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By: .....

General Counsel – Vertu Motors plc

Date 08/08/18

Vertu Motors plc

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COMPANIES HOUSE

ANNUAL REPORT & FINANCIAL STATEMENTS

For the year ended 28 February 2018

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Financial Diary

Annual General Meeting	25 July 2018
Interim Results 2018/19	10 October 2018
Final Results 2018/19	May 2019

Vertu Motors plc Mission Statement

"To deliver an outstanding customer motoring experience through honesty and trust"

Chairman's Statement

The Board is announcing a creditable set of results against a tougher market backdrop for the automotive sector. The Group generated adjusted EBITDA of £40.7m (2017: £42.4m) and continued to invest in its core automotive retail assets to support future growth while focusing on capital allocation, returning £11.1m to shareholders through both dividends and a programme of share buy-backs (the "Buy-back Programme"). Under the Buy-back Programme, the Group, as at 28 February 2018, had repurchased 12.3m shares, equivalent to 3.1% of the Group's issued share capital. Subsequent to the end of the financial year ended 28 February 2018 ("the Period"), the purchase of the Group's own shares continued and a further 5.7m shares have been acquired equivalent to 1.4% of the Group's issued share capital, with the result that 18.0m shares equating to 4.53% of the Group's share capital as at 1 March 2017 have now been repurchased in total. The cash saving from lower dividend payments as a result of the Buy-back Programme, based upon an annual dividend of 1.5p per share, amounts to £270,000 per annum. The Board will seek a renewed approval for the Buy-back Programme at the forthcoming Annual General Meeting.

We have kept a sharp focus on maximising the value in our property portfolio, realising a profit of £4.1m from a sale and leaseback transaction while maintaining our strong asset backing. We have adopted a similar approach to the Group's dealership portfolio, with the disposal or closure of five underperforming sales outlets during the Period realising cash of £2.8m in the process, with a further £2.0m realised from surplus property disposals subsequent to the year end. This approach has ensured that the Group remains in a strong position to take advantage of both organic and acquisition-led opportunities in the months ahead. The Group's balance sheet continues to be very well-capitalised, with net cash of £19.3m at 28 February 2018 and available, unutilised bank facilities of £30m with the potential to add a further £30m.

The Period has been a more challenging time for the UK automotive retail sector. The value of Sterling was weak during the Period (trading between €1.08 and €1.20) and as a consequence, following five consecutive years of growth, the UK private new vehicle market fell by 6.8% in 2017 in terms of registrations (SMMT). Neither the General Election in June, the ongoing negative press coverage surrounding the Brexit negotiations nor the mixed messages from Government about the future of diesel vehicles have helped the consumer environment for vehicle sales. However, the management team has been disciplined in avoiding distraction and maintaining its focus on what it can control: setting the agenda for operational improvement, especially in the businesses acquired in recent years, investing in world class training to lift the skills and leadership ability of the dealership teams, controlling costs and keeping a sharp focus on capital allocation. This latter point has been particularly important, and it is indeed no accident, that the Group has not made any acquisitions during the Period. Acquisition pricing has been driven in part by foreign (non-Sterling) investors and the Board has not strayed from the discipline of its valuation metrics. This will ensure that future returns are not diluted by chasing inflated prices. As a consequence, the Group is now in a strong position to grow as the sector cycle presents better value acquisition opportunities.

It should also be noted that, against the backdrop set out above, 2017 represented the third largest annual new car retail market in the United Kingdom in the last 13 years and the country remains in a positive economic growth environment. Economic forecasts currently see this growth environment continuing.

The Group remains set for further growth, well positioned with Manufacturers and in a very healthy financial position. I remain optimistic about the Group's growth prospects underpinned by our very strong and well capitalised balance sheet.

Throughout this Annual Report there are references to various Alternative Performance Measures ("APMs") used to measure performance for the financial year ended 28 February 2018, which can be reconciled to measures disclosed in the financial statements on page 70 to 110. Definitions and reconciliations of the APMs referred to are provided on page 123 to 125.

Chairman's Statement (continued)

The Group's objective remains to deliver long-term value for its owners through building a scaled, franchised dealership business generating significant, resilient and increasing cashflows. The Group seeks to do this by pursuing a consistent strategy with a well-established business model. This report will set out the strategy, explain the business model and describe how the Group has used the model to establish a competitive position from which to generate growth in cashflows over the long-term. Growing cashflow is a result of growing revenues, managing margins, operating costs and tax payments and managing working capital and capital expenditure within the framework of a suitable funding structure. This report will examine each of these areas.

The Group continues to develop a talented, stable and experienced operational team which is committed to delivering on the Group's strategy and I would like to take this opportunity to thank every colleague in the Group for their commitment and dedication during the year.

Financial Highlights

Revenues and Volumes

- Revenues of £2,796.1m (2017: £2,822.6m)
- Like-for-like service revenues up 4.7% continuing long-term growth trend
- Like-for-like used vehicle volumes declined 0.5%
- Continued softening of new vehicle market, particularly in volume franchises, as supply reduced and prices rose on currency pressure
- Group like-for-like new car retail volumes down 13.3%, fleet car supply volumes down 5% and light commercial van volumes down 4.2%

Margins and Profitability

- Adjusted profit before tax of £28.6m (2017: £31.5m) down 9.2% and profit before tax up 2.3% to £30.5m (2017: £29.8m)
- Earnings per share 6.31p up 2.8% (2017: 6.14p)
- Group gross profit margins stable at 11.0% (2017: 11.1%)
- Group like-for-like service gross profit margins reduced slightly to 76.4% from 77.3%
- Solid performance in aftersales and used cars representing 72.3% of gross profit (2017: 71.5%)
- Like-for-like used car margins declined to 9.6% (2017: 10.1%), stabilising in second half
- Exceptional profit on property disposals of £3.5m

Managing Operating Expenses and Tax Payments

- Total adjusted operating expenses down 0.5% to £278.4m (2017: £279.8m) achieved in spite of well publicised cost headwinds
- Operating expenses as a percentage of revenue stable at 10.0%
- Effective rate of taxation 18.9% (2017: 19.5%)

Generating Cash Profits and Managing Working Capital

- EBITDA up 4.3% to £43.2m (2017: £41.4m)
- Cash generated from operations of £27.3m (2017: £58.1m)
- Working capital outflow of £13.3m driven by increased used vehicle inventory holdings and VAT movements related to new vehicle consignment levels

Disciplined Capital Allocation

- £24.1m of capital expenditure, primarily on new dealership developments and increasing capacity in sales and aftersales areas (2017: £26.4m)
- Period of major capital investment: spend levels expected to substantially reduce in FY20
- Cash of £2.8m released from portfolio management decisions to dispose of poorly performing operations
- Sale and leaseback transaction generated £14.2m of cash and exceptional profit on disposal supporting value in freehold and long leasehold portfolio
- Dividend up 7.1% to 1.5p per share (2017: 1.4p per share), eighth consecutive year of dividend growth

Chairman's Statement (continued)

Financial Highlights (continued)

Disciplined Capital Allocation (continued)

- Share buyback programme: 18.0 million shares repurchased to date at an average of 43.8p per share deploying £7.9m
- The Board sees value in a continued share buy-back programme cognisant that tangible net assets per share are at 45.4p

Very Strong Balance Sheet to Fund Growth

- Period end net cash of £19.3m (2017: £21.0m)
- Unutilised five year bank facility of £30m, with the potential to add a further £30m
- Used car inventory largely unencumbered from short-term stocking loans
- Freehold and long leasehold property of £183.8m (2017: £182.0m)
- Potential acquisition opportunities are increasing, giving scope for further scaling-up of the business to drive value and further enhance shareholder returns

Current Trading and Outlook

In March and April 2018 ("the Post Year-end Period") the Group has traded in line with management's expectations. March remains the most significant month of the year for the profitability of UK automotive retail due to the plate change. This year comparisons of March with the prior year were skewed due to the impact of the pull forward of registrations due to the vehicle excise duty changes on 1 April 2017 and the timing of Easter which reduced March profitability in 2018. We have therefore considered the two months of March and April together. The UK private new car market fell by 8.8% in the Post Year-end Period. The Group's like-for-like new retail volume declined by 2.6% during the Post Year-end Period, significantly outperforming the market with the result that the Group grew its market share. In addition, the Group also grew market share in the Motability, fleet and commercial channels. The Group achieved manufacturer volume targets at a high level and, as a result, new car gross margins were stable.

Both used car and aftersales performance during the Post Year-end Period were impacted by the adverse weather conditions in early March 2018. However, over the Post Year-end Period as a whole like-for-like used car volumes rose 7.0% and like-for-like service revenues were up 6.8%. The Group is benefitting from having additional technician resources in place. Whilst as anticipated due to last year's record March trading performance, the profits in the Post Year-end Period are behind last year, the Board believes they represent a very positive outcome.

Subsequent to the year end, the Group disposed of a vacant freehold property for £2.0m in cash, realising a profit on sale of £0.6m. This further demonstrates the value inherent in the Group's freehold and long leasehold property portfolio and further disposals of vacant property are likely in the coming months.

The prospects for the UK new car market are likely to be more favourable with stabilisation of volumes from April 2018 onwards currently anticipated by the SMMT. The market significantly weakened from April 2017 onwards. There is a degree of uncertainty over new vehicle supply around the implementation of Worldwide Harmonised Light Vehicle Test Procedures ("WLTP") regulations due to come into force on 1 September 2018. The impact of WLTP on production and supply of new vehicles is currently not clear and this may cause some short-term supply limitations until the end of quarter four 2018. The current consumer trend for increased petrol new vehicle demand, reducing diesel new vehicle demand, may also result in supply limitations as a result of the lag in changing production to respond to this shift in consumer behaviour in the last 12 months.

Chairman's Statement (continued)

Current Trading and Outlook (continued)

The outlook for used cars is strong with the Group focused on continuing growth in profitability for the remainder of the year following a successful Post Year-end Period. Aftersales prospects are positive due to the impact of previous service plan penetration, rising vehicle parcs and the successful recruitment and retention strategies adopted for technician resource.

Cost increases continue to impact the Group as previously reported and these are likely to absorb some of the expected increases in revenues and gross profit.

Given the encouraging trading performance of the Group and the Group's strong balance sheet, the Board remains confident about the Group's prospects for the current year and its ability to undertake further growth through acquisitions.

P Jones
Chairman

Strategic Report

The Directors present their Strategic Report on the affairs of the Group and Company, for the year ended 28 February 2018.

Strategic and 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 our unique national footprint, 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 in what is still a sector with a fragmented ownership structure in many franchises.

The Group will continue to acquire dealerships across the volume and premium spectrum as the Board currently believes that capital can continue to be invested in additional dealerships to deliver significant return on investment to shareholders in the short and medium term. The fragmented nature of the UK automotive retail sector means that significant growth potential remains, and crucially, 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. Six-monthly we assess our 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. 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 Period, the Board has continued to assess several further acquisition opportunities, rigorously applying consistent valuation criteria. 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. Indeed, a number of the opportunities introduced by Corporate Finance practitioners did not result in the marketed businesses being sold. Valuation expectations in the minds of vendors have been fuelled to some extent by overseas bidders. Further opportunities continue to be assessed and the Group has seen an increase in potential deal flow in the last few months. 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 undertaken at appropriate valuations to ensure future returns. We will remain selective and disciplined in our approach, cognisant that the Board is trusted to spend our shareholders' capital sensibly with the goal of creating and sustaining long term value.

Modern automotive retailing is undergoing substantial changes and these changes are likely to accelerate in the years ahead. The rise of digital sales channels, CASE (Connected, Autonomous, Sharing and Electric) developments and Manufacturer investment and scale requirements expected of retailers are likely to have an impact on franchised networks and the locations which the Group will want to operate from in the future. These trends which represent an opportunity for scaled franchised dealer groups, are likely to drive further consolidation in the sector and to lead to an increase in sales per outlet in the sector. We are mindful of these changes when considering the current portfolio and how it will evolve and the following trends are considered particularly pertinent:

- There will be a trend away from rural, smaller franchise points and greater investment in larger, urban representation points. This will yield operational gearing benefits of increased sales per outlet. Acquisitions and disposals must reflect this trend.

Strategic Report (continued)

Strategic and Portfolio Management (continued)

- Property flexibility may have increasing importance as network restructuring occurs and retail formats and requirements change. Lease length and structures will take on a greater importance as a result. Freehold ownership is preferred by the Board given the greater flexibility this affords.

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 Period.

Portfolio Changes

Portfolio changes have been made during the Period reflective of the capital allocation principles and trends outlined above:

- In March 2017 the Group disposed of its loss-making Chesterfield Peugeot business and in due course the freehold premises will be sold
- In May 2017 the Group ceased its Mazda operations in Bristol allowing sole focus on the Hyundai franchise
- The Group completed its exit from the Fiat Group business with the closure in December 2017 of Worcester Fiat and Alfa Romeo and of its multi-franchise Cheltenham Fiat and Mazda business in March 2018
- The Group disposed of its loss-making former Volkswagen dealership in Boston, Lincolnshire. This included the disposal of the freehold premises for £1.2m
- The Group closed two accident repair centres to increase capacity in more profitable activities as part of dealership redevelopments
- In April 2018 the Group ceased its Volvo operation in Sheffield allowing sole focus on the Nissan franchise at the location

During the Period these changes released £1.2m from property assets and £1.6m from working capital which was re-deployed to activities generating higher returns. Dealerships acquired in the year ended 28 February 2017 made a profit before interest and tax contribution of £1.2m in the Period. The sites closed or disposed of during the Period lost £1.1m (2017: £1.6m) hence these actions will enhance future returns and operating margins of the Group.

Subsequent to these changes the Group now operates 117 franchised sales outlets, and 3 non-franchised sales outlets, from 103 locations.

