| - Consideration payable on completion | 7,108 |
| Total consideration | 9,608 |

Acquisition related costs (included in the consolidated income statement for the year ended 28 February 2019) totalled £189,000 in respect of this acquisition.

The goodwill arising on acquisition is attributable to the workforce and anticipated profitability of the acquired business.

If the acquisition of Vans Direct Limited had occurred on 1 March 2018, Group revenues would have been £27,852,000 higher and Group profit attributable to equity holders would have been £706,000 higher.

Summary of acquisitions' cash consideration

| | Cash Consideration £'000 | (Cash)/ Borrowings Acquired £'000 | Total £'000 |
|--------------|---|--|------------------------|
| Hughes Group | 22,452 | 2,533 | 24,985 |
| Vans Direct | 7,108 | (579) | 6,529 |
| | 29,560 | 1,954 | 31,514 |

Deferred consideration

Deferred consideration outstanding at 28 February 2019:

| | 2019 £'000 | 2018 £'000 |
|-------------------------------------|-----------------------|-----------------------|
| Vans Direct Limited | 2,500 | - |
| Hughes Group | 1,500 | - |
| Other businesses* | 100 | 100 |
| Total deferred consideration | 4,100 | 100 |

Maturity of deferred consideration:

| | 2019 £'000 | 2018 £'000 |
|-------------------------------------|-----------------------|-----------------------|
| Payable in less than 12 months | 1,500 | - |
| Payable in greater than 12 months | 2,600 | 100 |
| Total deferred consideration | 4,100 | 100 |

Notes to the Consolidated Financial Statements (continued)

17. Business combinations (continued)

*Deferred consideration in respect of “other businesses” relates to earn out arrangements on the acquisitions of ancillary businesses payable in future periods. The value of this liability is reassessed at each period end based on what is expected to be due in future periods under these arrangements.

Summary of the fair value of net assets acquired

| | Hughes Group £'000 | Vans Direct £'000 | Total £'000 |
|-------------------------------|--------------------------|-------------------------|----------------|
| Intangible assets | 6,218 | 1,676 | 7,894 |
| Property, plant and equipment | 6,894 | 166 | 7,060 |
| Inventories | 27,060 | 591 | 27,651 |
| Trade and other receivables | 7,696 | 702 | 8,398 |
| Cash and cash equivalents | (783) | 579 | (204) |
| Trade and other payables | (24,772) | (803) | (25,575) |
| Borrowings | (1,750) | - | (1,750) |
| Corporation tax | (23) | (162) | (185) |
| Deferred tax | (1,294) | (18) | (1,312) |
| Net assets acquired | 19,246 | 2,731 | 21,977 |

18. Property, plant and equipment

2019

| | Freehold and long leasehold land and buildings* £'000 | Short leasehold land and buildings* £'000 | Vehicles and machinery £'000 | Furniture, Fittings and equipment £'000 | Total £'000 |
|--|--|---|---------------------------------------|---|----------------|
| Cost | | | | | |
| At 1 March 2018 | 200,728 | 5,421 | 8,460 | 15,206 | 229,815 |
| Acquisitions (note 17) | 6,264 | - | 114 | 682 | 7,060 |
| Additions | 26,853 | 23 | 2,552 | 3,367 | 32,795 |
| Disposals | (1,612) | (66) | (815) | (1,913) | (4,406) |
| Reclassifications | 719 | - | 125 | (844) | - |
| Transfer to assets held for sale (note 21) | (750) | - | - | - | (750) |
| At 28 February 2019 | 232,202 | 5,378 | 10,436 | 16,498 | 264,514 |
| Accumulated depreciation | | | | | |
| At 1 March 2018 | 19,339 | 1,941 | 3,921 | 6,610 | 31,811 |
| Depreciation charge | 4,814 | 776 | 1,757 | 3,375 | 10,722 |
| Disposals | (181) | (50) | (792) | (1,814) | (2,837) |
| Reclassifications | 485 | - | 19 | (504) | - |
| At 28 February 2019 | 24,457 | 2,667 | 4,905 | 7,667 | 39,696 |
| Net Book Value | | | | | |
| At 28 February 2019 | 207,745 | 2,711 | 5,531 | 8,831 | 224,818 |
| At 28 February 2018 | 181,389 | 3,480 | 4,539 | 8,596 | 198,004 |

* Includes leasehold improvements and franchise standards property improvements.

Depreciation expense of £10,722,000 has been charged in operating expenses (note 6).

In addition to the security provided for the Group's bank borrowings, specific charges over freehold land and buildings with a cost of £10,900,000 (2018: £10,900,000) have been granted to manufacturer partners as security against consignment stocking lines.

Notes to the Consolidated Financial Statements (continued)

18. Property, plant and equipment (continued)

| 2018 | Freehold and long leasehold land and buildings* £'000 | Short leasehold land and buildings* £'000 | Vehicles and machinery £'000 | Furniture, Fittings and equipment £'000 | Total £'000 |
|--|--|---|---------------------------------------|---|----------------|
| Cost | | | | | |
| At 1 March 2017 | 197,786 | 5,073 | 7,502 | 15,010 | 225,371 |
| Additions | 18,238 | 928 | 1,864 | 3,688 | 24,718 |
| Disposals | (12,448) | (733) | (892) | (3,506) | (17,579) |
| Reclassifications | (153) | 153 | (14) | 14 | - |
| Transfer to assets held for sale (note 21) | (2,695) | - | - | - | (2,695) |
| At 28 February 2018 | 200,728 | 5,421 | 8,460 | 15,206 | 229,815 |
| Accumulated depreciation and impairment | | | | | |
| At 1 March 2017 | 15,830 | 1,856 | 3,197 | 6,943 | 27,826 |
| Depreciation charge | 4,232 | 767 | 1,573 | 3,142 | 9,714 |
| Impairment | 399 | - | - | - | 399 |
| Disposals | (825) | (733) | (838) | (3,486) | (5,882) |
| Reclassifications | (51) | 51 | (11) | 11 | - |
| Transfer to assets held for sale (note 21) | (246) | - | - | - | (246) |
| At 28 February 2018 | 19,339 | 1,941 | 3,921 | 6,610 | 31,811 |
| Net Book Value | | | | | |
| At 28 February 2018 | 181,389 | 3,480 | 4,539 | 8,596 | 198,004 |
| At 28 February 2017 | 181,956 | 3,217 | 4,305 | 8,067 | 197,545 |

19. Subsidiary undertakings

A list of subsidiary undertakings (ordinary shares 100% owned and incorporated within the United Kingdom), as at 28 February 2019 and 28 February 2018 is given in note 7 of the Vertu Motors plc company only financial statements (pages 122 to 123).

20. Inventories

| | 2019 £'000 | 2018 £'000 |
|------------------------------------|----------------|----------------|
| New vehicle stock | 470,288 | 417,939 |
| Used vehicle stock | 105,710 | 88,304 |
| Demonstrator and courtesy vehicles | 29,727 | 36,237 |
| Parts and sundry stocks | 12,950 | 15,906 |
| | 618,675 | 558,386 |

The total value of new vehicle stock is comprised of the following:

| | 2019 £'000 | 2018 £'000 |
|---|----------------|----------------|
| Interest bearing consignment stock | 46,401 | 26,732 |
| Stock invoiced not yet paid held by Manufacturers to the order of the Group | 378,954 | 339,425 |
| Other new vehicle stock | 44,933 | 51,782 |
| | 470,288 | 417,939 |

A corresponding liability is held in trade payables in respect of stock invoiced not yet paid held by Manufacturers to the order of the Group and interest bearing consignment stock. The cost of inventories recognised as expense and included within 'cost of sales' amounted to £2,745,070,000 (2018: £2,565,965,000).

Notes to the Consolidated Financial Statements (continued)

21. Property assets held for resale

| | 2019 £'000 | 2018 £'000 |
|-------------------------------------|---------------|---------------|
| At beginning of year | 2,449 | - |
| Transfers in from freehold property | 750 | 2,449 |
| Property sold during the year | (1,875) | - |
| At end of year | 1,324 | 2,449 |

The transfer in from freehold property during year ended 28 February 2019 relates to a dealership property in High Wycombe which was sold on 29 March 2019 realising cash proceeds equal to net book value and fair value of £750,000.

Also held for sale is a dealership property in Barnsley which the Group disposed of the trade and assets in respect of during the year ended 28 February 2017. The property was sold on 26 March 2019 realising cash proceeds of £624,000 and a profit on disposal of £50,000.

Properties sold during the year relates to surplus land at Newcastle under Lyme realising cash proceeds of £2,000,000 and a £630,000 profit on disposal together with two domestic properties in Slough realising cash proceeds of £591,000 and £86,000 profit on disposal.

22. Trade and other receivables

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Trade receivables | 36,219 | 44,235 |
| Less provision for impairment of trade receivables | (1,272) | (1,224) |
| Trade receivables (net) | 34,947 | 43,011 |
| Other receivables | 19,459 | 15,723 |
| Prepayments and accrued income | 8,534 | 7,538 |
| | 62,940 | 66,272 |

The Group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit losses ("ECL"). The ECL on trade receivables are measured using a provision matrix by reference to past default experience, current financial position of the debtors and any known specific factors.

There has been no change in significant assumptions or the method of estimation of ECL during the current financial year.

The following table shows the profile of the Group's trade receivables.

| | Current £'000 | 31-60 £'000 | 61-90 £'000 | >90 £'000 | Trade Receivables £'000 | Loss Allowance £'000 | Trade Receivables (net) £'000 |
|-------------|------------------|----------------|----------------|--------------|-------------------------------|----------------------------|--|
| 2019 | 29,314 | 4,334 | 1,123 | 1,448 | 36,219 | (1,272) | 34,947 |
| 2018 | 36,079 | 3,761 | 1,187 | 3,208 | 44,235 | (1,224) | 43,011 |

As at 28 February 2019, trade receivables of £836,000 (2018: £1,988,000) were past due but not impaired. The ageing of these receivables are all within 3 months overdue.

Movements in the Group's provision for impairment of trade receivables are as follows:

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| At beginning of year | 1,224 | 1,704 |
| Charge for receivables impairment | 421 | 239 |
| Receivables written off during the year as uncollectible | (16) | (90) |
| Unused amounts reversed | (357) | (629) |
| At end of year | 1,272 | 1,224 |

The creation and release of provision for impaired receivables has been included in 'other expenses' within 'operating expenses' in the income statement (note 6). Amounts charged to the loss allowance account are generally written off when there is no expectation of recovering additional cash.

Notes to the Consolidated Financial Statements (continued)

22. Trade and other receivables (continued)

The Group considers there to be no material difference between the fair value of trade and other receivables and their carrying amount in the balance sheet.

The other asset classes within trade and other receivables do not contain impaired assets.

Credit Risk Management

It is the Group's policy to invest cash and assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be low. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

23. Cash and cash equivalents

| | 2019 £'000 | 2018 £'000 |
|--------------------------|---------------|---------------|
| Cash in bank and in hand | 66,519 | 41,709 |

24. Trade and other payables

| | 2019 £'000 | 2018 £'000 |
|---------------------------------|----------------|----------------|
| Current | | |
| Trade payables | 639,577 | 577,384 |
| Social security and other taxes | 5,937 | 5,819 |
| Accruals | 45,690 | 48,753 |
| Other payables | 26,000 | 23,000 |
| | 717,204 | 654,956 |

Other payables comprise non-interest bearing advance payments from the Group's finance company partners.

Trade and other payables, excluding social security and other taxes and deferred income, are designated as financial liabilities carried at amortised cost. Their fair value is considered to be equal to their carrying value.

Accruals includes £11,971,000 (2018: £12,557,000) in respect of outstanding service plans.

25. Borrowings

| | 2019 £'000 | 2018 £'000 |
|--------------------|---------------|---------------|
| Current | | |
| Other borrowings | 23,166 | 12,811 |
| | 23,166 | 12,811 |
| Non-current | | |
| Bank borrowings | 43,600 | 9,585 |
| | 43,600 | 9,585 |
| | 66,766 | 22,396 |

Borrowings are repayable as follows:

| | 2019 £'000 | 2018 £'000 |
|------------------|---------------|---------------|
| 6 months or less | 23,166 | 12,811 |
| 6-12 months | - | - |
| 1-5 years | 43,600 | 9,585 |
| | 66,766 | 22,396 |

The fair value of borrowings equals their carrying amount, as the impact of discounting is not significant. Borrowings are designated under IFRS 9 as financial liabilities carried at amortised cost. This is unchanged from IAS 39.

Notes to the Consolidated Financial Statements (continued)

25. Borrowings (continued)

a) Bank borrowings

The Group's Revolving Credit Facility ("RCF") was available throughout the year ended 28 February 2019. At 1 March 2018 the Group had a committed RCF available of £40,000,000, as well as having access to an additional £30,000,000 uncommitted "accordion" facility. On 15 August 2018, £22m of the uncommitted accordion facility was transferred to the RCF facility. This facility bears an interest rate of between 1.3% and 2.1% above LIBOR depending on the value of the Group's net debt to EBITDA ratio. Interest was paid on the debt drawn under this facility at the rate of 1.3% above LIBOR throughout the year to 28 February 2019. £44,100,000 of the RCF was drawn at 28 February 2019.

Also on 18 August 2018, the accordion facility was extended by £7m, increasing to £15m.

On 5 March 2019, the Group exercised the option to extend these facilities for a further 12 months such that the facilities are now in place until 27 February 2024.

On 31 July 2017, the Group entered into a three year interest rate swap in respect of the first £10,000,000 of the RCF facility, swapping LIBOR for a fixed interest rate of 0.675%. On 6 August 2018, the Group entered into a five year interest rate swap in respect of a further £7,000,000 of this facility, swapping LIBOR for a fixed interest rate of 1.424%.

Subsequent to the year end, the Group entered into a further interest rate swap in respect of £5,000,000 of the Group's borrowings which increased the value of hedged borrowings to £22,000,000 overall. Further details are provided in note 38.

A rate of 1.10% above base rate has been applied in relation to overdrafts and a rate of 1.10% above LIBOR has been applied to the Committed Money Market Loan ("CMML") facility. The bank borrowings are secured on the assets of the Company and the Group.

The overdraft and CMML facilities were renewed for a further 12 months on 28 March 2019. During the year ended 28 February 2019 the facilities applicable during peak months was £68,000,000. The applicable interest rates on the working capital facilities, namely the CMML and overdraft, were unchanged.

The Group had the following undrawn borrowing and overdraft facilities at 28 February 2019:

| | 2019 | 2018 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Floating rate | | |
| - Overdraft (uncommitted) expiring in one year | 5,000 | 5,000 |
| - CMML (committed) facility expiring in one year | 68,000 | 68,000 |
| - RCF facility expiring in greater than one year * | 17,900 | 30,000 |
| - Used car stocking facility expiring in one year | 11,834 | 17,189 |
| | 102,734 | 120,189 |

* Excludes the uncommitted "accordion" facility referred to above.

b) Other borrowings

Other borrowings represent amounts repayable under used car stocking facilities. These loans are subject to interest at 1.5% above LIBOR and are secured against the related vehicles.

At 1 March 2018 this was a £30,000,000 facility available to the Group, increasing to £35,000,000 during the year ended 28 February 2019.

c) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £66,519,000 (2018: £41,709,000). The cash deposits comprise deposits placed on money market at call, seven day and cash deposited with counterparty banks at commercially negotiated interest rates.

The IFRS 9 classification for trade and other receivables and cash and cash equivalents is amortised cost. Under IAS 39 these financial assets were classified as loans and receivables. Their fair value is deemed to be equal to their carrying value.

Notes to the Consolidated Financial Statements (continued)

26. Derivative financial instruments

Interest rate swap contracts

The fair values of derivative financial instruments used for hedging purposes are disclosed below:

| | 2019 | 2018 |
|--|--------------|--------------|
| | £'000 | £'000 |
| £10m Interest rate swap – cash flow hedges | 44 | (92) |
| £7m Interest rate swap – cash flow hedges | (69) | - |
| Total derivatives designated as hedging instruments | (25) | (92) |

| | 2019 | 2018 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Non-current borrowings subject to hedging instruments | 17,000 | 10,000 |
| Total derivative financial liabilities | 17,000 | 10,000 |

The Group manages its cash-flow interest rate risk by using floating-to-fixed interest rate swaps. Normally the Group raises long-term borrowings at floating rates and swaps them into fixed rates.

The notional principal amounts of outstanding floating to fixed interest rate swap contracts designated as hedging instruments in cash flow interest rate hedges of variable rate debt at 28 February 2019 totalled £17,000,000 (2018: £10,000,000). Their combined fair value was a liability of £25,000 (2018: £92,000).

At 28 February 2019, the main floating rate was LIBOR. Gains and losses recognised in the cash flow hedging reserve in equity on interest rate swap contracts as at 28 February 2019 will be released to the consolidated statement of comprehensive income as the related interest expense is recognised.

27. Deferred income tax liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts offset are as follows:

| | 2019 | 2018 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Deferred tax asset to be recovered after more than 12 months | (1,882) | (1,737) |
| Deferred tax liabilities to be recovered after more than 12 months | 9,476 | 8,214 |
| Deferred tax liabilities (net) | 7,594 | 6,477 |

The gross movement on the Group's deferred income tax account is as follows:

| 2019 | Deferred tax liabilities | Deferred tax assets | Net |
|---|---------------------------------|----------------------------|--------------|
| | £'000 | £'000 | £'000 |
| At 1 March 2018 | 8,214 | (1,737) | 6,477 |
| Credited to income statement (note 12) | (4) | (156) | (160) |
| (Credited) / charged directly to equity | (46) | 11 | (35) |
| Acquisitions (note 17) | 1,312 | - | 1,312 |
| At 28 February 2019 | 9,476 | (1,882) | 7,594 |

Notes to the Consolidated Financial Statements (continued)

27. Deferred income tax liabilities (continued)

| 2018 | Deferred tax liabilities | Deferred tax assets | Net |
|--|---------------------------------|----------------------------|--------------|
| | £'000 | £'000 | £'000 |
| At 1 March 2017 | 7,059 | (1,504) | 5,555 |
| Charged / (credited) to income statement (note 12) | 403 | (215) | 188 |
| Charged / (credited) directly to equity | 752 | (18) | 734 |
| At 28 February 2018 | 8,214 | (1,737) | 6,477 |

| 2019 | Accelerated tax depreciation | Share based payments | Pensions | Other timing differences | Total |
|--|-------------------------------------|-----------------------------|-----------------|---------------------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 March 2018 | 1,926 | (642) | 1,114 | 4,079 | 6,477 |
| (Credited) / charged to income statement (note 12) | (204) | (93) | 25 | 112 | (160) |
| Acquisitions | 255 | - | - | 1,057 | 1,312 |
| (Credited) / charged directly to equity | - | - | (46) | 11 | (35) |
| At 28 February 2019 | 1,977 | (735) | 1,093 | 5,259 | 7,594 |

| 2018 | Accelerated tax depreciation | Share based payments | Pensions | Other timing differences | Total |
|--|-------------------------------------|-----------------------------|-----------------|---------------------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 March 2017 | 2,472 | (488) | 321 | 3,250 | 5,555 |
| (Credited) / charged to income statement (note 12) | (546) | (154) | 41 | 847 | 188 |
| Charged / (credited) directly to equity | - | - | 752 | (18) | 734 |
| At 28 February 2018 | 1,926 | (642) | 1,114 | 4,079 | 6,477 |

The 2016 Finance Bill included provisions to reduce the rate of corporation tax to 17% with effect from 1 April 2020. Accordingly, deferred tax balances have been revalued at the lower rate of 17% in these financial statements.

28. Contract liabilities

| | Warranty policies | Free servicing | Total |
|--------------------------------------|--------------------------|-----------------------|---------------|
| | £'000 | £'000 | £'000 |
| At 1 March 2018 | 15,561 | 1,764 | 17,325 |
| Created in the year | 6,877 | 463 | 7,340 |
| Recognised as income during the year | (4,617) | (635) | (5,252) |
| At 28 February 2019 | 17,821 | 1,592 | 19,413 |
| Current | 7,998 | 1,592 | 9,590 |
| Non-current | 9,823 | - | 9,823 |
| | 17,821 | 1,592 | 19,413 |

Warranty policies

The Group sells used vehicle warranty policies which are in-house products that can be taken out over 12, 24 or 36 months with income received on inception of the policy. The policy covers replacement of mechanical and electrical parts which have suffered a mechanical breakdown, the cost of labour to fit failed parts and breakdown assistance for the period of the warranty.

When the income is received it is recognised initially as a contract liability at the fair value allocated to the warranty product at the point of sale and is released to the income statement on a straight-line basis over the life of each warranty policy.

Notes to the Consolidated Financial Statements (continued)

28. Contract liabilities (continued)

Free servicing

The Group recognises a contract liability in respect of a “free servicing” arrangement whereby the first or subsequent service of a vehicle post sale is provided free of charge to a customer, as part of the initial consideration for the vehicle sale. An element of the initial consideration which is estimated to relate to the service is recognised as a contract liability, and is released to the income statement when the service has been undertaken.

29. Retirement benefit asset

The Group operates a trust based defined benefit pension scheme, “Bristol Street Pension Scheme”, which has three defined benefit sections in which accrual ceased on 31 May 2003. The assets of the scheme are held separately from those of the Group, being held in separate funds by the Trustee of the Bristol Street Pension Scheme.

The Group has applied IAS 19 (Revised) to the scheme and the following disclosures relate to this standard. The Group recognises any actuarial gains and losses in each year in the Statement of Comprehensive Income.

Regular employer contributions to the scheme (including contributions paid in respect of scheme expenses) for the year commencing 1 March 2019 are estimated to be £Nil.

The last actuarial valuation upon which the IAS 19 (Revised) figures and disclosures have been based was as at 5 April 2018. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

The fair value of the assets of the scheme are:

| | Market Value 28 February 2019 £'000 | Market Value 28 February 2018 £'000 |
|---------------------------------------|--|--|
| Equities and Diversified growth funds | 18,857 | 20,796 |
| Liability driven Investment Funds | 33,137 | 32,434 |
| Other | 413 | 448 |
| | 52,407 | 53,678 |

None of the assets listed above have a quoted market price in an active market as they are pooled investment funds specifically designed for occupational pension schemes. A value is placed on the Scheme's unit holdings in the funds by the funds' investment managers / custodians.