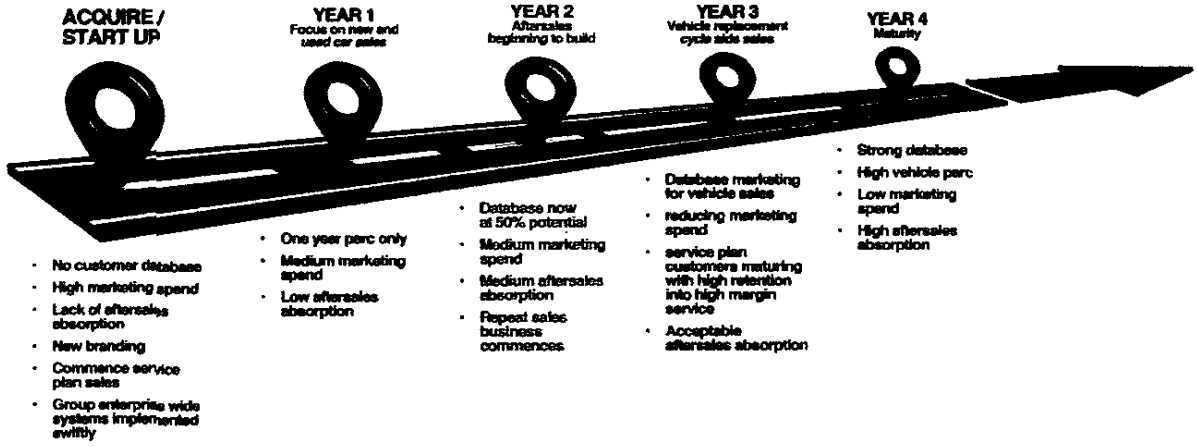
Business Model and Competitive Positioning

The Group's business model has remained consistent for the eleven 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.

Strategic Report (continued)

Business Model and Competitive Positioning (continued)

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



The success of the Group's strategy is evidenced by the rapid growth since the first acquisition in 2007 and the turnaround and integration of acquired dealerships to date. The Group has become the sixth largest automotive retailer in the UK by revenues from a standing start in 2007. Many of the acquisitions undertaken in recent periods have still to become fully established and this provides the Group with further opportunity to deliver improved margins and grow organic profit over the medium term.

The successful integration of acquisitions into the Group has to be one of our core competencies. Management has a significant amount of experience in this area. Key to successful integration are the following:

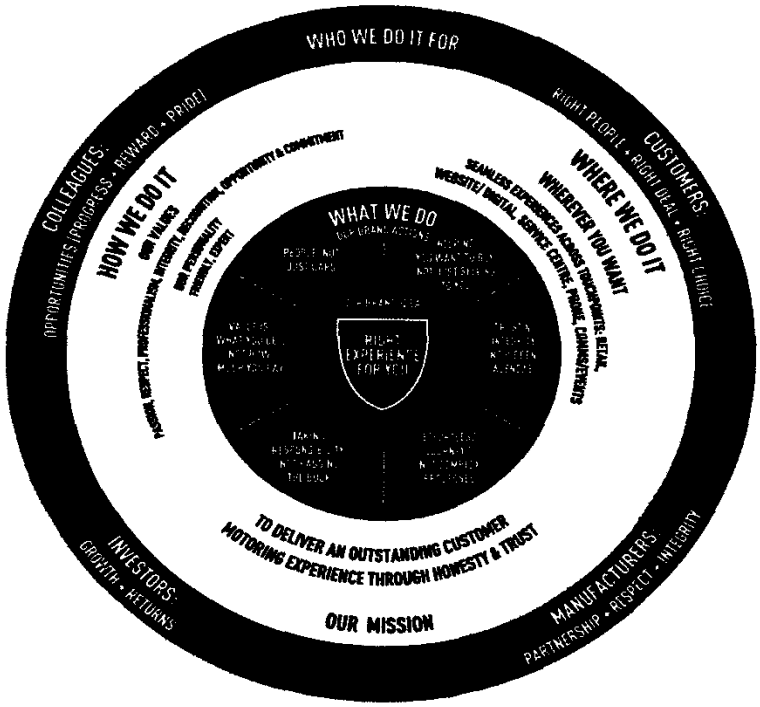
- Ensuring new colleagues (employees) understand the Vision, Values and culture of the Group
- Transferring key managers from the core Group to the new businesses
- Implementation of the Group's single platform of systems and processes as soon as possible
- Leveraging the Group's key scaled brands and marketing power, including on-line assets, across the new businesses

Strategic Report (continued)

Business Model and Competitive Positioning (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.



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 based on a fundamental premise that it is the colleagues in each business together with management who deliver on customer needs to create long-term value for the 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.

In the July 2017 Colleague Satisfaction Survey over 98% of responding colleagues knew the Vertu Values and 88% thought the Directors actively practiced them. It is clear that the more the Core Values of Passion, Respect, Professionalism, Integrity, Recognition, Opportunity and Commitment are in place in the business, the stronger the business is and significant senior management time is spent promoting and reinforcing these Values. The brand model has a number of brand actions which are designed to guide colleagues and management into being customer-centric. For example, "effortless journeys, not complex processes" is an important mantra in assessing the effectiveness of both on-line and off-line processes and any proposed developments impacting customers. By building trust from customers for the business, the Group aims to build long term relationships through the lifecycle of buying, owning and selling vehicles. There is a clear correlation, in our view, between a high level of colleague satisfaction, great customer experiences and the generation of higher margins in the business.

Business Model and Competitive Positioning (continued)

The success of the business and the delivery of the brand model relies heavily on strong, high quality management teams to deliver the required returns over time. The recruitment, development and retention of high performing automotive retail professionals is of paramount importance, particularly in General Manager roles providing leadership in each dealership. The Group has developed a culture which seeks to attract and retain top performers and the Board believes it is successful in doing so.

As part of the Group's strategy to attract, retain and develop high performing colleagues and management, the Group continues to invest in training. This includes substantial internal training programmes, management development programmes for high potential colleagues, including management training undertaken by Dale Carnegie and an enterprise wide e-learning platform for all 5,340 colleagues. 1.3 million minutes of e-learning have been undertaken on the newly launched platform since 1 January 2018. This platform is industry leading, covering personal development, leadership skills and sales skills, delivered on personal devices.

The operations of the Group are overseen by a CEO Committee of the 14 most senior people in the Group. This cadre is very stable with five members in place since the Group started and an average tenure of nine years. Three new leaders were promoted internally to the CEO Committee on 1 March 2018:

- Steve Gould, Operations Director, (46) has been with the Group for 6 years having previous experience with Reg Vardy plc, Pendragon plc and Peter Vardy Limited. He is responsible for the Renault and Nissan operations of the Group.
- Matthew Barr, HR Director, (37) has been with the Group ten years having previously worked for Reg Vardy plc. He is responsible for HR and Training within the Group.
- Martin Wastie, Group Strategy Director, (43) oversees the Group's acquisitions, disposals and business improvement initiatives. Martin was previously Group Finance Director of Marshall Group and worked for Inchcape and Volkswagen Group. He has been with the Group 3 years.

These three individuals bring excellent skills and energy to the CEO Committee.

The stability of senior management provides a consistency that helps to build a single Group culture. As the Group has expanded over a larger number of dealerships, maintaining focus and a consistency of culture remains paramount. We believe that multi-layering of management is best avoided since it elongates decision-making and can make senior management divorced from customers and the grass roots operations. Having the right people at a senior level in the Group who can positively influence large divisions is therefore vital and the Board believe this balance has been achieved to date. It is critical that the entrepreneurial culture that the business started with, remains in place and simplicity and lack of bureaucracy are crucial objectives applied to operational proposals and changes. We look to have a culture built on "Speed, Simplicity and Self-Confidence".

The Mission Statement of the Group is to "deliver an outstanding customer motoring experience through honesty and trust". Fundamentally it is the acquisition and retention of customers that drives the ultimate value of the Group in the long-term. Marketing is critical to both the acquisition and retention of customers. During the Period substantial progress has been made to improve the quality, effectiveness and channel reach of the Group's marketing activities as Liz Cope concludes her second year as Chief Marketing Officer. Key achievements in the Period include:

- Full on-line retailing of used vehicles has been launched including part-exchange, finance provision and delivery to the door

Business Model and Competitive Positioning (continued)

- Sales through this on-line channel continue to build and we believe this full on-line retailing capability is unique to the Group
- E-commerce and digital marketing expertise has been significantly enhanced in-house in the Period to develop user digital experiences and deliver cost effective marketing campaigns
- New initiatives such as Buy-it-now are being rolled out across the Group whereby customers are offered the ability to purchase the vehicles on-line that they have test driven during dealership visits
- Implementation of nationwide TV campaigns in both new and used car sales across multiple Group brands delivering tactical sales and building brand awareness
- Profitability achieved in the Group's Ace Parts on-line parts business with increased sales and product lines through effective use of Marketplaces

The retention of customers is achieved by several Group strategies:

- Retention of sales customers into the higher margin aftersales channel is aided by the Group's centralised Business Development Centre which ensures contact is made to book relevant service work, in addition to increasingly effective on-line booking capabilities.
- High sales penetration of service retention products, notably three-year service plans, has been successful in increasing the retention of used car customers in the Group's service departments. The Group now has over 104,000 customers paying monthly for servicing over a three-year period and 44% of used car customers are retained into the Group's service departments for routine servicing in the year following purchase.
- Customer experience is crucial for creating loyalty and the desire to return to the Group for future motoring needs. Customer experience is measured by the Group in several ways:
    - Manufacturers measure service and new car sales customer experience monthly for each dealership as well as undertaking mystery shops. The Group scores significantly ahead of national average scores on these measures and in addition undertakes its own extensive mystery shopping programme.
    - On used cars, the Group measures customer experience using a third party. Over 97% of customers currently would recommend the Group following the purchase of a used car. This high level of customer advocacy is mirrored in high scores on the public review sites such as Trust Pilot.
    - Management at all levels, including the Executive Directors, are rewarded based on the above customer experience measures which the Board believes are fundamental to the future success of the Group in generating higher revenues, margins and cash returns.

Other Industry Issues

United Kingdom's exit from the European Union (EU)

The UK's exit from the EU may impact the Group in the areas of changing regulation, currency fluctuations and terms of trade for new vehicle imports to the United Kingdom.

In the short term, the biggest impact of Brexit on the automotive retail sector has been the weakening of Sterling which reduces the attractiveness of the UK as a market to EU producing vehicle Manufacturers. Vehicle price rises have been evident, along with reducing volumes in the new retail car sector since the Referendum.

Other Industry Issues (continued)

United Kingdom's exit from the European Union (EU) (continued)

In the medium term there could be consequences for the UK automotive retail sector if tariffs were to be introduced on motor vehicles imported into the UK. This could further increase sales prices and potentially reduce consumer demand. The UK Government has a stated negotiating objective to avoid any such tariff barriers, and in the negotiation of the future trade terms between the UK and the EU, tariffs on motor vehicles are likely to be a key point of discussion. Potential free trade agreements with Non-EU states may present UK opportunities for Manufacturers with Non-EU production capacity and the future franchising strategy of the Group will need to be cognisant of these developments.

The contractual relationships between Manufacturers and franchise partners are constructed within the framework of EU competition law. There is, therefore, the potential for the legal frameworks to evolve in a different direction once legal competency returns to the UK. The Board continues to judge that it is unlikely to be a priority area for the UK Government in the short term and the status quo is likely to remain in place as a result. Franchise agreements are evolving in any event as Manufacturers and retailers react to developments in technology, changing retail formats and new revenue models.

GDPR

From May 2018 the Group will be required to comply with the enhanced EU regulations regarding the use of personal data ("GDPR"). Following an extensive review of the Group's systems and procedures, we have established a detailed plan to ensure compliance with the new regulation. Our systems have been upgraded to enable the capture and recording of preferences which will drive future customer contact. Training of all colleagues involved in customer contact is underway, and a new post of Group Data and Security Manager has been created in order to provide the required focus.

Regulatory Environment

The Group, via its subsidiary trading companies, acts as a credit broker for several finance company partners, both Manufacturer owned and independent, who provide vehicle finance to the Group's customers. In addition, the Group sells a limited range of other regulated products. The Group has developed a robust sales and compliance process to ensure that customers are treated fairly, addressing such potential risk areas as product affordability, transparency of product explanations and ensuring remuneration structures protect customer outcomes. Investment in systems to enhance control in these areas is ongoing.

The Financial Conduct Authority ("FCA") is currently performing a review of the motor finance sector, which is due to be completed in September 2018. The Group's Compliance Committee has reviewed the FCA update on its Motor Finance review, issued in March 2018, and continues to monitor the Group's procedures and controls in this area.

Diesel Vehicles

Successive Governments have encouraged drivers, via the taxation system, to drive diesel vehicles which produce lower amounts of carbon dioxide (CO2) emissions. This has enabled Governments to comply with European emissions targets, based upon CO2. As a result the proportion of diesel vehicles in the vehicle parc has grown considerably.

More recently focus has turned to the fact that previous generation diesel vehicles produce higher levels of nitrogen oxide and particulates emissions, which are one of a number of sources impacting local air quality. Cars built after 2015, which comply with Euro 6 regulations, produce substantially less nitrogen oxide and particulates emissions than older engines, and the introduction of Euro 6c engines from August 2018 will further enhance air quality impacts. There has been a considerable amount of misinformation regarding these matters, and a lack of strategic direction and consistency from Governments, both in the UK

Other Industry Issues (continued)

Diesel Vehicles (continued)

and elsewhere and at local and national level. This situation has confused customers and made them fearful of diesel in its totality and as a consequence sales of the more modern, environmentally friendly vehicles have reduced so reducing the potential speed of air quality improvements. UK registrations of diesel vehicles fell by 17.1% during 2017, with the rate of decline accelerating more recently to 31.9% for the four month period to April 2018. Manufacturers have begun to react by switching diesel manufacturing capacity to petrol or hybrid vehicles, and this process is accelerating. The UK used diesel vehicle market was buoyant in 2017 with transactions growing by 3.3% as more diesel vehicles were part exchanged for new petrol product. Residual values of diesel vehicles versus petrol vehicles in the Period saw no major variation. As at 28 February 2018 diesel vehicles represented 42.3% of the Group's used vehicle inventory (2017: 45.7%).