The Liability Driven Investments (“LDI”) that the Scheme is invested in is an investment tool used to reduce the investment risk and therefore volatility in the Scheme's funding position. Changes in interest rates and inflation rates will result in these assets moving in the same way as the liabilities. The LDI portfolio is primarily formed of derivatives, such as swaps, which are leveraged meaning that less LDI assets have to be held to match the same movement in the Scheme's liabilities.

The expected return on the assets as at 28 February 2018 was 2.7%. This is equal to the discount rate used in the calculation of the net interest income for the year ended 28 February 2019.

The overall net surplus between the assets of the Bristol Street Group defined benefit scheme and the actuarial liabilities of the scheme which have been recognised on the balance sheet is as follows:

| | 2019 £'000 | 2018 £'000 |
|-------------------------------------|-----------------------|-----------------------|
| Fair value of scheme assets | 52,407 | 53,678 |
| Present value of funded obligations | (45,977) | (47,127) |
| Asset on the balance sheet | 6,430 | 6,551 |

Notes to the Consolidated Financial Statements (continued)

29. Retirement benefit asset (continued)

A surplus may be recognised if the economic benefits are available in the form of a refund or reduction in future contributions. Clause 5.6.2 of the Scheme Rules enables the Scheme to refund surplus assets to the employer. Surpluses are therefore recognised in full.

The movements in the fair value of scheme assets in the year are as follows:

| | 2019 | 2018 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Opening fair value of scheme assets | 53,678 | 55,108 |
| Interest income | 1,416 | 1,304 |
| Actuarial losses | (196) | (981) |
| Employer contributions | 63 | 380 |
| Benefits paid | (2,462) | (1,950) |
| Expenses recognised in the income statement | (92) | (183) |
| Closing fair value of scheme assets | 52,407 | 53,678 |

The movement in the present value of the defined benefit obligations of the scheme in the year are as follows:

| | 2019 | 2018 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Opening fair value of scheme liabilities | 47,127 | 53,224 |
| Interest cost | 1,239 | 1,256 |
| Actuarial losses / (gains) | 73 | (5,403) |
| Benefits paid | (2,462) | (1,950) |
| Closing fair value of scheme liabilities | 45,977 | 47,127 |

Scheme liabilities are stated after accounting for an estimated £205,000 cost in respect of GMP equalisation.

The amounts recognised in the income statement in the year are as follows:

| | 2019 | 2018 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Expenses | 92 | 183 |
| Net interest income (note 11) | (177) | (48) |
| Total (income) / expense included in income statement | (85) | 135 |

The actual returns on Scheme assets in the year are as follows:

| | 2019 | 2018 |
|----------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Expected return on scheme assets | 1,416 | 1,304 |
| Actuarial losses | (196) | (981) |
| | 1,220 | 323 |

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below:

| | 2019 | 2018 |
|--|-------------|-------------|
| Discount rate | 2.65% | 2.70% |
| Limited Price Indexation ("LPI") pension increases | 3.20% | 3.20% |
| Inflation rate | 2.20% | 2.20% |

Assumptions regarding future mortality experience are set based on mortality tables which allow for future mortality improvements.

The average life expectancy in years of a pensioner retiring at age 65 at the balance sheet date is as follows:

| | 2019 | 2018 |
|--------|-------------|-------------|
| Male | 22 | 22 |
| Female | 23 | 23 |

Notes to the Consolidated Financial Statements (continued)

29. Retirement benefit asset (continued)

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

| | 2019 | 2018 |
|--------|------|------|
| Male | 23 | 23 |
| Female | 25 | 25 |

Amounts recognised in the Consolidated Statement of Comprehensive Income in the year are as follows:

| | 2019 £'000 | 2018 £'000 |
|---|----------------|----------------|
| Actuarial (losses) / gains | (269) | 4,422 |
| Related deferred tax liability (note 27) | 46 | (752) |
| Total, included within retained earnings | (223) | 3,670 |
| Cumulative actuarial losses | (1,452) | (1,229) |

Sensitivity analysis

The table below gives an indication of the impact on the IAS 19 valuation as a result of changes to the principal assumptions:

| Change in assumption: | Approximate impact on current surplus: £'000 |
|--|--|
| 0.25% increase in discount rate | 1,707 |
| 0.25% decrease in discount rate | (1,876) |
| 0.25% increase in price inflation (and associated assumptions) | (1,361) |
| 0.25% decrease in price inflation (and associated assumptions) | 1,493 |
| 1 year increase in life expectancy at age 65 | (1,793) |
| 1 year decrease in life expectancy at age 65 | 1,636 |

30. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve

| 2019 | Ordinary shares of 10p each Number of shares (‘000) | Ordinary share capital £'000 | Share premium £'000 | Other reserve £'000 | Treasury share reserve £'000 | Capital redemption reserve £'000 | Total £'000 |
|--|--|---------------------------------------|---------------------------|---------------------------|---------------------------------------|---|----------------|
| At 1 March 2018 | 383,709 | 38,552 | 124,934 | 10,645 | (690) | 1,175 | 174,616 |
| Issuance of treasury shares in satisfaction of exercised share options | 233 | - | 5 | - | 88 | - | 93 |
| Cancellation of repurchased shares | (8,919) | (891) | - | - | - | 891 | - |
| At 28 February 2019 | 375,023 | 37,661 | 124,939 | 10,645 | (602) | 2,066 | 174,709 |

The other reserve is a merger reserve, arising from shares issued for shares, as consideration to the former shareholders of acquired businesses.

Notes to the Consolidated Financial Statements (continued)

30. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve (continued)

| 2018 | Ordinary shares of 10p each Number of shares ('000) | Ordinary share capital £'000 | Share premium £'000 | Other reserve £'000 | Treasury share reserve £'000 | Capital redemption reserve £'000 | Total £'000 |
|---|--|---------------------------------|------------------------|------------------------|---------------------------------|-------------------------------------|----------------|
| At 1 March 2017 | 395,279 | 39,727 | 124,932 | 10,645 | (756) | - | 174,548 |
| Issuance of treasury shares in satisfaction of exercised CSOP options | 175 | - | 2 | - | 66 | - | 68 |
| Cancellation of repurchased shares | (11,745) | (1,175) | - | - | - | 1,175 | - |
| At 28 February 2018 | 383,709 | 38,552 | 124,934 | 10,645 | (690) | 1,175 | 174,616 |

Share Option Schemes

Under the Group's equity-settled share option schemes, share options are granted to Executive Directors and to selected employees. The exercise price of the granted CSOP options is equal to the market price of the shares on the date of the grant and is £Nil in the case of options issued under the long term incentive plan ("LTIP") Scheme. Options are conditional on the employee completing three years' service (the vesting period). The options are exercisable starting three years from grant date, subject to the performance criteria set out below. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As disclosed in the Consolidated Income Statement on page 73, a share based payments charge of £904,000 (2018: £1,031,000) has been recognised during the year, in relation to the schemes as described below.

Movements in the number of share options in issue during the year are as follows:

| Award Date | Type | Granted / Outstanding at 28 February 2019 No of shares | Granted / Outstanding at 28 February 2018 No of shares | Exercise price | Date from which exercisable | Expiry date |
|--------------|------|---|---|----------------|-----------------------------|-------------|
| 21 May 2008 | CSOP | - | 74,799 | 44.00p | - | - |
| 28 Nov 2011* | CSOP | 589,230 | 639,230 | 26.00p | 28 Nov 2014 | 28 Nov 2021 |
| 12 Jun 2012* | CSOP | 2,400,000 | 2,400,000 | 27.50p | 30 Aug 2015 | 12 Jun 2022 |
| 24 Oct 2012* | CSOP | 2,050,000 | 2,120,000 | 39.25p | 30 Aug 2015 | 24 Oct 2022 |
| 20 Aug 2013* | LTIP | 53,583 | 107,166 | 0.00p | 20 Aug 2016 | 20 Aug 2023 |
| 5 Nov 2014 | CSOP | - | 1,160,000 | 57.50p | - | - |
| 13 Nov 2015 | CSOP | 1,785,000 | 2,055,000 | 74.50p | 16 Nov 2018 | 16 Nov 2025 |
| 16 Jun 2015 | LTIP | - | 1,128,205 | 0.00p | - | - |
| 5 Sep 2016** | LTIP | 1,811,594 | 1,920,289 | 0.00p | 5 Sep 2021 | 5 Sep 2026 |
| 13 Oct 2016 | CSOP | 2,080,000 | 2,340,000 | 45.38p | 13 Oct 2018 | 13 Oct 2026 |
| 23 Jun 2017 | LTIP | 1,893,940 | 2,007,576 | 0.00p | 23 Jun 2022 | 23 Jun 2027 |
| 6 Nov 2017 | CSOP | 2,915,000 | 3,305,000 | 45.00p | 7 Nov 2020 | 7 Nov 2027 |
| 2 Jul 2018 | CSOP | 3,600,000 | - | 49.60p | 2 Jul 2021 | 2 Jul 2028 |
| 17 Jul 2018 | LTIP | 458,864 | - | 0.00p | 17 Jul 2023 | 17 Jul 2028 |
| 8 Nov 2018 | CSOP | 5,450,000 | - | 38.00p | 8 Nov 2021 | 8 Nov 2028 |
| | | 25,087,211 | 19,257,265 | | | |

* Vested

**37% of these awards vested subsequent to 28 February 2019. The remaining 63% lapsed as a result of not satisfying the relevant performance criteria.

Notes to the Consolidated Financial Statements (continued)

30. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve (continued)

Share Option Schemes (continued)

Movements in the number of share options outstanding are as follows:

| | 2019 | 2018 |
|-----------------------|----------------------------|----------------------------|
| | No of share options | No of share options |
| At beginning of year | 19,257,265 | 20,024,179 |
| Granted | 9,608,864 | 5,402,576 |
| Forfeited | (1,287,930) | (1,524,400) |
| Lapsed | (2,258,205) | (4,470,090) |
| Exercised | (232,783) | (175,000) |
| At end of year | 25,087,211 | 19,257,265 |

The weighted average share price during the year was 43.0p (2018: 45.6p). The weighted average fair value of CSOP options granted during the year, determined using the Black-Scholes model was 6p (2018: 8p) per option.

Significant inputs into the Black-Scholes model for all CSOP option awards above are set out below:

| | |
|--------------------------------|---------|
| Vesting period | 3 years |
| Expected volatility | 20% |
| Option life | 7 years |
| Expected life | 5 years |
| Annual risk-free interest rate | 1% |
| Dividend yield | 2% |

The weighted average fair value of LTIP options granted during the year, determined using the Black-Scholes model was 46p (2018: 44p) per option.

Significant inputs into the Black-Scholes model for the LTIP option awards above are set out below:

| | |
|--------------------------------|---------|
| Vesting period | 3 years |
| Expected volatility | 20% |
| Option life | 2 years |
| Expected life | 5 years |
| Annual risk-free interest rate | 1% |
| Dividend yield | 2% |

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices since the admission of Vertu Motors plc to AiM. This is then adjusted for events not considered to be reflective of the volatility of the share price going forward.

The performance conditions attaching to any share options issued to Executive Directors, Senior Management or colleagues of the Company are considered and set by the Remuneration Committee. The following share incentive schemes are operated by the Company:

a) Share Incentive Plan ("SIP")

The SIP was introduced in accordance with appropriate legislation and it allows colleagues to invest in partnership shares out of gross salary. A participant may withdraw from the SIP at any time but if he or she does so before the partnership shares have been held in trust for five years (except in certain specified circumstances such as redundancy or disability) he or she will incur an income tax liability. The Company currently does not supplement or match the partnership shares acquired by colleagues.