WLTP

New emission testing regulations for passenger cars come into effect in the EU on 1 September 2018 called Worldwide Harmonised Light Vehicle Test Procedures ("WLTP"). This replaces the previous New European Driving Cycle ("NEDC") testing regimes. From 1 September 2018 only vehicles which have been tested under the new WLTP regime can be sold as new vehicles, with the possible exception of small volumes of vehicles which member states may allow to be sold in the short term under "derogation powers". This change has the capacity to cause dislocation in manufacturer production schedules and, in particular, could lead to short term supply issues which may impact the important September market. We are currently working with each of our manufacturer partners to assess this potential impact.

Market Dynamics

New Vehicles

During the Period, Sterling traded at lower levels against other major currencies, and this currency depreciation (which began in June 2016 following the UK referendum on EU membership) impacted the supply side of the UK new vehicle market. The majority of vehicles sold in the UK are manufactured in factories located in either Euro, Yen or Won currency zones, and the depreciation of Sterling has made it less profitable for most Manufacturers to sell vehicles in the UK. As a consequence, several manufacturers have increased selling prices, reassessed their UK marketing budgets and diverted production to other more profitable markets. Manufacturers have also reduced their exposure to the lower margin channels, for example daily rental, fleet and broker channels. This supply side dynamic has also put downward pressure on pre-registration activity in the market place. These trends have been most evident in volume franchises which have reduced the supply of vehicles into the UK market. While the same economic and currency related challenges have faced premium franchises, the higher margins available to these Manufacturers have enabled them to adopt a different, and more aggressive approach. Seeing the retreat of the volume franchises, they have kept price rises to a minimum and have continued to fund attractive, often finance led, offers to the UK consumers. As a consequence, premium franchises have grown their UK market share during the Period.

On the demand side, the period leading up to the UK General Election in June 2017 saw a particularly volatile consumer environment. This stabilised from July onwards but demonstrated weakness again during the pre-Christmas period. Consumer confidence has appeared to regain a degree of vibrancy in 2018 to date compared to 2017. This consumer environment has been exacerbated by a lack of clarity from Government regarding its current and future policy for diesel vehicles, and the media focus on this issue. This has led to a significant shift away from diesel product and may have led to some customers delaying entering the market altogether whilst uncertainty persists.

Market Dynamics (continued)

New Vehicles (continued)

As a consequence of these supply and demand trends the UK private new retail vehicle registrations during the Period fell by 7.6% and car fleet volumes fell by 5.7%.

The light commercial vehicle market also saw selling price increases and a reduction in volumes, with UK registrations down by 3.5% in the Period. The year-on-year price increases were in part due to the introduction in June 2016 of the more expensive Euro 6 models, and in part due to the currency impacts referred to above.

Used Cars

During the year ended 31 December 2017, the used car market in the UK recorded marginally declining sales of 1.1% (SMMT) against a backdrop of volatility in consumer demand and reduced supply of volume used cars as pre-registration activity reduced in line with the trends described above in the new car market.

On the supply side of volume used cars, reducing part-exchanges as a result of declining new car sales volumes from April onwards, together with lower supply as a result of declining pre-registration volumes and a contracting daily rental market, kept wholesale used car market prices robust as the Period progressed.

The premium used car market diverged in trends from the volume car market. The continued new car volume pressure described above, led to high levels of nearly new and pre-registered product in the market competing with strong new car offers. Residual values saw significant falls as a result in the Period with a consequent impact on premium used car margins.

Since 1 January 2018 more normalised demand and supply conditions have been exhibited across the used car market in the UK.

Aftersales

The aftersales market continued to benefit during the Period from a growing vehicle parc following several years of new car market growth. The mix of service department work shifted in favour of warranty work as a consequence of several manufacturer recalls and significant product quality issues affecting a number of franchises. The continuing introduction by manufacturers of increasingly technologically complex, connected vehicles with innovative engine and vehicle management systems is contributing to this trend. A growth in retail and warranty demand was partly offset by reduced internal volumes in the workshops in the preparation of cars for sale, particularly in relation to lower new car sales.

The rising demand for aftersales saw a lack of technician resource nationwide in 2017 and this constrained sales growth in workshops. This capacity constraint reduced as the year went on due to: the impact of apprentice training from previous years; increasing numbers of trained technicians coming into the market; rising salaries attracting technicians from the non-franchised sector and more resource becoming available as tougher sector market conditions led to a number of dealership closures in the UK.

Manufacturers continue to pursue strategies to increase the efficiency of parts distribution networks and to seek to reduce the supply push of parts into the retailer network. Reduced rebates may arise from these changes, but benefits such as a reduction in low margin sales, lower stockholding and obsolescence costs and reduced costs of funding working capital, may also accrue to the retailer.

Strategic Report (continued)

Group Revenues and Margins

Year ended 28 February 2018

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales[1]	228.2	8.2	124.7	40.4	44.5
Used cars	1,068.9	38.2	98.7	31.9	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	6.9	3.2
	2,796.1	**100.0**	**308.9**	**100.0**	**11.0**

Year ended 28 February 2017

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales[1]	227.0	8.0	123.4	39.4	44.6
Used cars	1,037.5	36.8	100.7	32.1	9.7
New car retail and Motability	909.4	32.2	68.3	21.8	7.5
New fleet and commercial	648.7	23.0	21.1	6.7	3.3
	2,822.6	**100.0**	**313.5**	**100.0**	**11.1**

[1] margin in aftersales expressed on internal and external revenue

Revenues in the Period fell by 0.9% (£26.5m) to £2,796.1m (2017: £2,822.6m). This included the full year impact of prior year acquisitions which grew by £39.5m more than offset by closed operations contributing a year on year revenue reduction of £60.8m. Group like-for-like revenues were flat at £2,569.9m (2017: £2,572.1m) despite a significant fall in new retail vehicle sales.

The Group saw an increased proportion of revenues and gross profits generated by its higher margin aftersales and used car operations. These operations contributed 46.4% (2017: 44.8%) of revenues and 72.3% (2017: 71.5%) of gross profit. This reflected declining volumes in the new car retail and Motability channel.

Gross margins in the Group remained stable at 11.0% (2017: 11.1%). The positive effect of the higher aftersales and used car sales mix was offset by pressure in the used car channel on margins. Used car margins fell from 9.7% to 9.2% and falls were particularly apparent in the premium franchises. This was reflective of the market dynamics previously described.

Aftersales

The Group's aftersales operations, which comprise servicing, supply of parts, accident repairs, 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 8.2% of Group revenues, it accounts for 40.4% of gross margin, so management focus on maintaining and improving performance in this area is crucial to the Group's overall results. The market for service and repair, in particular, has expanded with the vehicle parc as new vehicle sales have grown over recent years and this momentum is expected to continue for a period. The Group has substantial opportunities to grow the volume of the higher margin activities due to this parc growth and self-help strategies to increase customer retention. The rapid development of new technology in vehicles is further helping to improve customer retention into franchised dealerships as customers become increasingly aware of the expertise and factory connectivity required to service modern connected vehicles.

Strategic Report (continued)

Group Revenues and Margins (continued)

Aftersales (continued)

During the Period the Group has made significant progress in developing and expanding the resource base which underpins this key part of the business. A number of successful initiatives have been implemented in the aftersales area:

- Earnings packages for both technicians and service advisors have been enhanced, both in terms of basic pay and bonus earnings potential. This has helped a major recruitment campaign which has substantially reduced the number of technician vacancies.
- The Group has recruited 138 apprentices into the aftersales arena during the Period to secure the future growth in the business and will continue to invest heavily in this area.
- The Group has also established an innovative degree apprenticeship scheme in partnership with Northumbria University to recruit service advisors who will develop into our aftersales leaders of the future. The first nine colleagues recruited to this five year programme joined the Group in August and a further cohort of 12 is planned to be recruited in the coming months. A Business Management Degree is studied for as part of the Programme, funded by the Apprenticeship Levy.
- As part of the Group's ongoing programme of capital investment in the dealership infrastructure, each refurbishment or redevelopment project undertaken has sought to improve and maximise the productive capacity of the aftersales departments. Service departments have been extended and restructured to increase the number of ramps available and to enhance efficiency.
- The Group has introduced further initiatives to increase workshop capacity through shift patterns, longer opening hours (including weekends), mobile van servicing and two technicians per ramp initiatives.

This focus on increasing the Group's ability to meet customer demand for vehicle servicing in flexible ways is essential as customers are seeking and expecting a more flexible "on demand" vehicle servicing experience, which is more convenient for them. In addition, fast "while you wait" servicing is also likely to increase in scope. While customers find franchised dealerships good value for money and expert on the product, leakage does occur to the independent aftermarket which can be perceived as more local and more convenient in terms of opening hours.

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

	2018 £'m	2017 £'m	Growth
Service revenue	102.8	98.2	4.7%
Parts and accident repair revenue	145.8	143.8	1.4%
Like-for-like aftersales revenue	**248.6**	**242.0**	**2.7%**
Service gross margin	76.4%	77.3%	
Parts and accident repair gross margin	23.0%	23.1%	
Like-for-like aftersales gross margin	**45.1%**	**45.1%**	

Strategic Report (continued)

Group Revenues and Margins (continued)

Aftersales (continued)

Like-for-like margins were stable at 45.1% assisted by an increase in the mix of higher margin service revenues, and like-for-like gross profits grew by a significant £3.0m (2.7%) in the Period. Service revenues rose 4.7% on a like-for-like basis, representing the eighth successive year of growth in this key high margin area. Like-for-like service margins fell slightly to 76.4% (2017: 77.3%) due to the impact of higher salary levels for technicians and lower efficiency as inefficient diagnostic and warranty work increased at a faster rate than more efficient routine servicing revenues. Increased service revenues are the result of the significant focus in the Group on driving operational excellence in service to enhance financial performance, the delivery of excellent customer experiences to increase customer loyalty and the success of the service plan retention strategy.

Supply of Manufacturer parts continues to be a vital part of the retailer model. Parts revenues rose 1.6% on a like-for-like basis while margins strengthened to 21.4% (2017: 21.3%).

The table below shows the volumes of vehicles sold on a like-for-like basis:

	2018 Like-for-Like	2018 Acquired[1]	2018 Total	2017 Like-for-Like	2017 Total	Like-for-Like % Variance	Total % Variance
Used retail vehicles	**79,052**	**769**	**79,821**	**79,445**	**81,636**	**(0.5%)**	**(2.2%)**
New retail cars	34,811	601	35,412	40,157	41,525	(13.3%)	(14.7%)
Motability cars	10,650	120	10,770	11,127	11,396	(4.3%)	(5.5%)
Fleet and commercial vehicles	34,555	297	34,852	36,235	36,741	(4.6%)	(5.1%)
Total New vehicles	**80,016**	**1,018**	**81,034**	**87,519**	**89,662**	**(8.6%)**	**(9.6%)**
	159,068	**1,787**	**160,855**	**166,964**	**171,298**	**(4.73%)**	**(6.1%)**

[1] relates to businesses acquired or developed subsequent to 1 March 2016 with businesses included within like-for-like once they have been in the Group for over 12 months

Used retail vehicles

During the Period the Group increased both total and like-for-like used vehicle revenues by 3.0%. This was driven by price increases as like-for-like average sales prices rose in the Period by 4.0% from £12,445 to £12,945.

Following six years of consecutive like-for-like volume growth in used vehicle sales, the Group recorded a 0.5% like-for-like volume decline during the Period. The decline in volume occurred during the second half of the Period in line with the market trends recorded by the SMMT. The supply side factors influencing this included lower levels of pre-registration stocks held by the Group due to less supply push from manufacturers, and hitting new car targets without the need for self-registrations which are then sold as used cars. The demand side factors related to the weaker consumer environment during the pre-Christmas period. In these circumstances the Group elected not to sacrifice margin in the pursuit of volume, as evidenced by the higher gross profit per unit in the second half of the year of £1,278 (2017 H2 : £1,222). Higher average sales prices in the Period had a significant impact on diluting gross margin percentages from 9.7% to 9.2%. Margin erosion was particularly apparent in the Group's premium franchises where nearly new product was oversupplied in the market place and highly competitive new car offers had a depressing impact on the sales prices that could be achieved on used product.

Like-for-like used car gross margins actually increased from 9.5% in the first half to 9.6% in the second half. The impact of these margin trends across the Period was that the gross profit generated from like-for-like used vehicle sales fell by £2.6m; £2.1m of this decline was in H1 and £0.5m in H2.

Strategic Report (continued)

Group Revenues and Margins (continued)

New retail cars and Motability

Changes in new vehicle sales volumes during the Period were as follows:-

	Increase/(decrease) year-on-year		
	Total %	**Like-for-Like %**	**SMMT Registrations %**
Volumes:			
New retail vehicles	(14.7)	(13.3)	(7.6)
Motability vehicles	(5.5)	(4.3)	(2.7)
Fleet new cars	(6.0)	(5.0)	(5.7)
Commercial new vehicles	(4.1)	(4.2)	(3.5)

During the Period the Group's like-for-like new car retail volumes reduced by 13.3% and the UK private new retail registrations declined by 7.6% (SMMT) as shown in the table below. As a consequence the Group lost market share in the Period reflecting the decline of the Group's volume manufacturers in the period compared to the market as a whole.

Volumes:	**Six months ended 31 August 2017 %**	**Six months ended 28 February 2018 %**	**12 months ended 28 February 2018 %**
SMMT registrations (Private)	(6.4)	(9.0)	(7.6)
Group new retail cars	(14.7)	(11.7)	(13.3)

The Group's trends in new retail car sales more closely mirrored the trends in the SMMT registrations in the second half of the Period since the distorting impact of self-registrations included in the SMMT data (but not Group new retail car sales volumes) reduced. This corresponded with the reduction in supply to the UK in volumes franchises described earlier as a consequence of weaker Sterling.

The Motability new car market declined by 2.7% during the Period due to some volume Manufacturers reducing supply into this low margin channel, and the impact of Government welfare reforms. Motability continues to be a major strength of the Group and a major driver of servicing demand since Motability supplied vehicles have a three year servicing plan linked to them that retains them to the supplying retailer. The Group saw like-for-like Motability vehicle sales decline by 4.3%.

During the Period like-for-like selling prices increased by 4.8% as Manufacturers passed on an element of the impact of the currency weakness. The Group maintained strong pricing disciplines and continued to achieve Manufacturer volume targets at high levels during the Period resulting in an increase in gross margins to 7.7% (2017: 7.5%) and a reduction in the Group's self-registration activity.

Fleet & Commercial new vehicle sales

During the Period the Group saw like-for-like selling prices in the fleet and commercial segment increase by 7.2% as the major volume Manufacturers sought to protect their margins and increase prices in these channels. The Group's like-for-like sales volumes reduced by 4.6%, slightly better than the market which fell by 5.2% (SMMT). This reflected a stronger volume performance in the second half of the Period as the Group took more market share. While gross profit per unit remained strong at £582 (2017: £560) the higher selling prices resulted in slightly lower gross profit margin at 3.2% (2017: 3.3%).

Exceptional item

On 31 August 2017 the Group undertook a sale and leaseback transaction realising £14.2m on a recently acquired and redeveloped dealership property (Jaguar Land Rover Leeds) with a book value of £10m. The lease commitment was for 15 years, the initial rent was at open market value and the terms of the periodic rent reviews contain appropriate protection against future increases. This transaction demonstrates both the quality and value of the property portfolio.

During January 2018 the Group disposed of its former Volkswagen dealership in Boston, Lincolnshire. The disposal included a freehold dealership property which realised a loss on disposal of £0.5m, and a further £0.1m of goodwill was also written off resulting in a loss on disposal of £0.6m. This loss has been offset against the profit of £4.1m on the disposal of the property referred to above, resulting in a net exceptional property gain of £3.5m.

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. This is even more important than ever in the current environment of softer new vehicle volumes and cost pressure evident across the UK retail sector. The Group's cost control framework is built around a highly detailed business planning approach which is undertaken annually for all dealerships, profit centres and cost centres. Once the business plans are established, costs are benchmarked on a monthly basis for every dealership against the business plans, prior year levels, internal benchmarks and recognised industry key performance indicators to maintain control and to identify opportunities for additional cost or efficiency improvements. The Group's central purchasing function also pursues cost efficiencies and scale purchasing benefits in the procurement and monitoring of utilities and other goods not-for-resale.

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 two years with a remit to identify and execute these productivity gains and these have borne fruit. Colleagues are incentivised to identify bureaucracy, costs and processes that do not add value via a "You Suggest" scheme, which has also yielded some excellent areas for action. Several more medium term projects are also in place to increase operational efficiencies and to reduce costs. Projects are assessed to achieve a cash payback within two years and often payback is shorter.

Total operating expenses in the period fell from £281.5m to £280.1m and like-for-like operating expenses grew by £3m or 1.2%. This represents a significant result in the current environment. All of the growth on a like-for-like basis arose in the second half of the Period. As a percentage of revenues, operating expenses remained flat at 10.0% (2017: 10.0%). This demonstrates the significant focus which the Group has continued to place upon cost control. The action taken to fix, re-franchise, sell or close underperforming dealerships has removed unproductive cost bases from the business, and the continued search for productivity improvements has minimised the significant impact of increases in taxes and other Government imposed costs (business rates, apprenticeship levy, minimum wage) as well as other inflationary impacts upon the Group's trading results.

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

- higher (non-cash) depreciation as a consequence of increased capital investment levels over the last two years (£1.0m)
- higher business rates on dealership properties (£0.3m)
- the recruitment of technician, parts and service adviser apprentices (£0.3m)
- the recruitment of additional service advisors, and enhancements to service advisor packages (£0.7m)
- higher vehicle cleaning costs reflecting increased resources required as service demand grew and increased pay rates (£0.7m)

Managing operating expenses (continued)

- the recruitment of additional colleagues to support the development of the Group's internet and digital marketing activities (£1.1m)
- higher spend in the final quarter of the Period on TV advertising to support the Group's new car sales in March 2018 (£0.4m)

These increases have been offset by headcount and other cost savings achieved in the sales departments as vehicle sales volumes have declined

Interest charges

Net finance costs in the period reduced to £1.9m (2017: £2.3m). The Group's tight control of working capital reduced bank interest payable from £0.9m to £0.7m. Lower stocking interest payable on new vehicle funding facilities arose reflecting reduced new vehicle inventory levels during the Period, as Manufacturers reduced supply of new vehicles into the UK due to the weakness in the value of Sterling.

	Year ended 28 February 2018	Year ended 28 February 2017
	£'m	£'m
Bank interest payable	0.7	0.9
Vehicle stocking interest expense	1.3	1.6
Pension fund: net interest income	(0.1)	(0.2)
	1.9	2.3

Managing Pension Costs

The Bristol Street defined benefit pension scheme is closed to future membership and accrual. During the Period the Group made cash contributions of £0.4m (2017: £0.4m) to the scheme.

This defined benefit scheme showed a surplus as at 28 February 2018 of £6.6m (2017: surplus £1.9m). The increase in the surplus is due to a 0.3% increase in the discount rate applied to scheme liabilities, driven by increased corporate bond yields, lower inflation assumptions and lower expectations of future mortality improvements. During the current year the Group's cash contributions to the scheme will reduce to £30,000 per annum as the current recovery plan ended on 31 March 2018 with an increase in the Group's free cash flow generation as a consequence. The next triennial valuation of the scheme is due on 5 April 2018 and this is expected to show the scheme remains well 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 £5.8m in corporation tax, £16.6m in Employers' National Insurance Contributions, £9m in business rates and £0.7m in the apprenticeship levy. These four taxes alone total £32.1m (2017: £31.0m).

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% (2017: 19.5%). 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)

Capital Structure

The Group has an ungeared balance sheet with shareholders' funds of £264.4m (2017: £246.4m), representing net assets per share of 68.9p (2017: 62.3p) as at 28 February 2018. The Group has tangible net assets of £174.3m (2017: £156.1m) and the balance sheet is underpinned by a freehold and long leasehold property portfolio, including assets held for resale, of £183.8m (2017: £182.0m). The Group has a robust tangible net assets per share value of 45.4p as a result. 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 highly resilient in the event of a cyclical downturn in activity.

The Group finances its operations by a mixture of shareholders' equity, bank borrowings and trade credit from suppliers and Manufacturer partners. On 28 February 2018, 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 2023, provides the Group with £40m of committed borrowing capacity with the potential to add a further £30 million which is currently uncommitted. £10 million of this facility was drawn as at 28 February 2018. 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 Board entered into a three year interest rate swap on 31 July 2017, maturing on 31 July 2020 in respect of the £10m drawn on the loan facilities. This swap fixes the underlying LIBOR rate payable at 0.675%.

In addition to conventional bank borrowing, the Group also utilises used car stocking loans on a very limited basis. These loans with third party banks are subject to interest at 1.5% above LIBOR and are secured on the related vehicles. As at 28 February 2018, these borrowings amounted to £12.8m (2017: £8.7m) representing 14.5% of the value of the Group's used vehicles (2017: 11.7%). The Group considers such borrowings as debt and includes such amounts in the calculation of gearing and net debt (cash). These facilities are short term in nature and can be called to be repaid on demand. As a consequence, these facilities are not extensively utilised to fund long term assets.

The Group operated with cash balances for much of the year and additional facilities are utilised to fund significant peak working capital requirements following plate change months and quarter ends. The Group has £73m of overdraft and other money market facilities. On the overdraft, interest was 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 2018, the Group had cash balances of £41.7m (2017: £39.8m) and, as a consequence, net cash of £19.3m (2017: net cash £21.0m).

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 2018 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 £20m.

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 highly 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.

Capital Allocation (continued)

The Board seeks to balance the dealership portfolio between freehold and leasehold premises to ensure appropriate capital allocation. During the financial year the Group undertook the sale and leaseback of the recently redeveloped Jaguar Land Rover Leeds dealership property, realising £14.2m of cash, against the book value of the property of £10m. This transaction demonstrated both the quality and value of the Group's property portfolio and the Board's consideration of capital allocation in its willingness to be flexible as to operating with either freehold or leasehold properties, on the right terms. The Board adopts a conservative approach to the terms of leases, favouring lease breaks to provide flexibility and open market value rent reviews to manage rent increase risks. The lease commitment under the sale and leaseback transaction was for a period of 15 years, the initial rent was at open market value and the terms of the periodic rent reviews contain appropriate lessee protection against future increases. As at 28 February 2018, freehold locations represented 52% of the Group's property portfolio (2017: 53%).

The Group commenced its Share Buy-back Programme in July 2017 and as at 8 May 2018, 18.0m shares, representing 4.53% of the issued share capital, have been purchased at an average price of 43.8p, had been acquired for cancellation for a total of £7.9m. The Board believes that this is an appropriate use of capital and we expect share Buy-backs to form a relevant element of our returns to our shareholders, alongside dividend payments at interim and full year. The consequence of the Buy-back Programme to date will be to reduce future dividend payments, based on 1.5p per share, equating to an annual saving of £270,000 cash. Since the Group commenced dividend payments in 2011, our dividend has increased by 200% in absolute terms, including the 7.1% increase this year. The Board will seek to renew approval to repurchase 10% of the issued share capital at the forthcoming Annual General Meeting.

In common with most sector participants, the Group continues a programme of major capital investment to increase the capacity in existing dealerships and to meet revised Manufacturer franchise standards. In particular, significant sums are being invested in increasing capacity and enhancing the retail environment of the Jaguar Land Rover dealerships with the implementation of the "Arch" concept and similar developments are planned to improve certain of the Group's dealerships representing the Mercedes-Benz franchise. These were as envisaged at the time of the Greenoaks acquisition. The bulk of these projects will be completed in the current financial year, after which the Group's allocation of capital to the existing dealership portfolio will significantly decrease as set out in the next section. The Board critically evaluates all proposed capital expenditure to ensure it makes sense from a capital allocation and shareholder return perspective, and has chosen not to undertake a number of prospective projects following such reviews where it believes appropriate returns may not be generated.

The Group regularly reviews its capital allocation within its existing dealership and property portfolio. The importance of property arrangements within an automotive retail business should not be underestimated. The Property Committee, chaired by the CEO and including external advisors, meets monthly to formally review and actively manage the Group's property portfolio. The management of the Group's property portfolio to maximise cash returns from surplus assets is an important driver of both cash flows to the Group over time and ensuring appropriate capital allocation. The Board balances the need to recycle surplus assets into cash as quickly as possible with the requirement to maximise the ultimate cash generation from taking advantage of planning consents. Surplus assets arise from the 'pruning' of poor performing dealerships, the relocation of businesses and the sale of surplus land acquired in the development of new dealerships and from acquisitions. During the Period, this process recycled £1.2m of property and £1.6m of working capital from marginal or loss-making businesses closed or disposed of in the Period to activities generating higher returns.

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 one such surplus property subsequent to 28 February 2018, generating cash proceeds of £2.0m, compared to the £1.4m book value.

Strategic Report (continued)

Capital Expenditure

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

	Actual			Estimate	
	FY 2016 £'m	FY 2017 £'m	FY 2018 £'m	FY 2019 £'m	FY 2020 £'m
Purchase of property	6.3	5.3	4.3	1.6	-
New dealership build	1.8	10.4	4.3	4.6	2.5
Existing dealership capacity increases	4.5	5.9	8.2	13.1	4.4
Manufacturer-led refurbishment projects	3.2	2.4	3.0	9.9	4.6
IT and other ongoing capital expenditure	5.1	4.8	4.9	4.8	4.0
Movement on capital creditor	(0.4)	0.7	(0.6)	-	-
Cash outflow from capital expenditure	**20.5**	**29.5**	**24.1**	**34.0**	**15.5**
Proceeds from Sale and leaseback and property sales	(1.1)	(1.0)	(14.3)	(4.6)	-
Net Cashflow from capital investment	**19.4**	**28.5**	**9.8**	**29.4**	**15.5**

During the Period the Group purchased the freehold interest in its leased Bradford Land Rover dealership at a cost of £3.6m. The passing rent under the lease was £190,000 per annum, with a rent review due at the time of purchase. This acquisition will allow the Group greater flexibility over the site configuration as the dealership is redeveloped under the Land Rover 'Arch' concept in 2020. In addition, £0.7m was invested in additional land for vehicle storage in Bradford to improve the efficiency of the retail operation.

During the year the main project in the new dealership build category was the commencement of construction of the 'Arch' concept Jaguar Land Rover dealership in Bolton. This £8.3m project, managed by the Group's in-house team of project managers and surveyors, will be completed in July 2018, bringing together in one flagship freehold location, the Land Rover and Jaguar outlets currently operating from leasehold premises in Bury and Bolton. The new dealership utilises surplus land adjacent to another of the Group's dealerships so maximising returns from the Group's freehold property portfolio.

Major projects to increase the capacity of the existing dealerships during the year included the extension and refurbishment of Bolton Ford to create a 'Ford Store' as well as the redevelopment of the showroom facilities at the Shirley Ford dealership, following the relocation of aftersales activities offsite. Shirley is one of the Group's top performing new and used car outlets and the customer experience, for used sales in particular, will be enhanced by this investment. Offsite aftersales and pre-delivery inspection facilities were also developed for the Chesterfield and Nelson Land Rover dealership to facilitate the future development of these locations under the 'Arch' concept.

In the year ending 28 February 2019, major projects are being undertaken to increase existing dealership capacity. These will include redevelopments of Reading and Slough Mercedes-Benz, Nelson, Chesterfield and Guiseley Land Rover and Bradford Jaguar Land Rover. These developments will deliver operations with greater capacity for sales and service and will underpin the Group's future profitability and cash generation.

The Board is confident that the significant reduction in future capital spend anticipated in FY2020 will deliver enhanced free cash flow from the business. By the end of the year practically all the dealership estate will have been redeveloped updated to the latest manufacturer standards in recent years.

Managing Working Capital

The Group has generated cash from operating activities of £27.3m from an operating profit of £32.3m. Working capital absorbed £13.3m in the year following a number of years of positive working capital movements generating cash. All of the working capital absorption arose during the first half of the Period.