Notes to the Consolidated Financial Statements (continued)

30. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve (continued)

b) Company Share Option Plan ("CSOP") Approved and Unapproved Share Option Schemes

The number of vested options issued prior to 24 October 2012, which remain outstanding are shown in the table on page 109.

The CSOP options issued on 13 November 2015 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2018 and 31 July 2019 is above 90p and then 100% of the options vest. At an average share price of below 90p none of the options are exercisable.

The CSOP options issued on 13 October 2016 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2019 and 31 July 2020 is above 75p and then 100% of the options vest. At an average share price of below 75p none of the options are exercisable.

The CSOP options issued on 6 November 2017 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2019 and 31 July 2020 is above 62.5p and then 100% of the options vest. At an average share price of 57.5p 50% of the options are exercisable. At prices between 57.5p and 62.5p, options will vest on a straight-line basis between 50% and 100%. At a share price below 57.5p none of the options are exercisable.

The following CSOP share options were issued during the financial year to 28 February 2019.

3,600,000 CSOP options were issued on 2 July 2018. These options may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 62.5p and then 100% of the options vest. At an average share price of 57.5p 50% of the options are exercisable. At prices between 57.5p and 62.5p, options will vest on a straight-line basis between 50% and 100%. At a share price below 57.5p none of the options are exercisable.

5,450,000 CSOP options were issued on 8 November 2018. These options may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 50.9p and then 100% of the options vest. At an average share price of 44.6p 50% of the options are exercisable. At prices between 44.6p and 50.9p, options will vest on a straight-line basis between 50% and 100%. At a share price below 44.6p none of the options are exercisable.

c) Long Term Incentive Plan ("LTIP")

1,128,205 LTIP share awards were issued to Executive Directors and Senior Managers on 16 June 2015. In June 2018 these awards lapsed in full as the market based performance criteria had not been satisfied.

Vesting of LTIP awards issued subsequent to June 2015 is subject to targets based on the achievement of absolute growth in the Company's total shareholder return ("TSR") and the Group's target return on shareholders' equity. The vesting of such awards is measured over a three year period, but the awards are subject to an additional two year holding period before they can be exercised.

On 5 September 2016 1,920,289 LTIP share awards were made to Executive Directors and Senior Managers. 37% of these awards vested subsequent to 28 February 2019, the remaining 63% of the awards lapsed as a result of not satisfying the relevant performance conditions. The vested awards are subject to a two year holding period. On 23 June 2017, 2,007,576 LTIP share awards were made to Executive Directors and Senior Managers which may vest in May 2020. Finally, on 17 July 2018, 458,864 LTIP share awards were made to Executive Directors which may vest in May 2021.

Notes to the Consolidated Financial Statements (continued)

31. Hedging reserve

The hedging reserve arises as a result of cash flow hedges in relation to interest rate swap derivatives. The movements on the hedging reserve are as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| At beginning of year | (75) | - |
| Fair value gains / (losses) on derivative financial instruments during the year | 67 | (93) |
| Deferred taxation on fair value losses during year | (11) | 18 |
| At end of year | (19) | (75) |

32. Reconciliation of net cash flow to movement in net (debt) / cash

| | 2019 £'000 | 2018 £'000 |
|---|-----------------|----------------|
| Net increase in cash and cash equivalents | 24,810 | 1,864 |
| Cash inflow from proceeds of borrowings | (44,455) | (4,140) |
| Cash outflow from repayment of borrowings | - | 166 |
| Cash movement in net cash | (19,645) | (2,110) |
| Capitalisation of loan arrangement fees | 214 | 501 |
| Amortisation of loan arrangement fees | (129) | (86) |
| Non-cash movement in net cash | 85 | 415 |
| Movement in net cash | (19,560) | (1,695) |
| Opening net cash | 19,313 | 21,008 |
| Closing net (debt) / cash | (247) | 19,313 |

33. Cash flow from movement in working capital

The following adjustments have been made to reconcile from the movement in balance sheet heading to the amount presented in the cash flow from the movement in working capital. This is in order to more appropriately reflect the cash impact of the underlying transactions.

2019

| | Inventories (Note 20) £'000 | Current trade and other receivables (Note 22) £'000 | Trade and other payables £'000 | Total working capital movement £'000 |
|--|-----------------------------------|---|---|--|
| Trade and other payables (Note 24) | | | (717,204) | |
| Deferred consideration (Note 17) | | | (4,100) | |
| Contract liabilities (Note 28) | | | (19,413) | |
| At 28 February 2019 | 618,675 | 62,940 | (740,717) | |
| At 28 February 2018 | 558,386 | 66,272 | (672,381) | |
| Balance sheet movement | (60,289) | 3,332 | 68,336 | |
| Acquisitions (Note 17) | 27,651 | 8,398 | (25,575) | |
| Deferred consideration on acquisitions (Note 17) | - | - | (4,000) | |
| Movement excluding business combinations | (32,638) | 11,730 | 38,761 | 17,853 |
| Pension related balances | | | | 29 |
| Decrease in capital creditors | | | | 894 |
| Increase in interest accrual | | | | (89) |
| Decrease in share repurchase accrual | | | | 174 |
| Movement as shown in Consolidated Cash Flow Statement | | | | 18,861 |

Notes to the Consolidated Financial Statements (continued)

33. Cash flow from movement in working capital (continued)

2018

| | Inventories (Note 20) £'000 | Current trade and other receivables (Note 22) £'000 | Trade and other payables £'000 | Total working capital movement £'000 |
|--|-----------------------------------|--|---|--|
| Trade and other payables (Note 24) | | | (654,956) | |
| Deferred consideration (Note 17) | | | (100) | |
| Contract liabilities (Note 28) | | | (17,325) | |
| At 28 February 2018 | 558,386 | 66,272 | (672,381) | |
| At 28 February 2017 | 506,470 | 52,545 | (619,741) | |
| Balance sheet movement | (51,916) | (13,727) | 52,640 | |
| Disposals | (432) | (24) | 155 | |
| Deferred consideration on acquisitions | - | - | 1,181 | |
| Movement excluding business combinations | (52,348) | (13,751) | 53,976 | (12,123) |
| Pension related balances | | | | (197) |
| Increase in capital creditors | | | | (784) |
| Increase in interest accrual | | | | (54) |
| Increase in share repurchase accrual | | | | (174) |
| Movement as shown in Consolidated Cash Flow Statement | | | | (13,332) |

34. Reconciliation of movement in liabilities to cash arising from financing activities

| | Current borrowings £'000 | Non-current borrowings £'000 | Share premium £'000 | Treasury share reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|--------------------------------|------------------------------------|---------------------------|---------------------------------------|-------------------------------|----------------|
| As at 1 March 2018 | 12,811 | 9,585 | 124,934 | (690) | 89,877 | 236,517 |
| Cash flows from financing activities: | | | | | | |
| Dividends paid | - | - | - | - | (5,657) | (5,657) |
| Sale of treasury shares | - | - | 5 | 88 | (29) | 64 |
| Share repurchase | - | - | - | - | (3,629) | (3,629) |
| Proceeds from issue of loan | 10,355 | 34,100 | - | - | - | 44,455 |
| Net cash outflow from financing activities | 10,355 | 34,100 | 5 | 88 | (9,315) | 35,233 |
| Other changes: | | | | | | |
| Liability related: amortisation of loan fees and expenses | - | (85) | - | - | - | (85) |
| Equity related: other movements | - | - | - | - | 21,217 | 21,217 |
| As at 28 February 2019 | 23,166 | 43,600 | 124,939 | (602) | 101,779 | 292,882 |

35. Contingencies

Contingent liabilities

Under sections 394A and 479A of the Companies Act 2006, the parent company Vertu Motors plc has guaranteed all outstanding liabilities to which the subsidiaries listed on page 76 were subject to at the end of 28 February 2019 until they are satisfied in full. These liabilities total £790,722,000 (2018: £717,453,000), including intercompany loans of £119,094,000 (2018: £117,385,000). Such guarantees are enforceable against Vertu Motors plc by any person to whom any such liability is due.

Notes to the Consolidated Financial Statements (continued)

36. Commitments

a) Capital Commitments

Capital commitments in respect of property, plant and equipment amounting to £3,505,000 were outstanding as at 28 February 2019 (2018: £5,478,000).

b) Operating Lease Commitments

The Group leases various motor dealerships and other premises under non-cancellable operating lease agreements. The lease terms are between 2 and 25 years. The Group also leases various plant and equipment under non-cancellable operating lease agreements.

When producing transition calculations for IFRS 16, the calculations underlying the operating lease commitments note have been refined and the comparative period figures of the below disclosure restated accordingly.

The future aggregate minimum lease payments under non-cancellable operating leases, ignoring property landlord only lease breaks, are as follows:

| | 2019 | | 2018 | |
|---|-------------------|--|-------------------|--|
| | Property £'000 | Vehicles, plant and equipment £'000 | Property £'000 | Vehicles, plant and equipment £'000 |
| Commitments under non-cancellable operating leases payable: | | | | |
| No later than 1 year | 10,822 | 3,858 | 9,934 | 2,980 |
| Later than 1 year and no later than 5 years | 40,572 | 1,284 | 37,981 | 1,008 |
| Later than 5 years | 47,839 | - | 47,818 | - |
| | 99,233 | 5,142 | 95,733 | 3,988 |

37. Related party transactions

Key management personnel are defined as the Directors of the Company. The remuneration of the Directors who served during the year ended 28 February 2019 is set out in the Directors' Remuneration Report on pages 60 to 65.

Ken Lever, a Director of the Company, also sits on the board of Biffa plc. A subsidiary company of Biffa plc provides waste disposal services to the Group on normal commercial terms. In the year ended 28 February 2019, the value of such services provided was £51,156 (2018: £Nil). £Nil was unpaid at 28 February 2019 in respect of these services (2018: £Nil).

Ken Lever also sits on the board of RPS Group plc. RPS Group provides professional services to the Group on normal commercial terms. In the year ended 28 February 2019, the value of such services provided was £1,980 (2018: £Nil). £Nil was unpaid at 28 February 2019 in respect of these services (2018: £Nil).

During the year to 28 February 2019, Robert Forrester, David Crane, Michael Sherwin, Peter Jones, Nigel Stead, Andrew Goss and Pauline Best bought and sold vehicles from and to the Group. The value of these transactions for the year ended 28 February 2019 and the year ended 28 February 2018 is presented below. No profit or loss was made in respect of these transactions in the year ended 28 February 2019 or the year ended 28 February 2018. All of these transactions were pursuant to an employee vehicle ownership plan available to Executive Directors and certain Senior Managers. No outstanding balances were due to or from the Group in respect of these transactions at 28 February 2019 (2018: £Nil).