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. At the beginning of the Period, these inventory levels declined, resulting in a VAT cash outflow in the first half of the Period of £16.8m. This partially reversed in the second half of the Period. During the final quarter of the Period the value of this inventory and corresponding creditor increased to above prior year levels, resulting in a £10.2m increase in VAT receivable in the February 2018 balance sheet when compared to February 2017. This cash was received in April 2018 so reducing working capital levels at that point.

Lower new vehicle sales in September 2017 and March 2018 were expected to generate lower part exchange supply for the Group's used car operations, hence the Group decided to increase used vehicle inventory going into September and March to compensate. In addition, average value per used vehicle increased year on year. As a consequence, total used car stock levels increased to £88.3m at the end of February 2018 (2017: £74.0m). Partially offsetting this working capital absorption is a reduction in fully paid new vehicle stock and a £4m increase in the value of cash held in respect of the Group's warranty and service plan products.

Free cashflow to equity

The Board regularly measures the long term free cashflow (operating cashflow less interest, capital expenditure and tax, before acquisitions and dividends) as a return on the shareholders' cash invested capital (capital raised plus after-tax operating profits less dividends). This measure, when compared to the cost of capital, provides an indication of the extent to which cash, hence value, is being created in the long term. This measure stands at 10.6% over the 11 years since the Group's formation (2017: 12.1% over 10 years). This return compares favourably to the Group's weighted average cost of capital of 8%. The reduction in the recent Period indicated above is a result of the high level of cash deployed on capital investment in the Period. As set out above, we expect this level of capital investment to increase in the current financial year before declining in 2020, when the free cashflow to equity metric should begin to increase.

Dividends

During the six year period since the Group commenced payment of dividends to its owners in 2011, over £23.1m has been returned to the owners of the business through dividends, with the dividend per share increasing by 200% over the same period. The dividend has been funded from cash generated from operations, without any negative impact on ongoing capital expenditure programmes nor funding of suitable acquisitions.

The Board has proposed an increase in the final dividend for 2018, payable on 30 July 2018 subject to approval at the AGM, to 0.95 pence per share (2017: 0.9p), which, when taken together with the interim dividend paid in January 2018 of 0.55 pence per share (2017: 0.5p), provides a total dividend for the year of 1.50 pence per share (2017: 1.40p). This represents an increase of 7.1% and a dividend cover of 3.9 times (2017: 4.7 times) based upon adjusted earnings per share. The ex-dividend date will be 21 June 2018 and the associated record date 22 June 2018.

Strategic Report (continued)

Dividends (continued)

The proposed full year dividend of 1.50 pence represents an annualised cash dividend, based on the number of shares in issue at 28 February 2018, of £5.7m (2017: £5.5m). The implementation of the share buyback programme has, of course, reduced the cash impact of dividend increases in the Period. The distributable reserves in the parent company balance sheet as at 28 February 2018 were £72.2m (2017: £58.9m). 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.

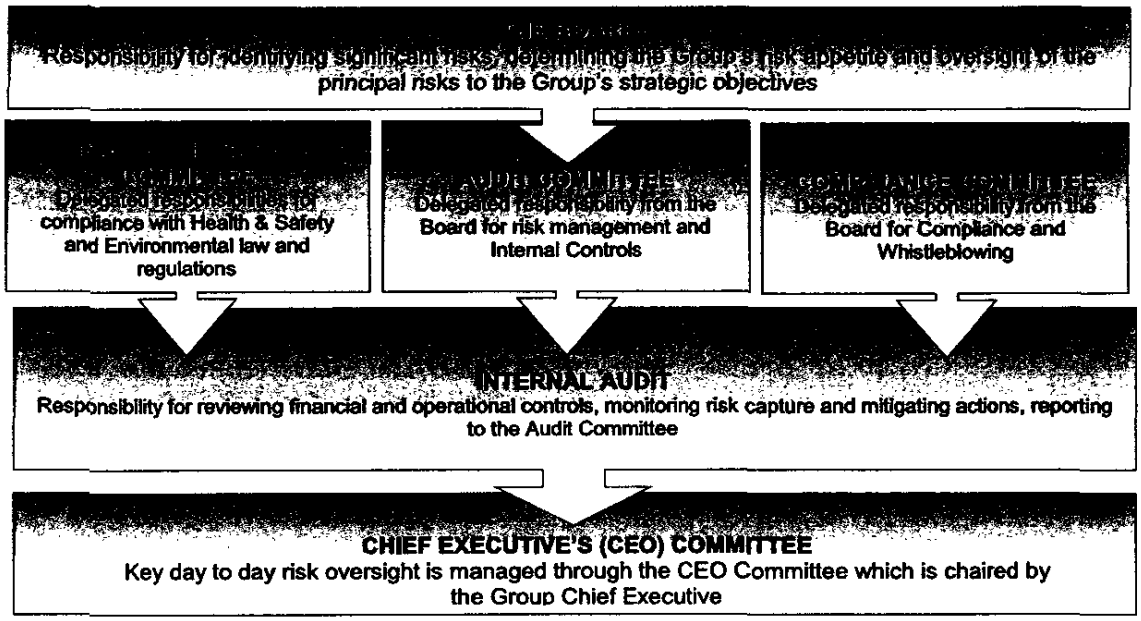
Key Performance Indicators

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 15, together with the below:

	KPI	Definition	Performance	Risk Factor Link
Financial KPIs	Adjusted EPS	Adjusted profit after tax divided by weighted average number of shares (note 13)	FY18 – Adjusted EPS of 5.79p FY17 – Adjusted EPS of 6.54p	❶❷❸❹❺ ❻❼❽❾❿ ⓫⓬⓭⓮
	Adjusted PBT	Profit before tax, amortisation, share based payments charge and exceptional items	FY18 – Adjusted PBT £28.6m FY17 – Adjusted PBT £31.5m	❶❷❸❹❺ ❻❼❽❾❿ ⓫⓬⓭⓮
	Gross Margin by channel	Gross profit divided by revenue by channel	See page 15	❷❸❹❺❻ ❾⓮
Strategic / Operational KPIs	Like for Like Used Volume growth	Number of used vehicles sold in dealerships with comparable trading periods in two consecutive years	FY18 – decline (0.5%) FY17 – growth of 7.1%	❷❸❺❻❾ ⓬⓭
	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** FY18 – decline of (13.3%) FY17 – decline of (6.4%) **UK private registrations** FY18 – decline of (7.6%) FY17 – decline of (1.0%)	❷❸❺❾⓬⓮
	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	FY18 – Retail growth 4.7% FY17 – Retail growth 5.8%	❷❻❽❾
	Online Growth	Website visits to all Group trading websites	FY18 – 12.9m visitors FY17 – 11.1m visitors	❷❸❼❾❿ ⓫
	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% (FY17 96%) of our used vehicle customers would recommend us – Judge Service	❹❼❽❾

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 41 and 42. The statement by the auditors about their reporting responsibilities is given on page 69.

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 CFO and made up of members of senior management. 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
❶	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	• 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
❷	Failure to meet competitive challenges to our business model or sector	Loss of customers to competitors Reduced profitability	• 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
❸	Advances in vehicle technology provide customers with mobility solutions which bypass the dealer network	Business model becomes obsolete	• 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

BRAND PARTNERS AND REPUTATION

	Description of risk	Impact	Mitigation
❹	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	• 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	• *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 effected and value of used vehicle inventory may decline	• 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 Customer contact limited by GDPR legislation	• 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 Block Exemption regime changes, and ensure continued customer relationship
8	Failure to comply with Health and Safety (H&S) Policy	Injury to customers or colleagues	• 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	• Annual colleague satisfaction survey and action planning based upon the results • Significant investment in online 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	• 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	• 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	• 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	• 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	• Portfolio of manufacturer partners spreads potential risk • No material foreign exchange transactions are undertaken directly by the Group

Financial Position and Performance

A comprehensive analysis of the business during the year and the position at the year end is contained within this Strategic Report.

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 on pages 6 and 7 of the Strategic Report. The nature of the Group's activities is long-term and the business model is open-ended. The Group's current overall strategy has been in place since flotation in 2006, subject to the ongoing monitoring and development described below.

Decisions relating to acquisitions and significant investment in dealership locations are made by reference to both consideration of balance within the existing Group's portfolio and the projects' expected achievement, within a three to five year time frame, of a range of financial metrics including target EV/EBITDA ratios, IRR and ROCE.

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 2018 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 2021.

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 include this forecast period.

Financial forecasts were prepared for the three year period to 28 February 2021, 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 27 of the Strategic Report.
- Prudent growth assumptions in both volume and margin, reflecting the risks set out on pages 27 to 29 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 27 to 29 is primarily to summarise those matters that could prevent the Group from delivering on 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 27 to 29 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 2021.

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
9 May 2018

Michael Sherwin
Chief Financial Officer
9 May 2018

Main Board Directors

The Board currently comprises the Directors outlined below.

Peter Jones – Non-Executive Chairman

Peter (61) 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.

Ken Lever – Non-Executive Director

Ken (64) 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 also a Non-Executive Director of Gresham House Strategic plc, Blue Prism plc, FM Insurance Company Limited and DAC Beachcroft LLP and is Non-Executive Chairman of RPS Group plc and Biffa plc. From 2007 to 2013, Ken was a Member of the Accounting Council of the Financial Reporting Council (formerly the UK Accounting Standards Board).

Pauline Best – Non-Executive Director

Pauline (54) is an experienced Human Resources professional who is currently 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.

Nigel Stead - Non-Executive Director

Nigel (68) was previously CEO of Lex Autolease, the UK's largest contract hire and leasing group and a Director of the British Vehicle Rental and Leasing Association. He has also been a Non-Executive Director of Motability Operations Group plc, APD Global Research Limited and Universal Salvage plc. Nigel was a Non-Executive Director of Merrion Fleet Management Limited until July 2017 and was a Non-Executive Director of Prohire plc until March 2018.

Robert Forrester – Chief Executive

Robert (48) 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 is also a member of the Economic Growth Board of the Confederation of British Industry.

Michael Sherwin – Chief Financial Officer

Michael (59) has extensive retail, transactional and public market experience. From 1999 to 2008, Michael was Group Finance Director of Games Workshop Group PLC, a FTSE listed consumer goods company. Michael is a qualified Chartered Accountant having trained with Price Waterhouse, where he held positions in the UK, Paris and Sydney. He was also Non-Executive Director of Plusnet plc, an AIM listed internet business, from 2004-2007. In December 2017 Michael was appointed as a Non-Executive Director of Sumo Group plc.

Advisors

Nominated Advisor and Broker

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Broker

Zeus Capital Limited
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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, now chaired by the CEO, 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.

This year has seen significant further progress in the management of Health and Safety within the Group. Our Health and Safety Dashboard, which focuses on key risk areas within the Dealerships, has become 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 we have implemented telematics devices into the cars of our younger drivers as they were identified as our largest risk population, and this system gives us real time reporting on driver behaviour. The resultant change in driver behaviour has had a positive impact on the number of at fault accidents we have suffered in the year.

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. This audit process will now be repeated annually as an independent check of our process strength.

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.

During the year, we have continued to assess, monitor and manage our energy use. Also where practicable, we have implemented measures designed to reduce our activities' environmental impact, which, over time, we anticipate will help reduce our carbon footprint. To conserve energy, we continue to install LED lighting schemes, fix luminair and movement sensors, limit the duration of periods when full lighting is used on our sites out of hours, keep external doors closed when not in use and fit suitable insulation to limit the escape of heat.

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 on the basis of 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 2018			At 28 February 2017		
	Female	Male	Total	Female	Male	Total
Directors	1	5	6	1	6	7
Senior Managers	6	43	49	6	45	51
All Colleagues	1,321	3,997	5,318	1,305	3,911	5,216

- 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 Chief Executive produces a blog several times a week and regular news updates are posted onto a Group wide intranet site. Additionally, the Group produces printed 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 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 £66,000 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 and the New Testament Church of God Social Responsibility Programme.

- 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 and Harlow Food Bank.

In the local community, the dealerships also support a range of sporting and recreational initiatives including, the Dunston Silver Band, Banbury United FC and the Newcastle Eagles Basketball Club, plus a variety of youth sports clubs and emerging individual talent across the country.

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 2018.

Principal Activities

The principal activities of the Group is the sale of new cars, motorcycles and commercial vehicles and used vehicles, together with related aftersales services. The principal activities 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. It remains your Board's intention to grow the value of the business and develop the Group through strategic acquisitions supplemented by the focused organic growth of its existing businesses.

The UK market for the sale and servicing of motor vehicles is well developed and represents all of the major global vehicle manufacturers. The UK consumer has consistently demonstrated its demand for vehicles evidenced by the relatively short vehicle change cycle in this country. The vehicle retail market in the UK, however, remains highly fragmented and in the year ended 28 February 2018 the Group had just a 3.2% share of UK private car registrations. These market dynamics support the Group's strategy of growth through both acquisition and organic improvement.

Results and Dividends

The results for the year are set out in the consolidated income statement on page 70. The Group's profit from ordinary activities after taxation for the year was £24,681,000 (2017: £24,020,000).

The dividend paid in the year to 28 February 2018 was £5,678,000 (1.45p per share) (2017: £5,323,000 (1.35p per share)). A final dividend in respect of the year ended 28 February 2018 of 0.95p per share, is to be proposed at the annual general meeting on 25 July 2018. The ex-dividend date will be 21 June 2018 and the associated record date 22 June 2018. The dividend will be paid on 30 July 2018, 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 UK Corporate Governance Code (the Code), the Companies Acts and related legislation. 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). Details of movements in the Company's share capital are given in note 30 to the consolidated financial statements.

Directors' Report (continued)

Directors and Their Interests in Shares

Brief particulars of the Directors are listed on page 32. Further details of the Board composition are contained in the Corporate Governance Report and details of Directors' service contracts are contained in the Remuneration Committee Report. The Directors who served during the year ended 28 February 2018 and up to the date of signing the financial statements were:

P Jones
R T Forrester
M Sherwin
W M Teasdale (resigned 26 July 2017)
N Stead
K Lever
P Best

The Directors retiring at the AGM are R Forrester, N Stead and P Best who, being eligible, each offer themselves for re-election. At the date of the AGM, the unexpired term of the service contracts of N Stead and P Best will be 2 years 4 months and 3 years 10 months respectively.