Notes to the Consolidated Financial Statements (continued)

37. Related party transactions (continued)

2019

| | Bought from the Group | | Sold to the Group | |
|------------------------------|-----------------------|-------------------------|--------------------|---------------------|
| | Number of vehicles | Purchase price £'000 | Number of vehicles | Sale price £'000 |
| Robert Forrester | 5 | 446 | 6 | 513 |
| David Crane ¹ | 3 | 203 | 3 | 225 |
| Michael Sherwin ² | 5 | 257 | 5 | 293 |
| Peter Jones | 2 | 135 | 2 | 147 |
| Nigel Stead ³ | 2 | 166 | 2 | 141 |
| Pauline Best | 2 | 145 | 3 | 200 |
| Andrew Goss ⁴ | 2 | 96 | 1 | 49 |

¹ appointed on 26 July 2018

² resigned on 1 March 2019

³ resigned on 31 December 2018

⁴ appointed on 3 September 2018

2018

| | Bought from the Group | | Sold to the Group | |
|------------------|-----------------------|-------------------------|--------------------|---------------------|
| | Number of vehicles | Purchase price £'000 | Number of vehicles | Sale price £'000 |
| Robert Forrester | 6 | 465 | 6 | 460 |
| Michael Sherwin | 8 | 424 | 8 | 418 |
| Peter Jones | 3 | 255 | 3 | 256 |
| Bill Teasdale * | 1 | 71 | 1 | 65 |
| Nigel Stead | 3 | 215 | 3 | 200 |
| Pauline Best | 4 | 249 | 4 | 262 |

* resigned on 26th July 2018

38. Post balance sheet events

On 26 March 2019, the Group disposed of a dealership property, held in property assets held for resale at 28 February 2019, in Barnsley realising cash proceeds of £624,000 and a profit on disposal of £50,000.

On 31 March 2019, the Group sold its Peugeot business in High Wycombe, which had been acquired during the year ended 28 February 2019 as part of the Hughes acquisition. Included in the disposal was the sale of the freehold dealership property, held in property assets held for resale at 28 February 2019, realising cash proceeds equal to net book value and fair value of £750,000.

In April 2019 the Group ceased its Honda operation in Retford, Lincolnshire. A buyer for the now surplus freehold property in Retford has been identified, for alternative use subject to planning being approved.

In April 2019 the Group entered into an interest rate swap, beginning on 31 July 2019, and covering the period to 27 February 2023, over £5,000,000 of the Group's borrowing, swapping LIBOR for a fixed rate of 1.214%. The notional principal amount covered by the interest rate swap increases to £15,000,000 on 31 July 2020 concurrent with the end of the Group's existing £10,000,000 interest rate swap. This increased the Group's level of hedged borrowings to £22,000,000.

Company Balance Sheet

As at 28 February 2019

| | Note | 2019 £'000 | 2018 £'000 |
|--|------|-----------------|-----------------|
| Fixed assets | | | |
| Intangible assets | 5 | 667 | 968 |
| Tangible assets | 6 | 3,304 | 3,480 |
| Investments | 7 | 187,029 | 153,633 |
| | | 191,000 | 158,081 |
| Current assets | | | |
| Debtors | 8 | 138,165 | 138,386 |
| Cash at bank and in hand | | 61,890 | 37,730 |
| Total current assets | | 200,055 | 176,116 |
| Creditors: amounts falling due within one year | 10 | (77,608) | (68,938) |
| Net current assets | | 122,447 | 107,178 |
| Total assets less current liabilities | | 313,447 | 265,259 |
| Creditors: amounts falling due after more than one year | 11 | (56,033) | (18,562) |
| Net assets | | 257,414 | 246,697 |
| Capital and reserves | | | |
| Called up share capital | 13 | 37,661 | 38,552 |
| Share premium account | 13 | 124,939 | 124,934 |
| Other reserve | 13 | 10,645 | 10,645 |
| Hedging reserve | 14 | (19) | (75) |
| Treasury share reserve | 13 | (602) | (690) |
| Capital redemption reserve | 13 | 2,066 | 1,175 |
| Profit and loss account: | | | |
| At start of year | | 72,156 | 58,943 |
| Profit for the year | | 18,805 | 23,382 |
| Other changes in retained earnings | | (8,237) | (10,169) |
| | 15 | 82,724 | 72,156 |
| Total shareholders' funds | | 257,414 | 246,697 |

These financial statements, on pages 116 to 127, have been approved for issue by the Board of Directors on 8 May 2019:

Robert Forrester
Chief Executive

Karen Anderson
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 28 February 2019

| | Ordinary share capital £'000 | Share premium £'000 | Other reserve £'000 | Hedging reserve £'000 | Treasury share reserve £'000 | Capital redemption reserve £'000 | Profit and loss account £'000 | Total Equity £'000 |
|--|---------------------------------------|---------------------------|---------------------------|-----------------------------|---------------------------------------|---|-------------------------------------|--------------------------|
| As at 1 March 2018 | 38,552 | 124,934 | 10,645 | (75) | (690) | 1,175 | 72,156 | 246,697 |
| Profit for the year | - | - | - | - | - | - | 18,805 | 18,805 |
| Tax on items taken directly to equity | - | - | - | (11) | - | - | - | (11) |
| Fair value losses | - | - | - | 67 | - | - | - | 67 |
| Total comprehensive income for the year | - | - | - | 56 | - | - | 18,805 | 18,861 |
| Sale of treasury shares | - | 5 | - | - | 88 | - | (29) | 64 |
| Repurchase of own shares | - | - | - | - | - | - | (3,455) | (3,455) |
| Cancellation of repurchased shares | (891) | - | - | - | - | 891 | - | - |
| Dividend paid | - | - | - | - | - | - | (5,657) | (5,657) |
| Share based payments charge | - | - | - | - | - | - | 904 | 904 |
| As at 28 February 2019 | 37,661 | 124,939 | 10,645 | (19) | (602) | 2,066 | 82,724 | 257,414 |

The other reserve is a merger reserve, arising from shares issued for shares as consideration, to the former shareholders of acquired companies.

For the year ended 28 February 2018

| | Ordinary share capital £'000 | Share premium £'000 | Other reserve £'000 | Hedging reserve £'000 | Treasury share reserve £'000 | Capital redemption reserve £'000 | Profit and loss account £'000 | Total Equity £'000 |
|--|---------------------------------------|---------------------------|---------------------------|-----------------------------|---------------------------------------|---|-------------------------------------|--------------------------|
| As at 1 March 2017 | 39,727 | 124,932 | 10,645 | - | (756) | - | 58,943 | 233,491 |
| Profit for the year | - | - | - | - | - | - | 23,382 | 23,382 |
| Tax on items taken directly to equity | - | - | - | 18 | - | - | - | 18 |
| Fair value losses | - | - | - | (93) | - | - | - | (93) |
| Total comprehensive income for the year | - | - | - | (75) | - | - | 23,382 | 23,307 |
| New ordinary shares issued | - | 2 | - | - | 66 | - | (4) | 64 |
| Repurchase of own shares | - | - | - | - | - | - | (5,441) | (5,441) |
| Cancellation of repurchased shares | (1,175) | - | - | - | - | 1,175 | - | - |
| Dividend paid | - | - | - | - | - | - | (5,678) | (5,678) |
| Share based payments charge | - | - | - | - | - | - | 954 | 954 |
| As at 28 February 2018 | 38,552 | 124,934 | 10,645 | (75) | (690) | 1,175 | 72,156 | 246,697 |

Notes to the Company Financial Statements

For the year ended 28 February 2019

1. Accounting Policies

Statement of compliance

The separate financial statements of Vertu Motors plc, the parent undertaking, have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with.

The Company has taken advantage of the following exemptions in paragraph 1.12 of FRS 102:

- from preparing a statement of cash flows and related notes, on the basis that it is a qualifying entity and the consolidated statement of cash flows of Vertu Motors plc includes the Company's cash flows,
- certain disclosures in relation to financial instruments,
- certain disclosures in relation to share based payments; and
- from disclosing the Company key management personnel compensation.

Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of derivative financial instruments to fair value.

The principal accounting policies, which have been consistently applied throughout the year, are set out below.

No profit and loss account is presented by the Company, as permitted under section 408 of the Companies Act 2006. The profit of the Company for the year ended 28 February 2019 was £18,805,000 (2018: £23,382,000).

The consolidated financial statements include the results of all subsidiaries owned by Vertu Motors plc listed on pages 122 to 123 of these financial statements. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 28 February 2019 by virtue of s479A of Companies Act 2006. Certain other subsidiaries, which are also listed below, have taken the exemption from preparing individual accounts for the year ended 28 February 2019 by virtue of s394A of Companies Act 2006. In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the Company has given a statutory guarantee of all the outstanding liabilities as at 28 February 2019 of the subsidiaries listed below, further detail of which is provided in note 35 to the consolidated financial statements on page 115.

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2019 by virtue of s479A Companies Act 2006 are:

| | |
|---|---------------------------------|
| Bristol Street First Investments Limited | Macklin Property Limited |
| Bristol Street Fourth Investments Limited | Tyne Tees Finance Limited |
| Vertu Motors (Knaresborough) Limited | Grantham Motor Company Limited |
| Vertu Motors (VMC) Limited | Vertu Motors (Property) Limited |
| South Hereford Garages Limited | Albert Farnell Limited |
| South Hereford Garages Trade Parts LLP | All Car Parts Limited |
| Vertu Motors (Chingford) Limited | Sigma Holdings Limited |
| Vertu Motors (Property 2) Limited | Hughes Group Holdings Limited |
| Vertu Motors (Continental) Limited | |

Notes to the Company Financial Statements (continued)

1. Accounting Policies (continued)

Basis of preparation (continued)

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2019 by virtue of s394A of Companies Act 2006 are:

| | |
|---|--|
| Gordon Lamb Limited | Gordon Lamb Holdings Limited |
| Blake Holdings Limited | National Allparts Limited |
| Bristol Street (No.1) Limited | Peter Blake (Chatsworth) Limited |
| Bristol Street (No.2) Limited | Peter Blake (Clumber) Limited |
| Bristol Street Fifth Investments Limited | Peter Blake Limited |
| Bristol Street Fleet Services Limited | Typocar Limited |
| Bristol Street Group Limited | Vertu Fleet Limited |
| Bristol Street Limited | Vertu Motors (Finance) Limited |
| BSH Pension Trustee Limited | Vertu Motors (Retail) Limited |
| Merifield Properties Limited | Boydslaw 103 Limited |
| Motor Nation Car Hypermarkets Limited | Vertu Motors (Pity Me) Limited |
| Dunfermline Autocentre Limited | Widnes Car Centre Limited |
| Widnes Car Centre (1994) Limited | Vertu Motors (Durham) Limited |
| Compare Click Call Limited | Dobies (Carlisle) Limited |
| K C Motability Solutions Limited | Vertu Motors (AMC) Limited |
| Bristol Street Commercials (Italia) Limited | Brookside (1998) Limited |
| Newbolds Garage (Mansfield) Limited | Nottingham TPS LLP |
| Gordon Lamb Group Limited | Vertu Motors Property 2 Holdings Limited |
| Aceparts Limited | SHG Holdings Limited |
| Why Pay More For Cars Limited | Blacks Autos Limited |
| Hillendale Group Limited | The Taxi Centre Limited |
| Hillendale LR Limited | Easy Vehicle Finance Limited |
| International Concessionaires Limited | |

The auditors' remuneration for audit and other services was £25,000 (2018: £25,000).

Intangible assets

Intangible assets 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 between four and six years.

Tangible fixed assets

Tangible fixed assets 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. Depreciation is provided at rates calculated to write off the cost of tangible fixed assets less their estimated residual values, on a straight-line basis over their estimated useful lives as follows:

| | |
|--------------------|-------------|
| Computer equipment | 16.6% - 50% |
| Office equipment | 25% |

Investments

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes to the Company Financial Statements (continued)

1. Accounting Policies (continued)

Deferred taxation (continued)

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income

Deferred income is in relation to vehicle warranty product income. The Group sells used vehicle warranty policies which are in house products that can be taken out over 12, 24 or 36 months with income received on inception of the policy. The policy covers replacement of mechanical and electrical parts which have suffered a mechanical breakdown, the cost of labour to fit failed parts and breakdown assistance for the period of the warranty.