Directors who held office at 28 February 2018 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 2018 Ordinary Shares	28 February 2017 Ordinary Shares
P Jones	1,522,000	1,405,000
R T Forrester	6,929,868	6,925,606
M Sherwin	489,253	484,993
K Lever	40,800	40,800
N Stead	80,500	80,500
P Best	-	-

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.

Share Capital

As at 28 February 2018, the Company's issued share capital comprised a single class: ordinary shares of 10 pence each of which 385,524,517 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 2018, the Group commenced a programme of share buy-backs under which 12,335,322 shares were repurchased at an average share price of 44p, of which 590,000 were awaiting cancellation at 28 February 2018. At 1 March 2017, 1,990,553 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 2018, 175,000 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. 1,815,553 ordinary shares in the Company remained in the trust at 28 February 2018.

Directors' Report (continued)

Share Capital (continued)

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 2017 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

None of the 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 2018.

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.

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 page 21 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.

Directors' Report (continued)

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 37.

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 34.

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 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.

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.

Directors' Report (continued)

Statement of Directors' Responsibilities (continued)

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

Michael Sherwin
Chief Financial Officer
9 May 2018

Corporate Governance Report

The UK Corporate Governance Code

This Corporate Governance Report (the 'Report') is intended to give shareholders an understanding of the Group's governance procedures. As an AIM listed Company, Vertu Motors plc does not have to comply with the UK Corporate Governance Code (2016) (the 'Code') published by the Financial Reporting Council. However, the Board embraces the principles of good corporate governance. Although the Group does not choose to voluntarily comply with the Code in full, the Report describes how the relevant principles and provisions set out in the Code were applied to the Company and Group during the financial year and will continue to be relevant for the forthcoming financial year. The Company does not yet comply with all of the Code requirements relating to 'effectiveness', does not produce a separate nomination committee report, and does not yet make available its Committee terms of reference. The Audit Committee, prior to the resignation of W M Teasdale on 26 July 2017, comprised of three Non-Executive Directors, subsequent to this, the Audit Committee comprised of two Non-Executive Directors. The Board is currently considering the composition of the Audit Committee. The Company complies with all other areas of the Code.

Board Composition

Board composition is continually reviewed to ensure that it provides the Group with the strategic oversight, vision and governance that it needs in order to deliver a sustainable long-term return for shareholders. It is the Board's intention that going forward, Non-Executive Directors will ordinarily rotate every six years, in line with current corporate governance best practice.

Bill Teasdale retired from the Board on 26 July 2017.

During the year under review, the Board was made up of seven members comprising two Executive Directors and five Non-Executive Directors, including W M Teasdale who served as a Non-Executive Director until resignation on 26 July 2017. P Jones, K Lever, P Best and N Stead are considered to be independent. K Lever is the Senior Independent Director. Details of all Directors can be found on page 32.

The Board and its Committees

The role of the Board is to have responsibility for generating shareholder value over the long-term by setting the Group's strategy, ensuring that appropriate resources are available to enable the Group to meet its objectives and monitoring the delivery of those objectives within an effective framework of internal controls. The Board has a defined set of responsibilities which are formalised into a Schedule of Matters Reserved for the Board and these include:

- 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

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

Corporate Governance Report (continued)

The Board and its Committees (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	Approval of the FY2017 full year results and FY2018 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	Annual General Meeting Meetings with key shareholders on results roadshows.	Annual review of key Group risks and mitigating controls

Board Meetings

The 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
- 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

Corporate Governance Report (continued)

Committee Responsibilities

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					
	• K Lever (Chair) • W Teasdale [1] • N Stead	• Pauline Best (Chair) • N Stead • P Jones • W Teasdale [1] • K Lever	• P Jones (Chair) • W Teasdale [1] • N Stead • K Lever • P Best	• R T Forrester (Chair) • M Sherwin • 12 Senior Managers	• M Sherwin (Chair) • W Teasdale • 6 Senior Managers	• R T Forrester (Chair) • 3 Senior Managers • H & S Manager
Delegated authorities	• Financial reporting • Financial risk management • Internal control	• Remuneration policy • Incentive plans • Performance targets	• Balance of the Board • Leadership of the Group	• Review, communication, delivery and management of Group strategy and day to day operations	• Compliance with laws and regulations (excluding Health & Safety and environmental) • Whistleblowing procedures • Communication with regulators where required	• Compliance with Health & Safety and environmental law and regulations • Developing Group best practices
Reviews	• Full year and half year results • Accounting policies • Terms of engagement of auditors • Internal audit	• Achievement of performance targets for short and long term incentives • Senior management pay	• Composition of the Board • Skills, knowledge & experience on the Board • Diversity	• Group HR and IT strategy • Allocation of resources (financial and colleague) • Group performance	• Adequacy and effectiveness of Group policies in response to current law and regulation • Licences and consents required • Internal audit	• Health & Safety policies and procedures • Health & Safety audits • Accident statistics and causes
Recommends	• Re-appointment of auditors • Audit tender • Auditors' remuneration	• Level and structure of Executive remuneration • Remuneration policy	• Appointments to the Board	• Annual business plan to the Board • Acquisition opportunities to the Board • Group Vision	• Training • Policy change • Remedial or pre-emptive action	• Training • Policy change • Remedial or pre-emptive action
Monitors	• Integrity of financial statements • Effectiveness of internal controls and risk management • Internal audit function • Legal & regulatory requirements • External audit	• Appropriateness of Remuneration policy	• Independence of Non-Executive Directors • Succession planning	• Performance against key performance indicators, plans and prior year • Compliance with Group risk management strategy, policy and procedures	• Appropriate retail finance metrics • Indicators of non-compliance with policy • Any relevant complaints • Legal and regulatory developments	• Accidents and near misses • Changes to law and regulations • New sites to the Group and redevelopments • Other changes in working practice
Approves	• Statements in Annual Report concerning internal controls and risk management	• Remuneration policy • Remuneration packages for Executive Directors • Design of long term incentive plans	• Appointments for Executive Directors • Skills profile for Non-Executive Directors	• Appointments to dealership management positions • Performance related remuneration of dealership colleagues • Operational process and changes	• Reports to the Board • Submissions to relevant authorities • Changes to relevant policies and processes • Training programmes • Whistleblowing procedures	• Reports to the Board • Changes to relevant policies • Training programmes

[1] W Teasdale served on this committee until resignation from the Plc Board on 26 July 2017.

Corporate Governance Report (continued)

Leadership

During the financial year the Board met 13 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	13	13	-	4	1	1	3	3
R T Forrester	13	13	-	1	-	-	-	-
W M Teasdale[1]	3	3	2	2	-	-	-	-
M Sherwin	13	13	-	4	-	-	-	-
N Stead	13	13	4	4	1	1	3	3
K Lever	13	13	4	4	1	1	3	3
P Best	13	10	-	-	1	1	3	3

[1] resigned on 26 July 2017.

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) and the Chief Financial Officer (M Sherwin), 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.

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. R Forrester, N Stead and P Best are to retire and submit themselves for re-election at the 2018 Annual General Meeting. 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.

Audit Committee and Auditors

The Board has delegated responsibility for risk management and internal controls to the Audit Committee. Details of the Committee's activities during the year can be found on pages 48 and 49.

Remuneration

The Remuneration Committee has responsibility for developing the Company's remuneration policy and monitoring its implementation. Details of the Committee's activities along with the Remuneration Report can be found on pages 52 to 62.

Relations with Shareholders

The Board understands that effective communication is essential to enable shareholders to gain a clear understanding of the Group's strategy and business model. The Chief Executive and the Chief Financial Officer are in regular communication with institutional investors throughout the year and keep in close contact with the Company's corporate brokers who play an important role in ensuring shareholders' views are heard. The Board reviews a report of shareholder activity at each Board meeting and receives regular updates on all communications between major shareholders and any Director or the Company's NOMAD.

Corporate Governance Report (continued)

Relations with Shareholders (continued)

Shareholders are also kept informed of Company performance through regular press releases. These are made available to the London Stock Exchange and on the Company's website. Presentations were held for analysts at the Group's full year and half year announcements, these presentations were streamed live and recordings are available on the Company's website.

Annual General Meeting ("AGM")

The 2018 AGM will take place on 25 July 2018. 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 online 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.

By order of the Board

Karen Anderson
Company Secretary
9 May 2018

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 and W M Teasdale until his resignation from the Board on 26 July 2017. The Committee met four times during the financial year and attendance is shown in the table on page 46.

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

The key responsibilities of the Committee are set out in the table on page 45.

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	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. 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.

Corporate Governance Report (continued)

Audit Committee Report (continued)

Significant Issues (continued)

Significant issue	Action taken
Viability and Going Concern	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 2018/19; 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. 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. 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 30 and 31.
Share based payments	Management have ascribed a fair value to share options issued during the financial year. This is estimated using a fair value model, populated with a number of assumptions. The Committee reviewed and challenged these assumptions and also considered the review conducted by the external auditors. The Committee concluded that the assumptions applied and resultant fair value were appropriate.
Pension benefits	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. The valuation of the scheme assets and the present value of the obligations are calculated by external advisors. The Committee reviewed the assumptions applied in calculating the scheme assets and obligation (set out in note 29) at 28 February 2018 and confirmed that these were appropriate.
Manufacturer bonus income	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. 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.

Corporate Governance Report (continued)

Audit Committee Report (continued)

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 63 to 69.

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 General Counsel, the Chief Operations Officer, the Chief Marketing Officer, the HR Director, the Strategy Development 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 2018, 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.

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 ten financial years. In accordance with ethical standards requirements the audit partner responsible for the engagement was subject to rotation after five years. Since February 2014 the audit partner has been Randal Casson, with the February 2018 year end being the fifth and final year before being subject to rotation. 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 2018.

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 PricewaterhouseCoopers LLP to undertake this work where their knowledge and experience is appropriate for the assignment. 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.

Corporate Governance Report (continued)

Audit Committee Report (continued)

Independence of the Independent Auditors (continued)

- 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
9 May 2018

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 2018. This Directors' Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee ("the Committee") in accordance with the spirit, principles and, as far as is reasonably practical, the requirements of the Companies Act 2006, 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 2018; 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 2018 and is subject to an advisory shareholder vote at this year's AGM.

The information in the Directors' Remuneration Report set out on pages 59 to 62 highlighted as being subject to audit, has been audited by the Group's auditors.

Remuneration outcomes for the year to 28 February 2018

During the year ended 28 February 2018, the Remuneration Committee completed a benchmarking exercise in respect of the remuneration of senior executives in the Company by comparison to other companies of a similar size, as well as companies in the industry. As a result of this exercise, on 1 August 2017 the remuneration package of Executive Director R T Forrester was increased from an annual basic pay of £265,000 to £315,000 and an annual on-target bonus opportunity of £235,000 to £281,000.

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 77.2% and 78.4% of basic salary have been awarded to Executive Directors R T Forrester and M Sherwin respectively in respect of profit related bonus and customer outcome bonus for the year ended 28 February 2018, 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.

The long-term incentive awards made to Executive Directors under the Long Term Incentive Plan ("LTIP") during the year ended 28 February 2018, detailed later in this report, may vest in June 2020, but are subject to a holding period preventing their exercise until June 2022. 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').

Key remuneration decisions for the year to 28 February 2019

The Committee considered current trends in the market in which the Company is operating and in particular, the high level of salary control being imposed by Senior Management on the rest of the Group. The Remuneration Committee have recommended that from 1 March 2018, Executive Director basic salaries will remain at current levels. Similarly no increase in Non-Executive Directors' fees has been recommended.

The Executive Director annual bonus structure agreed for the year commencing 1 March 2018 will continue to weight 20% of on-target bonus potential to customer outcome measures and the balance to the profitability of the Group. The customer outcome measures include used vehicle and service customer feedback as well as new vehicle manufacturer measured customer satisfaction scores. Profit targets have been updated to reflect the expected results for the coming year.

In developing the remuneration policy for Executive Directors R T Forrester and M Sherwin for the year commencing 1 March 2018, 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 subject to return on shareholders' equity and absolute growth in TSR over the next three years. The awards for the forthcoming year have yet to be finalised.

Remuneration Committee Report (continued)

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

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 2018. 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
9 May 2018

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 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, *inter alia*, 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 a company car, 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 and customer outcome targets including manufacturer new car and service customer satisfaction ("CSI") scores as well as used car Judge Service results.	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 2018/19 is 130% of basic salary and the maximum customer outcome bonus is 150% 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.	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. 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.	Maximum permitted annual award of options under the LTIP is 125% of basic salary. 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.	Vesting is subject to targets based on the achievement of return on shareholders' equity and absolute growth in the Group's total shareholder return ("TSR").
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 2019 the initial performance target is £27.5m, and may be adjusted during the year to reflect the impact of acquisitions and disposals.

The performance target for the LTIP is based on both absolute growth in the Company's total shareholder return ('TSR') and an absolute target for return on equity.

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 and many 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 selected Senior Executives and Executive Directors.

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 last time the Committee consulted with certain major shareholders was in relation to the amendments to the LTIP performance criteria for the grant made in July 2016. Any other concerns raised by individual shareholders are also considered, and the Committee also takes into account emerging best practice and guidance from major institutional shareholders.