When the income is received it is recognised initially as deferred income and is released to the income statement on a straight-line basis over the life of each warranty policy.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. In practice this means that revenue is recognised when a service has been undertaken.

Share based payments

The Company 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 Company 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 profit and loss account, 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.

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 profit and loss account on a straight-line basis over the period of the lease.

2. Critical accounting estimates and judgements

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

Impairment of fixed asset investments

The Company tests annually, or whenever events or changes in circumstances occur, to determine whether the fixed asset investments held have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Share based payments

Share options issued to certain employees are measured at fair value at the grant date using a fair value model, and are expensed on a straight-line basis over the vesting period based on an estimate of the number of options which will vest. The key assumptions of this model are disclosed in note 30 of the Vertu Motors plc consolidated financial statements.

Notes to the Company Financial Statements (continued)

3. Employee benefit expense

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Wages and salaries | 12,877 | 12,470 |
| Social security costs | 1,845 | 1,731 |
| Pension costs – defined contribution plans | 1,755 | 1,551 |
| | 16,477 | 15,752 |
| Share based payments charge (note 17) | 904 | 1,031 |
| | 17,381 | 16,783 |

4. Average monthly number of people employed (including Directors)

| | 2019 Number | 2018 Number |
|----------------|----------------|----------------|
| Sales | 121 | 117 |
| Service | 18 | 17 |
| Administration | 410 | 388 |
| | 549 | 522 |

5. Intangible assets

| | Computer Software £'000 |
|---------------------------------|-------------------------------|
| Cost | |
| At 1 March 2018 | 2,125 |
| Acquisitions | 5 |
| Additions | 146 |
| Disposals | (1) |
| At 28 February 2019 | 2,275 |
| Accumulated Amortisation | |
| At 1 March 2018 | 1,157 |
| Amortisation charge | 452 |
| Disposal | (1) |
| At 28 February 2019 | 1,608 |
| Net Book Value | |
| At 28 February 2019 | 667 |
| At 28 February 2018 | 968 |

6. Tangible assets

| | Computer equipment £'000 | Office equipment £'000 | Total £'000 |
|---------------------------------|--------------------------------|------------------------------|----------------|
| Cost | | | |
| At 1 March 2018 | 6,337 | 526 | 6,863 |
| Intercompany transfers | 240 | - | 240 |
| Additions | 1,255 | 23 | 1,278 |
| Disposals | (72) | (5) | (77) |
| At 28 February 2019 | 7,760 | 544 | 8,304 |
| Accumulated Depreciation | | | |
| At 1 March 2018 | 3,046 | 337 | 3,383 |
| Intercompany transfers | 129 | - | 129 |
| Depreciation charge | 1,477 | 80 | 1,557 |
| Disposals | (66) | (3) | (69) |
| At 28 February 2019 | 4,586 | 414 | 5,000 |
| Net Book Value | | | |
| At 28 February 2019 | 3,174 | 130 | 3,304 |
| At 28 February 2018 | 3,291 | 189 | 3,480 |

Notes to the Company Financial Statements (continued)

7. Fixed asset investments

| | 2019 £'000 |
|---|----------------|
| Cost | |
| At 1 March 2018 | 156,147 |
| Additions | 33,396 |
| At 28 February 2019 | 189,543 |
| Accumulated impairment charges | |
| At 1 March 2018 and at 28 February 2019 | 2,514 |
| Net Book Value | |
| At 28 February 2019 | 187,029 |
| At 28 February 2018 | 153,633 |

Vertu Motors plc, the Company, as at 28 February 2019 and 28 February 2018, invested in 100% of the ordinary share capital of the following subsidiary undertakings, incorporated in the United Kingdom:

| Company | Principal activity |
|--|--|
| <u>The registered office address of the following companies is Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead, Tyne & Wear, NE11 0XA:</u> | |
| Bristol Street First Investments Limited | Motor retailer |
| Bristol Street Fourth Investments Limited | Motor retailer |
| Vertu Motors (VMC) Limited | Motor retailer |
| Grantham Motor Company Limited | Motor retailer |
| Vertu Motors (Chingford) Limited | Motor retailer |
| Albert Farnell Limited | Motor retailer |
| South Hereford Garages Limited * | Motor retailer |
| Tyne Tees Finance Limited * | Motor retailer |
| Vertu Motors (Continental) Limited * | Motor retailer |
| Gordon Lamb Limited * | Motor retailer |
| Hughes of Beaconsfield Limited * | Motor retailer |
| South Hereford Garages Trade Parts LLP * | Parts retailer |
| Vans Direct Limited * | Online van retailer |
| Vertu Motors Third Limited | Online advertising |
| All Car Parts Limited * | Online parts retailer |
| Macklin Property Limited | Property company |
| Vertu Motors (Property) Limited | Property company |
| Vertu Motors (Knaresborough) Limited | Property company |
| Vertu Motors (Property 2) Limited * | Property company |
| BSH Pension Trustee Limited * | Pension scheme trustee |
| Vertu Motors (Finance) Limited | Finance company |
| Vertu Motors (Durham) Limited * | Holding company (dormant subsidiaries) |
| Bristol Street Fifth Investments Limited * | Holding company (dormant subsidiaries) |
| Blake Holdings Limited * | Holding company (dormant subsidiaries) |
| Bristol Street Group Limited * | Holding company |
| Vertu Motors Property 2 Holdings Limited | Holding company |
| Widnes Car Centre (1994) Limited * | Holding company (dormant subsidiaries) |
| Brookside (1998) Limited * | Holding company (dormant subsidiaries) |
| Hillendale Group Limited | Holding company (dormant subsidiaries) |
| Sigma Holdings Limited | Holding company |
| Gordon Lamb Group Limited | Holding company |
| Gordon Lamb Holdings Limited * | Holding company |
| Hughes Group Holdings Limited | Holding company |
| Vertu Ventures Limited | Holding company |
| Why Pay More For Cars Limited * | Dormant company |
| International Concessionaires Limited * | Dormant company |
| Vertu Motors (AMC) Limited | Dormant company |
| Motor Nation Car Hypermarkets Limited | Dormant company |
| Bristol Street Limited * | Dormant company |

Notes to the Company Financial Statements (continued)

7. Fixed asset investments (continued)

| Company | Principal activity |
|---|--------------------|
| Bristol Street (No. 1) Limited * | Dormant company |
| Bristol Street (No. 2) Limited * | Dormant company |
| National Allparts Limited * | Dormant company |
| Merifield Properties Limited * | Dormant company |
| Peter Blake Limited * | Dormant company |
| Peter Blake (Chatsworth) Limited * | Dormant company |
| Peter Blake (Clumber) Limited * | Dormant company |
| Typocar Limited | Dormant company |
| Widnes Car Centre Limited * | Dormant company |
| KC Mobility Solutions Limited * | Dormant company |
| Compare Click Call Limited | Dormant company |
| Dobies (Carlisle) Limited * | Dormant company |
| Newbolds Garages (Mansfield) Limited * | Dormant company |
| Nottingham TPS LLP * | Dormant company |
| Hillendale LR Limited * | Dormant company |
| Blacks Autos Limited * | Dormant company |
| Aceparts Limited | Dormant company |
| SHG Holdings Limited | Dormant company |
| Vertu Motors (Pity Me) Limited * | Dormant company |
| Bristol Street Commercials (Italia) Limited | Dormant company |
| Vertu Fleet Limited | Dormant company |
| Vertu Motors (Retail) Limited | Dormant company |
| Bristol Street Fleet Services Limited * | Dormant company |
| VanMan Limited * | Dormant company |
| Best4Vans Limited * | Dormant company |
| Horseshoe Vehicle Contracts Limited * | Dormant company |
| Carsandvansdirect Limited * | Dormant company |

The registered address of the following companies is Dunfermline Autocentre, Halbeath Road, Dunfermline, Fife, KY12 7RD

| | |
|----------------------------------|--|
| Boydslaw 103 Limited * | Holding company (dormant subsidiaries) |
| Dunfermline Autocentre Limited * | Dormant company |

The registered address of the following companies is Peugeot Paisley, Saturn Avenue, Phoenix Retail Park, Paisley, PA1 2BH

| | |
|--------------------------------|-----------------|
| The Taxi Centre Limited | Dormant company |
| Easy Vehicle Finance Limited * | Dormant company |

* Held indirectly by the Company.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

8. Debtors

| | 2019 £'000 | 2018 £'000 |
|------------------------------------|----------------|----------------|
| Trade debtors | 1,262 | 922 |
| Amounts owed by Group undertakings | 126,126 | 125,989 |
| Deferred tax asset (note 9) | 1,467 | 1,323 |
| Value Added Tax | 3,942 | 6,928 |
| Prepayments and accrued income | 5,368 | 3,224 |
| | 138,165 | 138,386 |

Amounts owed by Group undertakings are unsecured, bear no interest and have no fixed repayment date.

Notes to the Company Financial Statements (continued)

9. Deferred tax asset

| | 2019 | 2018 |
|---|--------------|--------------|
| | £'000 | £'000 |
| At beginning of year | 1,323 | 1,126 |
| Credited to the profit and loss account | 155 | 179 |
| Credited directly to equity | (11) | 18 |
| At end of year | 1,467 | 1,323 |

The amounts recognised for deferred tax assets, calculated under the liability method at 17% (2018: 17%) are set out below:

| | 2019 | 2018 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Depreciation in excess of capital allowances | 530 | 452 |
| Other short-term timing differences | 937 | 871 |
| Total | 1,467 | 1,323 |

During the year ending 28 February 2020, the reversal of deferred tax assets is expected to decrease the corporation tax charge for the year by £46,000. This is primarily due to timing differences in relation to depreciation in excess of capital allowances.

10. Creditors: amounts falling due within one year

| | 2019 | 2018 |
|------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Trade creditors | 8,481 | 5,515 |
| Other creditors | 26,000 | 23,000 |
| Corporation tax | 2,597 | 2,304 |
| Deferred consideration | 1,500 | - |
| Other taxation and social security | 4,264 | 4,553 |
| Accruals | 25,176 | 25,118 |
| Deferred income | 9,590 | 8,448 |
| | 77,608 | 68,938 |

Other creditors comprise non-interest bearing advance payments from the Group's finance company partners.

Accruals includes £11,971,000 (2018: £12,557,000) in respect of outstanding service plans.

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

| | 2019 | 2018 |
|---------------------------|---------------|---------------|
| | £'000 | £'000 |
| Bank borrowings | 43,601 | 9,585 |
| Deferred consideration | 2,600 | 100 |
| Deferred income (note 12) | 9,832 | 8,877 |
| | 56,033 | 18,562 |

| | 2019 | 2018 |
|--------------------------------------|---------------|--------------|
| | £'000 | £'000 |
| Borrowings are repayable as follows: | | |
| Under 1 year | - | - |
| 1-2 years | - | - |
| 2-5 years | 43,601 | 9,585 |
| | 43,601 | 9,585 |

The bank borrowings are secured on the assets of the Company and the Group. The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

Notes to the Company Financial Statements (continued)

11. Creditors: amounts falling due after more than one year (continued)

| | Within one year £'000 | Within two to five years £'000 | Total £'000 |
|----------------------------|-----------------------------|--------------------------------------|----------------|
| Bank borrowings | - | 43,601 | 43,601 |
| Trade and other creditors | 77,608 | 12,432 | 90,040 |
| At 28 February 2019 | 77,608 | 56,033 | 133,641 |

| | Within one year £'000 | Within two to five years £'000 | Total £'000 |
|----------------------------|-----------------------------|--------------------------------------|----------------|
| Bank borrowings | - | 9,585 | 9,585 |
| Trade and other creditors | 68,938 | 8,977 | 77,915 |
| At 28 February 2018 | 68,938 | 18,562 | 87,500 |

12. Deferred income

Deferred income due in greater than one year comprises:

| | 2019 £'000 | 2018 £'000 |
|-----------------|---------------|---------------|
| Warranty income | 9,832 | 8,877 |
| | 9,832 | 8,877 |

Deferred income relates to used car warranty products sold by the Group. These warranty policies can be taken out over 12, 24 or 36 months with income received in advance of this period being released on a straight-line basis over the life of the policies. There is an additional £7,998,000 included in 'Deferred income' in creditors: amounts falling due within one year, in respect of such warranties recognising the amount to be released over the next 12 months (2018: £6,684,000).

13. Called up share capital, share premium, other reserve, treasury share reserve and capital redemption reserve

| 2019 | Ordinary shares of 10p each Number of shares ('000) | Called up Share capital £'000 | Share premium account £'000 | Other reserve £'000 | Treasury share reserve £'000 | Capital redemption reserve £'000 | Total £'000 |
|---------------------------------------|---|--|--------------------------------------|---------------------------|---------------------------------------|---|----------------|
| At 1 March 2018 | 383,709 | 38,552 | 124,934 | 10,645 | (690) | 1,175 | 174,616 |
| Shares issued during the year | 233 | - | 5 | - | 88 | - | 93 |
| Cancellation of repurchased shares | (8,919) | (891) | - | - | - | 891 | - |
| At 28 February 2019 | 375,023 | 37,661 | 124,939 | 10,645 | (602) | 2,066 | 174,709 |

All issued shares are fully paid-up.

The other reserve is a merger reserve, arising from shares issued for shares as consideration to the former shareholders of acquired businesses.

Notes to the Company Financial Statements (continued)

13. Called up share capital, share premium, other reserve, treasury share reserve and capital redemption reserve (continued)

| 2018 | Ordinary shares of 10p each Number of shares ('000) | Called up Share capital £'000 | Share premium account £'000 | Other reserve £'000 | Treasury share reserve £'000 | Capital redemption reserve £'000 | Total £'000 |
|------------------------------------|--|----------------------------------|--------------------------------|------------------------|---------------------------------|-------------------------------------|----------------|
| At 1 March 2017 | 395,279 | 39,727 | 124,932 | 10,645 | (756) | - | 174,548 |
| Shares issued during the year | 175 | - | 2 | - | 66 | - | 68 |
| Cancellation of repurchased shares | (11,745) | (1,175) | - | - | - | 1,175 | - |
| At 28 February 2018 | 383,709 | 38,552 | 124,934 | 10,645 | (690) | 1,175 | 174,616 |

14. Hedging reserve

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Cash flow hedges: | | |
| At beginning of year | (75) | - |
| Fair value gains/(losses) on derivative financial instruments during the year | 67 | (93) |
| Deferred taxation on fair value gains/(losses) during year | (11) | 18 |
| At end of year | (19) | (75) |

15. Profit and loss account

| | 2019 £'000 | 2018 £'000 |
|-------------------------------|---------------|---------------|
| As at beginning of year | 72,156 | 58,943 |
| Profit for the financial year | 18,805 | 23,382 |
| Dividend paid | (5,657) | (5,678) |
| Share based payments charge | 904 | 954 |
| Repurchase of own shares | (3,455) | (5,441) |
| Treasury shares issued | (29) | (4) |
| As at end of year | 82,724 | 72,156 |

The issue of treasury shares in the period was in satisfaction of the exercise of vested share options by senior managers.

16. Dividends per share

Dividends of £5,657,000 were paid in the year to 28 February 2019 (2018: £5,678,000), 1.50p per share (2018: 1.45p). A final dividend in respect of the year ended 28 February 2019 of 1.05p per share, is to be proposed at the annual general meeting on 24 July 2019. The ex-dividend date will be 27 June 2019 and the associated record date 28 June 2019. This dividend will be paid, subject to shareholder approval, on 29 July 2019 and these financial statements do not reflect this final dividend payable.

17. Share based payments

For details of share based payment awards and fair values, see note 30 to the consolidated financial statements. The Company financial statements include a share based payments charge for the year of £904,000 (2018: £1,031,000).

18. Contingencies

See note 35 to the consolidated financial statements for details of contingent liabilities as at the balance sheet date.

Notes to the Company Financial Statements (continued)

19. Directors' Remuneration

The remuneration of the Directors who served during the year from 1 March 2018 to 28 February 2019 is set out within the Directors' Remuneration Report on pages 60 to 65.

20. Commitments

The Company leases vehicles under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases is set out below:

| | 2019 | 2018 |
|---|-----------------|-----------------|
| | Vehicles | Vehicles |
| | £'000 | £'000 |
| Commitments under non-cancellable operating leases payable: | | |
| No later than 1 year | 259 | 188 |
| Later than 1 year and no later than 5 years | 67 | 124 |
| Later than 5 years | - | - |
| | 326 | 312 |

21. Related party transactions

The Company has related party relationships with its subsidiaries and with key management personnel.

Transactions with the Directors of the Company are disclosed in note 37 of the consolidated financial statements.

During the financial year ended 28 February 2019, the Company made cash contributions of £63,000 into the Bristol Street Pension Scheme (2018: £380,000).

Alternative Performance Measures

Set out below are the definitions and sources of various alternative performance measures which are referred to throughout the Annual Report. All financial information provided is in respect of the Vertu Motors plc Group.

Definitions

| | |
|-------------------------|--|
| Like-for-like | Dealerships that have comparable trading periods in two consecutive financial years. |
| FY2019 | The twelve month period ended 28 February 2019. |
| FY2018 | The twelve month period ended 28 February 2018. |
| Aftersales gross margin | Aftersales gross margin compares the gross profit earned from aftersales activities to the total aftersales revenues, including internal revenue relating to service and vehicle preparation work performed on the Group's own vehicles. This is to properly reflect the real activity of the Group's aftersales department. |

Alternative Performance Measures

EBITDA (Earnings before interest, taxation, depreciation and amortisation)

| | 2019 | 2018 |
|-----------------------------|---------------|---------------|
| | £'000 | £'000 |
| Operating profit | 29,013 | 32,345 |
| Impairment charges (note 6) | - | 513 |
| Depreciation (note 18) | 10,722 | 9,714 |
| Amortisation (note 16) | 543 | 614 |
| EBITDA | 40,278 | 43,186 |

Adjusted EBITDA (adjusted for non-underlying items)

| | 2019 | 2018 |
|---|---------------|---------------|
| | £'000 | £'000 |
| EBITDA | 40,278 | 43,186 |
| Non-underlying items (note 8): | | |
| Share based payment charge | 904 | 1,031 |
| VAT reclaim on dealer deposit contributions | (3,069) | - |
| Profit on disposal of freehold property | - | (4,149) |
| Loss on disposal of Boston Volkswagen | - | 610 |
| Adjusted EBITDA | 38,113 | 40,678 |

Free cash flow

| | 2019 | 2018 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Adjusted EBITDA | 38,113 | 40,678 |
| Movement in working capital | 18,861 | (13,332) |
| Capital expenditure | (25,351) | (18,274) |
| Proceeds from disposal of property, plant and equipment | 3,964 | 14,315 |
| Purchase of freehold and long leasehold land and buildings | (9,008) | (4,346) |
| Non-underlying VAT income | 3,069 | - |
| Finance costs paid | (3,854) | (2,307) |
| Tax paid | (4,703) | (6,118) |
| Free cash flow | 21,091 | 10,616 |

Alternative Performance Measures (continued)

Adjusted Net Cash

| | 2019 | 2018 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Cash and cash equivalents | 66,519 | 41,709 |
| Borrowings (note 25) | (66,766) | (22,396) |
| Net (debt) / cash (note 32) | (247) | 19,313 |
| Used car stocking loans – other borrowings (note 25) | 23,166 | 12,811 |
| Adjusted net cash | 22,919 | 32,124 |

Adjusted Profit Before Tax (PBT)

| | 2019 | 2018 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Profit before tax | 25,332 | 30,447 |
| Non-underlying items (note 8): | | |
| Amortisation | 543 | 614 |
| Share based payment charge | 904 | 1,031 |
| VAT reclaim on dealer deposit contributions | (3,069) | - |
| Profit on disposal of freehold property | - | (4,149) |
| Loss on disposal of Boston Volkswagen | - | 610 |
| Adjusted PBT | 23,710 | 28,553 |

Tangible net assets per share

| | 2019 | 2018 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Net assets | 276,643 | 264,418 |
| Less: | | |
| Goodwill and other indefinite life assets | (112,182) | (94,381) |
| Other intangible assets | (2,599) | (1,316) |
| Add: | | |
| Deferred tax on above adjustments | 6,576 | 5,561 |
| Tangible net assets | 168,438 | 174,282 |
| Tangible net assets per share | 44.9p | 45.4p |

At 28 February 2019, there were 376,605,968 shares in issue (2018: 385,524,417) of which, 1,582,786 were held by the Group's employee benefit trust (2018:1,815,553).

Like-for-like reconciliations:

Revenues by department

| 2019 | FY19 | FY19 | FY19 | FY19 |
|-------------------------------|----------------|--------------------|------------------|----------------------|
| | Group | Acquisition | Disposals | Like-for-like |
| | revenue | revenue | revenue | revenue |
| | £'m | £'m | £'m | £'m |
| New car retail and Motability | 862.8 | (20.0) | (1.2) | 841.6 |
| New fleet and commercial | 644.7 | (11.8) | - | 632.9 |
| Used cars | 1,217.6 | (41.2) | (0.5) | 1,175.9 |
| Aftersales | 257.1 | (11.9) | (0.1) | 245.1 |
| Total revenue | 2,982.2 | (84.9) | (1.8) | 2,895.5 |
| 2018 | FY18 | FY18 | FY18 | FY18 |
| | Group | Acquisition | Disposals | Like-for-like |
| | revenue | revenue | revenue | revenue |
| | £'m | £'m | £'m | £'m |
| New car retail and Motability | 836.4 | - | (18.2) | 818.2 |
| New fleet and commercial | 662.5 | - | (3.8) | 658.7 |
| Used cars | 1,068.9 | - | (15.6) | 1,053.3 |
| Aftersales | 228.3 | - | (3.0) | 225.3 |
| Total revenue | 2,796.1 | - | (40.6) | 2,755.5 |

Alternative Performance Measures (continued)

Like-for-like reconciliations (continued):