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	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. 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. Following release, good leavers may exercise their options within 12 months (or such a period as the Committee determines). 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. LTIP awards of other leavers will cease to be exercisable following notice of cessation of employment, unless the Committee determines otherwise in exceptional circumstances.	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	4 January 2010
N. Stead	8 December 2011
W. M. Teasdale (resigned 26 July 2017)	24 March 2016
K. Lever	1 June 2015
P. Best	1 June 2016

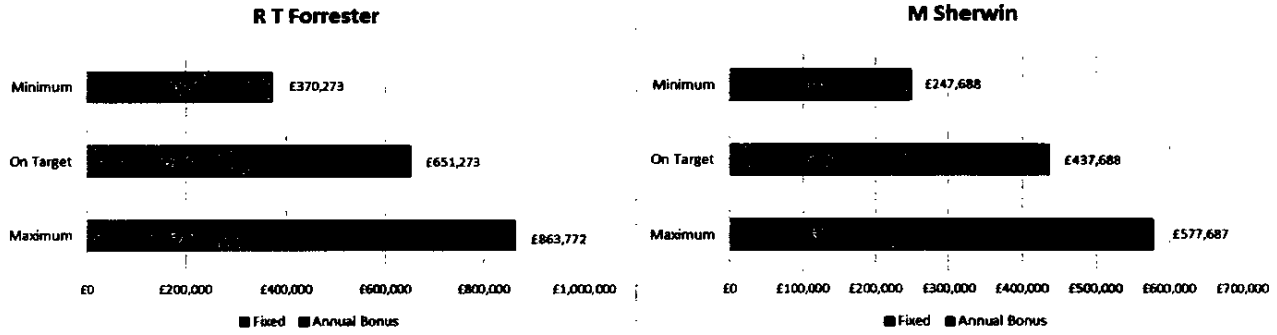
Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

Directors' Remuneration Report

Total 2018/19 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. There is no element for multiple year (LTIP Awards) in this table this year as no options (under the LTIP or otherwise) are capable of vesting in the financial year to 28 February 2019 as the LTIP options granted in 2015 have not met the performance conditions for vesting and have therefore lapsed in full. The earliest vesting date for the remaining LTIP awards is 5 September 2019 however these options, to the extent they have vested, will not become exercisable until 5 September 2021 due to a 2 year holding period which these options are subject to.



Each element of remuneration is defined in the table below:

Element	Description
Fixed	Base salary for the 2018/19 financial year plus pension and benefits.
Annual Bonus	Annual bonus awards based on adjusted profit before tax and customer outcome measures.

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	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. Non-Executive Directors may be eligible for benefits such as the use of secretarial support or other benefits that may be appropriate.	Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed maximum annual increase. The cost of providing benefits is borne by the Company and varies from time to time.	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 2017 to 28 February 2018 is as follows:

	Salary or fees £'000		Taxable Benefits[2] £'000		Pension £'000		Bonus £000		Long Term Incentive Plan[3] £'000		Single total figure £'000	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Executive Directors												
R T Forrester	294	265	3	3	52	44	227	240	-	71	576	623
M Sherwin	210	210	3	3	35	35	165	196	-	53	413	497
Non-Executive Directors												
P Jones	70	70	1	1	-	-	-	-	-	-	71	71
K Lever	55	50	-	-	-	-	-	-	-	-	55	50
N Stead	40	39	1	1	-	-	-	-	-	-	41	40
P Best	40	30	1	1	-	-	-	-	-	-	41	31
W M Teasdale[1]	23	54	1	1	-	-	-	-	-	-	24	55

1. W M Teasdale resigned on 26 July 2017, his fee for the year to 28 February 2018 is calculated from 1 March 2017 until the date of resignation.
2. Benefits in kind include vehicle insurance, together with medical and life assurance premiums
3. The LTIP awards eligible for vesting during the year ended 28 February 2018, lapsed in full at the end of the performance period.
4. On 1 August 2017, the remuneration package of R T Forrester was increased from an annual basic pay of £265,000 to £315,000 and an annual on-target bonus opportunity of £235,000 to £281,000.

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 £32.7m. The profit bonuses accruing to the Executive Directors in respect of the year ended 28 February 2018 are shown below:

Performance measure	Adjusted PBT £'000	R T Forrester % Basic salary payable	M Sherwin % Basic salary payable
Actual Performance	28,553	62.3%	63.3%
Threshold performance	24,525	53.4%	54.3%
Maximum	42,500	132.2%	131.9%

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 £52,250 for R T Forrester and £38,000 for M Sherwin 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. R T Forrester received £43,941 and M Sherwin received £31,733 in respect of such bonuses out of potential maximum customer outcome bonus for the financial year of £78,375 and £57,000 respectively.

Pensions

The Group operates a group personal pension plan for eligible colleagues. R T Forrester and M Sherwin ceased to be active members of the plan in 2015 and 2014 respectively. R T Forrester and M Sherwin have elected to receive a payment of 16.5% of current basic salary rather than Company pension contributions during the year ended 28 February 2018.

Directors' Share Options

The movement in share options held by the Directors during the year ended 28 February 2018 is as follows:

	Number at 1 March 2017	Exercised in Year	Lapsed in Year	Granted in Year	Number at 28 February 2018
R T Forrester	1,003,457	-	(508,475)	303,030	798,012
M Sherwin	752,593	-	(381,356)	227,273	598,510

The June 2015 LTIP issue lapsed in full subsequent to 28 February 2018. This included options held by R T Forrester and M Sherwin of 205,128 and 153,846 respectively.

Directors' Remuneration Report (continued)

Directors' Share Options (continued)

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

	Scheme	Date of Grant	Earliest Exercise Date[1]	Expiry Date	Exercise price (pence)	Market value on date of grant (pence)	Number of options granted
R T Forrester	LTIP	23 June 2017	23 June 2022	23 June 2027	Nil	44.0p	303,030
M Sherwin	LTIP	23 June 2017	23 June 2022	23 June 2027	Nil	44.0p	227,273

1. Options may meet performance criteria for vesting in 2020 but are subject to a two year retention period preventing their exercise until 23 June 2022.

LTIP Options issued prior to 29 February 2016

Vesting of one half of the LTIP options is dependent on absolute growth in the Company's TSR, and the other half dependent on the Company's TSR performance as compared to the TSR achieved by the FTSE small cap index (excluding investment trusts). All 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.

The absolute growth performance condition, applying to half of the LTIP options granted to date, is as follows:

Growth in Company TSR	Proportion of awards subject to absolute TSR condition vesting
Less than 25% absolute growth	0%
More than 25% but less than 100% absolute growth	Straight line vesting 0 – 100%
100% or more than 100% absolute growth	100%

The relative TSR performance condition, applying to the other half of the LTIP options granted prior to 29 February 2016, is as follows:

Ranking of Company TSR*	Proportion of award subject to relative TSR condition vesting
Below median	0%
Between median and 90th percentile	Straight line vesting 0 – 100%
Above 90th percentile	100%

*Based on FTSE small cap index (excluding investment trusts)

The only remaining LTIP options issued prior to 29 February 2016 lapsed in full subsequent to 28 February 2018.

LTIP Options issued after 29 February 2016

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 after 29 February 2016, 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.

Directors' Remuneration Report (continued)

Information not subject to audit

Statement of Directors' Shareholding

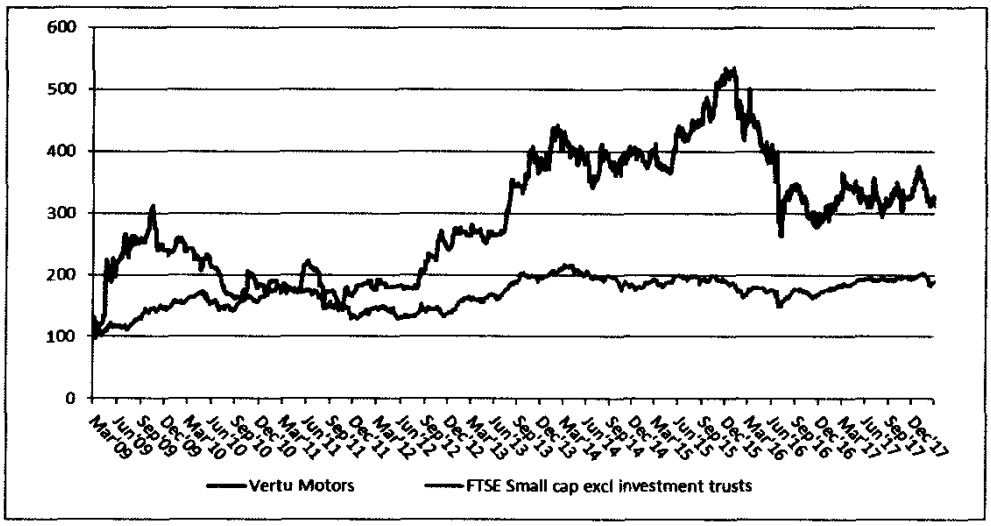
The Directors who held office at 28 February 2018 and their connected persons had interests in the issued share capital of the Company as at 28 February 2018 as follows:

	Number of shares held (including by connected persons)		Unvested share options subject to performance conditions[1]	
	28 February 2018	28 February 2017	28 February 2018[2]	28 February 2017
R T Forrester	6,929,868	6,925,606	798,012	1,003,457
M Sherwin	489,253	484,993	598,510	752,593
P Jones	1,522,000	1,405,000	-	-
K Lever	40,800	40,800	-	-
N Stead	80,500	80,500	-	-
P Best	-	-	-	

[1] The Directors hold no vested but unexercised share options.
[2] June 2015 LTIP options lapsed in full subsequent to 28 February 2018. This included options held by R T Forrester and M Sherwin of 205,128 and 153,846 respectively.

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 2018 was 43.1p (28 February 2017: 47.8p) and the range during the financial year was 40.5p to 51.8p (2017: 37.3p to 71.0p).

Directors' Remuneration Report (continued)

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 2017 and 28 February 2018 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	10.9%	17%	(5.4%)
Employees	2.6%	-	(17.4%)

Relative Importance of Spend on Pay

The table below sets out the total spend on pay in the years ended 28 February 2017 and 28 February 2018 compared with other disbursements from profit (i.e. the distributions to shareholders).

	Spend in the year ended 28 February 2018 £'000	Spend in the year ended 28 February 2017 £'000	% change
Spend on remuneration (including Directors)	179,271	179,222	0.3%
Profit distributed by way of dividend	5,678	5,353	6.1%

Shareholders' Vote on Remuneration at the 2017 AGM

2017 Directors' Remuneration Report	Number	Proportion of votes cast (%)
Votes cast in favour	157,603,161	99.73%
Votes cast against	420,122	0.27%
Total votes cast in favour or against	**158,023,283**	**100%**
Votes withheld	13,369,104	

Implementation of Remuneration Policy for the year ending 28 February 2019

The annual salaries and fees to be paid to Directors in the year ending 28 February 2019 are set out in the table below, together with any increase expressed as a percentage.

	Annual Salary/fees		
	28 February 2019 £'000	28 February 2018 £'000	Increase %
R T Forrester [1]	315	294	7.1%
M Sherwin	210	210	-
P Jones	70	70	-
K Lever	55	55	-
N Stead	40	40	-
P Best	40	40	-

The remuneration package of R T Forrester was increased on 1 August 2017. The increase in this table reflects the pro-rata impact on the year ended 28 February 2018 of 7 months at the higher rate.

The basis for determining annual bonus payments for the year to 28 February 2019 is set out in the future policy table in the Remuneration Committee Report (pages 54 and 55).

The Committee intends to grant options to Executive Directors R T Forrester and M Sherwin under the LTIP in 2018/19. These options will be £Nil cost options over a value of shares subject to a maximum of 125% of salary where the vesting is subject to targets based on the achievement of return on shareholders' equity targets and the achievement of absolute growth in the Company's total shareholder return ("TSR"), measured over a three year period from 1 March 2018. Part of the LTIP awards can take the form of a tax advantaged qualifying option over shares to the limit prescribed by the applicable tax legislation (currently £30,000).

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, W M Teasdale (until 26 July 2017), P Jones and K Lever.

Independent Auditors' Report to the members of Vertu Motors plc

Report on the audit of the financial statements

Opinion

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 2018 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Group and parent company balance sheets as at 28 February 2018; the Group income statement and statement of comprehensive income, the Group cash flow statement, and the Group and parent company statement 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

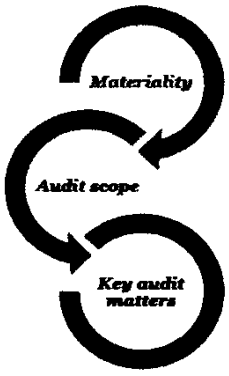
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit 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, based on 0.09% of revenue.
- Overall company materiality: £2,280,000, based on 1% of total assets.
- Three full scope audit components have been identified, along with the Company.
- This approach provides coverage of 75% of the Group's revenue.
- Carrying value of goodwill (Group) and investments (Company)
- Valuation of non-new vehicle inventory.
- Manufacturer bonus income.
- Valuation of pension scheme liabilities.

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	
Carrying value of goodwill 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. 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 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; 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 poor performance scenarios to assess headroom. ***Key observations*** We are satisfied with management's conclusion not to impair goodwill based on the audit evidence obtained.
Valuation of non-new vehicle inventory The Group holds significant levels of vehicle inventory. Non new vehicle selling prices can vary depending upon a number of 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.	To address the risk of valuation on non-new vehicle inventory we have: performed detail 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; performed analysis on the non-new vehicle stock to understand history of profits and losses on non-new car stock, and use this to assess the adequacy of the year end

Key audit matter	*How our audit addressed the key audit matter*
	provision; used forward looking market data to assess current and expected future trading conditions; considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the vehicle inventory provision. ***Key observations*** We are satisfied based on the procedures performed that the valuation of non-new vehicle stock was reasonable based on the audit evidence received.
Manufacturer bonus income 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.	To address this risk in respect of manufacturer bonus income, we have: Agreed the manufacturer bonus income through to supporting documentation; tested the key controls in place around commercial income recognition; compared prior year judgements to the final commercial income received. ***Key observations*** We are satisfied with the recognition of commercial income in the year based on the audit evidence received.
Valuation of pension scheme liabilities 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.	To address this risk in respect of valuation of pension scheme liabilities, we have: used our actuarial specialists to review the appropriateness of the assumptions used; compared key inputs, such as mortality/life expectancy, discount rate and inflation rate to market data; considered the adequacy of the Group's disclosure in respect of the sensitivity of the scheme liabilities to changes in key inputs. ***Key observations*** We concluded that the key inputs used in calculating the pension liability were within an acceptable range when compared with market data.

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

Company

Carrying value of investments

The Group 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 Vertu's control, which could affect whether results are in line with expectations. Where this is the case and 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 poor 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 which contain legacy acquired dealerships. Much of the day to day accounting function is performed at these individual dealership levels, 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 are 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:

	Group financial statements	*Company financial statements*
Overall materiality	£2,400,000	£2,280,000
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. Our materiality represents 0.09% of revenue.	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. Our materiality represents 1% of total assets.