Aftersales revenue by department

| 2019 | FY19 Group revenue £'m | FY19 Acquisition revenue £'m | FY19 Disposals revenue £'m | FY19 Like-for-like revenue £'m |
|-------------------------|---|---|---|---|
| Parts | 168.5 | (6.6) | - | 161.9 |
| Other revenue | 16.8 | (0.6) | - | 16.2 |
| Parts and other revenue | 185.3 | (7.2) | - | 178.1 |
| Service | 124.3 | (5.8) | - | 118.5 |
| Total revenue* | 309.6 | (13.0) | - | 296.6 |

| 2018 | FY18 Group revenue £'m | FY18 Acquisition revenue £'m | FY18 Disposals revenue £'m | FY18 Like-for-like revenue £'m |
|-------------------------|---|---|---|---|
| Parts | 154.7 | - | (1.3) | 153.4 |
| Other revenue | 14.4 | - | (0.8) | 13.6 |
| Parts and other revenue | 169.1 | - | (2.1) | 167.0 |
| Service | 111.4 | - | (1.2) | 110.2 |
| Total revenue* | 280.5 | - | (3.3) | 277.2 |

*Inclusive of both internal and external revenue

Gross profit by department

| 2019 | FY19 Group gross profit £'m | FY19 Acquisition gross profit £'m | FY19 Disposals gross profit £'m | FY19 Like-for-like gross profit £'m |
|-------------------------------|--|--|--|--|
| New car retail and Motability | 63.8 | (1.2) | - | 62.6 |
| New fleet and commercial | 20.2 | (0.7) | - | 19.5 |
| Used cars | 102.1 | (1.6) | - | 100.5 |
| Aftersales | 136.0 | (5.9) | - | 130.1 |
| Gross profit | 322.1 | (9.4) | - | 312.7 |

| 2018 | FY18 Group gross profit £'m | FY18 Acquisition gross profit £'m | FY18 Disposals gross profit £'m | FY18 Like-for-like gross profit £'m |
|-------------------------------|--|--|--|--|
| New car retail and Motability | 64.1 | - | (1.0) | 63.1 |
| New fleet and commercial | 21.4 | - | (0.1) | 21.3 |
| Used cars | 98.7 | - | (0.7) | 98.0 |
| Aftersales | 123.5 | - | (1.3) | 122.2 |
| Gross profit | 307.7 | - | (3.1) | 304.6 |

Aftersales gross profit by department

| 2019 | FY19 Group gross profit £'m | FY19 Acquisition gross profit £'m | FY19 Disposal gross profit £'m | FY19 Like-for-like gross profit £'m |
|---------------------|--|--|---|--|
| Parts | 35.7 | (1.4) | - | 34.3 |
| Other | 6.7 | (0.3) | - | 6.4 |
| Parts and other | 42.4 | (1.7) | - | 40.7 |
| Service | 93.6 | (4.2) | - | 89.4 |
| Gross profit | 136.0 | (5.9) | - | 130.1 |

Alternative Performance Measures (continued)

Like-for-like reconciliations (continued):

Aftersales gross profit by department (continued)

| 2018 | FY18 | FY18 | FY18 | FY18 |
|---------------------|--------------------|--------------------------|------------------------|----------------------------|
| | Group gross profit | Acquisition gross profit | Disposals gross profit | Like-for-like gross profit |
| | £'m | £'m | £'m | £'m |
| Parts | 33.0 | - | (0.2) | 32.8 |
| Other | 6.0 | - | (0.2) | 5.8 |
| Parts and other | 39.0 | - | (0.4) | 38.6 |
| Service | 84.5 | - | (0.9) | 83.6 |
| Gross profit | 123.5 | - | (1.3) | 122.2 |

Number of units sold by department

| 2019 | FY19 | FY19 | FY19 | FY19 |
|--------------------|----------------|----------------|-------------|----------------|
| | Group | Acquisition | Disposals | Like-for-like |
| New car retail | 35,412 | (652) | (49) | 34,711 |
| New car Motability | 9,796 | (271) | (4) | 9,521 |
| New fleet | 15,733 | (209) | (1) | 15,523 |
| New commercial | 16,115 | (54) | - | 16,061 |
| Used cars | 84,444 | (1,833) | (35) | 82,576 |
| Total units | 161,500 | (3,019) | (89) | 158,392 |

| 2018 | FY18 | FY17 | FY18 | FY18 |
|--------------------|----------------|-------------|----------------|----------------|
| | Group | Acquisition | Disposals | Like-for-like |
| New car retail | 35,412 | - | (944) | 34,468 |
| New car Motability | 10,770 | - | (66) | 10,704 |
| New fleet | 19,029 | - | (223) | 18,806 |
| New commercial | 15,823 | - | (5) | 15,818 |
| Used cars | 79,822 | - | (1,189) | 78,633 |
| Total units | 160,856 | - | (2,427) | 158,429 |

Average selling price by department

| 2019 | FY19 | FY19 | FY19 | FY19 |
|--------------------------------|--------|-------------|-----------|---------------|
| | Group | Acquisition | Disposals | Like-for-like |
| New car retail and Motability* | 17,286 | 26,867 | 12,345 | 17,151 |
| New fleet and commercial* | 20,128 | 27,251 | 20,367 | 19,922 |
| Used cars | 14,419 | 25,495 | 15,329 | 14,203 |

*Average selling price is stated inclusive of wholesale units

| 2018 | FY18 | FY18 | FY18 | FY18 |
|--------------------------------|--------|-------------|-----------|---------------|
| | Group | Acquisition | Disposals | Like-for-like |
| New car retail and Motability* | 16,534 | - | 16,359 | 16,538 |
| New fleet and commercial* | 18,786 | - | 16,700 | 18,912 |
| Used cars | 13,391 | - | 13,107 | 13,396 |

Alternative Performance Measures (continued)

Like-for-like reconciliations (continued):

Operating expenses

| 2019 | FY19 Group £'m | FY19 Acquisition £'m | FY19 Disposals £'m | FY19 Like-for-like £'m |
|--------------------|-------------------------------|-------------------------------------|-----------------------------------|---------------------------------------|
| Operating expenses | 294.7 | (9.8) | (0.3) | 284.6 |
| | | | | |
| 2018 | FY18 Group £'m | FY18 Acquisition £'m | FY18 Disposals £'m | FY18 Like-for-like £'m |
| Operating expenses | 277.3 | - | (4.0) | 273.3 |

Vertu Group Directory

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Ascot Mercedes-Benz
 London Road
 Bracknell
 Berkshire RG12 9FR
 Telephone: 01344 420096

Aylesbury Mercedes-Benz
 Bicester Road,
 Aylesbury,
 Buckinghamshire, HP19 8BL
 Telephone: 01296 319600

Beaconsfield Mercedes-Benz
 55 Station Road,
 Beaconsfield,
 Buckinghamshire HP9 1QJ
 Telephone: 01494 672141

Reading Mercedes-Benz
 Richfield Avenue
 Reading
 Berkshire RG1 8EQ
 Telephone: 01189 391133

Slough Mercedes-Benz
 273-283 Bath Road
 Slough
 Berkshire SL1 5PR
 Telephone: 01753 554444

NISSAN
Bradford Nissan
 Thornton Road
 Bradford BD1 2EP
 Telephone: 01274 736440

Chesterfield Nissan
 1 Discovery Way
 Whittington Moor
 Chesterfield S41 9EG
 Telephone: 01246 260100

Darlington Nissan
 McMullen Road
 Darlington DL1 1XP
 Telephone: 08448 115975

Derby Nissan
 Sir Frank Whittle Road
 Derby DE21 4PB
 Telephone: 01332 375360

Glasgow Nissan Central
 144 Port Dundas Road
 Glasgow G4 0HZ
 Telephone: 0141 896 6611

Glasgow Nissan South
 60 Wellbeck Road
 Darnley
 Glasgow G53 7SD
 Telephone: 0141 896 3040

Halifax Nissan
 Shay Syke
 Halifax
 West Yorkshire HX1 2ND
 Telephone: 08432 182 548

Ilkeston Nissan
 Derby Road
 Ilkeston DE7 5FH
 Telephone: 01159 444499

Northampton Nissan
 Carousel Way
 Northampton NN3 9HG
 Telephone: 08436 589 626

Sheffield Nissan
 Attercliffe Road
 Sheffield
 South Yorkshire S4 7WW
 Telephone: 0114 270 1400

Widnes Nissan
 Moor Lane
 Widnes
 Cheshire WA8 7AL
 Telephone: 08433 08 87 37

PEUGEOT
Banbury Peugeot
 Southam Road
 Banbury OX16 2RS
 Telephone: 01295 253511

Harlow Peugeot
 Edinburgh Way
 Harlow
 Essex CM20 2DS
 Telephone: 0127 9624190

PEUGEOT
Northampton Peugeot
 2 Fortune Close
 Riverside Park
 Northampton NN3 9HZ
 Telephone: 01604 401141

PEUGEOT
Oxford Peugeot
 370 Iffley Road
 Oxford OX4 4AT
 Telephone: 01865 749000

PEUGEOT
Paisley Peugeot
 Saturn Avenue
 Phoenix Retail Park
 Paisley PA1 2BH
 Telephone: 0141 8428800

RENAULT
Bradford Renault
 Thornton Road
 Bradford BD1 2EP
 Telephone: 01274 736 440

RENAULT
Derby Renault
 Sir Frank Whittle Road
 Derby DE21 4PB
 Telephone: 08445 565014

RENAULT
Exeter Renault
 14A Marsh Barton Road
 Marsh Barton Trading Est.
 Exeter EX2 8NT
 Telephone: 01392 423300

RENAULT
Gloucester Renault
 3 Ramsdale Road
 Gloucester GL2 5FE
 Telephone: 01452 505295

RENAULT
Mansfield Renault
 Southwell Road West
 Mansfield NG18 4LW
 Telephone: 01623 413 996

RENAULT
Nottingham Renault
 Haydn Road
 Sherwood
 Nottingham NG5 1EA
 Telephone: 0115 845 4040

SEAT
Birmingham SEAT
 Watson Road
 Star City
 Birmingham B7 5SA
 Telephone: 0121 327 3700

SEAT
Carlisle SEAT
 Parkhouse Road
 Kingstown Industrial Estate
 Carlisle CA3 0GW
 Telephone: 01228 558916

SEAT
Darlington SEAT
 Houghton Road
 Darlington DL1 2BP
 Telephone: 01325 354145

SEAT
Derby SEAT
 Locomotive Way
 Pride Park
 Derby DE24 8PU
 Telephone: 08448 154775

ŠKODA
Aylesbury ŠKODA
 Bicester Road,
 Aylesbury,
 Buckinghamshire, HP19 8BL
 Telephone: 01296 319603

ŠKODA
Chesterfield ŠKODA
 1 Discovery Way
 Whittington Moor
 Chesterfield S41 9EG
 Telephone: 01246 260100

ŠKODA
Darlington ŠKODA
 McMullen Road
 Darlington
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 Buckinghamshire HP9 1QJ
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SMART
Reading Smart
 Richfield Avenue
 Reading
 Berkshire RG1 8EQ
 Telephone: 01189 391133

TOYOTA
Chesterfield Toyota
 2 Lockford Lane
 Chesterfield S41 7HY
 Telephone: 01246 221100

USED CARS CENTRES
Bristol Street Motors
Used Cars Stroud
 London Road
 Stroud GL5 2AX
 Telephone: 08445 56 79 85

USED CARS CENTRES
Used Cars Derby
 Sir Frank Whittle Road
 Derby DE21 4PB
 Telephone: 08445 565051

Hughes Select
 Bicester Road,
 Aylesbury,
 Buckinghamshire, HP19 8BL
 Telephone: 01296 319619

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 Chesterfield S40 3BD
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 Grimbald Crag Road
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