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. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

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

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	*Outcome*
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. 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.

Reporting on other information

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

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

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. *(CA06)*

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the Directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The Directors' confirmation on page 30 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 30 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether 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 period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the Directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the Directors, on page 41 to 42, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 48 to 51 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

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

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

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.

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.

Randal Casson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Newcastle upon Tyne

9 May 2018

Consolidated Income Statement

For the year ended 28 February 2018

	Note	2018 £'000	2017 £'000
Revenue		2,796,068	2,822,589
Cost of sales		(2,487,176)	(2,509,049)
Gross profit		**308,892**	**313,540**
Operating expenses (before exceptional items)	6	(280,086)	(281,466)
Exceptional items	8	3,539	-
Operating profit		**32,345**	**32,074**
Amortisation of intangible assets	16	614	614
Exceptional items	8	(3,539)	-
Share based payments charge	30	1,031	1,082
Operating profit before amortisation, exceptional items and share based payments charge		**30,451**	**33,770**
Finance income	11	66	261
Finance costs	11	(1,964)	(2,515)
Profit before tax		**30,447**	**29,820**
Amortisation of intangible assets	16	614	614
Exceptional items	8	(3,539)	-
Share based payments charge	30	1,031	1,082
Profit before tax, amortisation, exceptional items and share based payments charge		**28,553**	**31,516**
Taxation	12	(5,766)	(5,800)
Profit for the year attributable to equity holders		**24,681**	**24,020**
Basic earnings per share (p)	13	**6.31**	**6.14**
Diluted earnings per share (p)	13	**6.21**	**6.04**

Consolidated Statement of Comprehensive Income

For the year ended 28 February 2018

	Note	2018 £'000	2017 £'000
Profit for the year		**24,681**	**24,020**
Other comprehensive income / (expense)			
Items that will not be reclassified to profit or loss:			
Actuarial gains / (losses) on retirement benefit obligations	29	4,422	(4,687)
Deferred tax relating to actuarial (gains) / losses on retirement benefit obligations	29	(752)	937
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges	31	(93)	-
Deferred tax relating to cash flow hedges	31	18	-
Other comprehensive income / (expense) for the year, net of tax		**3,595**	**(3,750)**
Total comprehensive income for the year attributable to equity holders		**28,276**	**20,270**

Consolidated Balance Sheet

As at 28 February 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Goodwill and other indefinite life assets	15	94,381	94,595
Other intangible assets	16	1,316	1,518
Retirement benefit asset	29	6,551	1,884
Property, plant and equipment	18	198,004	197,545
Total non-current assets		**300,252**	**295,542**
Current assets			
Inventories	20	558,386	506,470
Trade and other receivables	22	66,272	52,545
Cash and cash equivalents	23	41,709	39,845
		666,367	598,860
Property assets held for sale	21	2,449	-
Total current assets		**668,816**	**598,860**
Total assets		**969,068**	**894,402**
Current liabilities			
Trade and other payables	24	(663,404)	(610,317)
Deferred consideration	17	-	(1,572)
Current tax liabilities		(3,304)	(3,840)
Borrowings	25	(12,811)	(8,671)
Total current liabilities		**(679,519)**	**(624,400)**
Non-current liabilities			
Borrowings	25	(9,585)	(10,166)
Derivative financial instruments	26	(92)	-
Deferred consideration	17	(100)	(236)
Deferred income tax liabilities	27	(6,477)	(5,555)
Deferred income	28	(8,877)	(7,616)
Total non-current liabilities		**(25,131)**	**(23,573)**
Total liabilities		**(704,650)**	**(647,973)**
Net assets		**264,418**	**246,429**
Capital and reserves attributable to equity holders of the Group			
Ordinary share capital	30	38,552	39,727
Share premium	30	124,934	124,932
Other reserve	30	10,645	10,645
Hedging reserve	31	(75)	-
Treasury share reserve	30	(690)	(756)
Capital redemption reserve	30	1,175	-
Retained earnings		89,877	71,881
Shareholders' equity		**264,418**	**246,429**

These financial statements on pages 70 to 110 have been approved for issue by the Board of Directors on 9 May 2018:

Robert Forrester
Chief Executive

Michael Sherwin
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 28 February 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Operating profit		32,345	32,074
Profit on sale of property, plant and equipment	6 & 8	(3,529)	(285)
Amortisation of other intangible assets	16	614	614
Depreciation of property, plant and equipment	18	9,714	8,665
Impairment charges	6	513	-
Movement in working capital	33	(13,332)	16,040
Share based payments charge		954	1,015
Cash generated from operations		**27,279**	**58,123**
Tax received		350	359
Tax paid		(6,468)	(6,103)
Finance income received		14	34
Finance costs paid		(2,321)	(2,447)
Net cash generated from operating activities		**18,854**	**49,966**
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired	17	(1,181)	(49,962)
Acquisition of freehold and long leasehold land and buildings		(4,346)	(4,456)
Purchases of intangible assets		(411)	(460)
Purchases of other property, plant and equipment		(19,802)	(25,092)
Proceeds from disposal of business (net of cash and overdrafts)	17	1,528	875
Proceeds from sale and leaseback transaction	8	14,150	-
Proceeds from disposal of property, plant and equipment		165	950
Net cash outflow from investing activities		**(9,897)**	**(78,145)**
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		-	33,631
Proceeds from borrowings	32	4,140	10,831
Repayment of borrowings	32	(166)	(14,000)
Sale / (purchase) of treasury shares		62	(1,000)
Repurchase of own shares		(5,451)	-
Dividends paid to equity holders		(5,678)	(5,353)
Net cash (outflow) / inflow from financing activities		**(7,093)**	**24,109**
Net increase / (decrease) in cash and cash equivalents	32	**1,864**	**(4,070)**
Cash and cash equivalents at beginning of year		39,845	43,915
Cash and cash equivalents at end of year	23	**41,709**	**39,845**

Consolidated Statement of Changes in Equity

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**

The repurchase of own shares in the year was made pursuant to the share buyback programme announced on 26 July 2017.

Ordinary shares to the value of £5,441,000 had been repurchased in the year ended 28 February 2018, of which £174,000 was unpaid at 28 February 2018. 11,745,322 of the repurchased shares had been cancelled at 28 February 2018 and accordingly, the nominal value of these shares has been transferred to the capital redemption reserve.

During the year, the Group repurchased £166,000 of cumulative preference shares for £350,000. The excess over the nominal value of the preference shares of £184,000 is included in "Repurchase of own shares" above.

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 2017

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Treasury share reserve £'000	Retained earnings £'000	Shareholders' equity £'000
As at 1 March 2016	34,127	96,901	10,645	-	56,186	197,859
Profit for the year	-	-	-	-	24,020	24,020
Actuarial losses on retirement benefit obligations	-	-	-	-	(4,687)	(4,687)
Tax on items taken directly to equity	-	-	-	-	937	937
Total comprehensive income for the year	-	-	-	-	20,270	20,270
New ordinary shares issued	5,600	29,400	-	-	-	35,000
Cost of issuance of ordinary shares	-	(1,369)	-	-	-	(1,369)
Purchase of treasury shares	-	-	-	(1,000)	-	(1,000)
Treasury shares issued	-	-	-	244	(237)	7
Dividend paid	-	-	-	-	(5,353)	(5,353)
Share based payments charge	-	-	-	-	1,015	1,015
As at 28 February 2017	**39,727**	**124,932**	**10,645**	**(756)**	**71,881**	**246,429**

Notes to the Consolidated Financial Statements

For the year ended 28 February 2018

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 consolidated financial statements include the results of all subsidiaries owned by Vertu Motors plc listed on pages 117 to 119 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 2018 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 2018 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 2018 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 2018 by virtue of s479A Companies Act 2006 are:

Bristol Street First Investments Limited
Bristol Street Fourth Investments Limited
Vertu Motors (Knaresborough) Limited
Vertu Motors (VMC) Limited
South Hereford Garages Limited
South Hereford Garages Trade Parts LLP
Vertu Motors (Chingford) Limited
Vertu Motors (Property 2) Limited
Greenoaks (Maidenhead) Limited
Macklin Property Limited
Tyne Tees Finance Limited
Grantham Motor Company Limited
Vertu Motors (Property) Limited
Albert Farnell Limited
All Car Parts Limited
Sigma Holdings Limited
Gordon Lamb Limited
Gordon Lamb Holdings Limited

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2018 by virtue of s394A of Companies Act 2006 are:

Blake Holdings Limited
Bristol Street (No.1) Limited
Bristol Street (No.2) Limited
Bristol Street Fifth Investments Limited
Bristol Street Fleet Services Limited
Bristol Street Group Limited
Bristol Street Limited
BSH Pension Trustee Limited
Merifield Properties Limited
Motor Nation Car Hypermarkets Limited
Dunfermline Autocentre Limited
Widnes Car Centre (1994) Limited
Compare Click Call Limited
K C Motability Solutions Limited
Bristol Street Commercials (Italia) Limited
Newbolds Garage (Mansfield) Limited
Gordon Lamb Group Limited
Aceparts Limited
Why Pay More For Cars Limited
Hillendale Group Limited
Hillendale LR Limited
International Concessionaires Limited
National Allparts Limited
Peter Blake (Chatsworth) Limited
Peter Blake (Clumber) Limited
Peter Blake Limited
Typocar Limited
Vertu Fleet Limited
Vertu Motors (Finance) Limited
Vertu Motors (Retail) Limited
Boydslaw 103 Limited
Vertu Motors (Pity Me) Limited
Widnes Car Centre Limited
Vertu Motors (Durham) Limited
Dobies (Carlisle) Limited
Vertu Motors (AMC) Limited
Brookside (1998) Limited
Nottingham TPS LLP
Vertu Motors Property 2 Holdings Limited
SHG Holdings Limited
Blacks Autos Limited
Easy Vehicle Finance Limited
The Taxi Centre Limited

1. Accounting Policies (continued)

Basis of preparation (continued)

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 2018

Amendments to IAS 7, Statement of cash flows, disclosure initiative (note 34)
Amendments to IAS 12, 'Income taxes', recognition of deferred tax assets for unrealised losses
Annual improvements 2014-2016 – IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard

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

IFRS 15 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' is mandatory for all financial years commencing on or after 1 January 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 impact of applying IFRS 15 to the Group's financial statements has been reviewed by revenue stream.

Sale of motor vehicles, parts and aftersales services

Sales of vehicles and parts are currently recognised when the goods have been supplied. Aftersales services are recognised when the service has been completed in line with stage of completion of the transaction at the reporting date, assessed by the time expended on services that are charged on a labour rate basis. Under IFRS 15, revenue will be recognised when the customer has control of the goods. This is expected to have no impact on the current revenue recognition policies. Manufacturer incentives (e.g. free service when purchasing a vehicle) are not expected to impact the Group as the legal obligation lies with the manufacturer.

Sale of warranty products

There is expected to be no change to the recognition of revenue from the sale of warranty products as a result of transition to IFRS 15. Under the new accounting standard, 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 is the case under IAS 18.

Commissions received

The Group recognises income received in respect of commissions from various finance and insurance companies when the finance and/or insurance package that the customer has entered into commences, and recognises a provision for the estimated cost of this commission being repaid should the customer subsequently cancel their finance package. Typically, this is on delivery of the vehicle. Under IFRS 15, the revenue will be recognised on satisfaction of the performance obligation which corresponds to completion of the arrangement of vehicle financing and/or insurance products. The Group's assessment indicates that no changes in revenue recognition policies will be required.

Transition

The Group plans to adopt IFRS 15, at 1 March 2018, using the cumulative effect method. The Group will therefore not apply the requirements of IFRS 15 to the comparative period.

1. Accounting Policies (continued)

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

IFRS 9 'Financial Instruments'

IFRS 9, 'Financial Instruments' is effective for financial years commencing on or after 1 January 2018 and replaces IAS 39, the accounting standard used in the preparation of these financial statements.

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 are 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 and therefore no material differences are expected.

Impairment of financial assets

Impairment of assets under IAS 39 is based on an incurred loss approach whereby an impairment exists when a credit event occurs (debts become overdue) whereas IFRS 9 is based upon expected credit loss (ECL) approach. IFRS 9 also requires the impairment of financial assets to be shown as a separate line item in either the income statement or statement of comprehensive income. Impairment of financial assets under IAS 39 is recognised in operating expenses.

The Group's analysis suggests the carrying value of financial assets and liabilities under IFRS 9 will not differ materially from IAS 39 measurement.

Transition

The Group plans to adopt IFRS 9, at 1 March 2018, using the cumulative effect method. The Group will therefore not apply the requirements of IFRS 9 to the comparative period.

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 will continue to assess the financial impact over the next financial year until the effective date. The Group's minimum lease payments under non-cancellable operating leases amounted to £90.8m, on an undiscounted basis, as disclosed in note 36.

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 2018. Due to the volume and age of the leases in the Group's property portfolio, it is currently anticipated that the modified retrospective approach will be applied with additional disclosure of any financial information required to increase comparability of financial periods given where necessary.

1. Accounting Policies (continued)

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

Other standards

Amendments to IFRS 2, 'Share based payments', on clarifying how to account for certain types of share-based payment transactions
Annual improvements 2014-2016 – Amendments to IFRS1 and IAS 28
Annual improvements 2015-2017 – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23
Amendments to IAS 28 'Investments in associates', on long term interests in associates and joint ventures
Amendments to IAS 19, 'Employee benefits' on plan amendments, curtailment or settlement
IFRIC 22, 'Foreign currency transactions and advance consideration'
IFRIC 23, 'Uncertainty over income tax treatments'

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.

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.

1. Accounting Policies (continued)

Other intangible assets (continued)

Intangible assets, for example, franchise relationships 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 are tested annually for impairment.

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 'exceptional items'.

Sale and leaseback

A sale and leaseback transaction occurs when the Group sells an asset before immediately reacquiring the use of the asset through a lease arrangement with the buyer. Where this results in a finance lease, any excess proceeds over the carrying amount of the asset are deferred and amortised on a straight-line basis over the term of the lease. Where this results in an operating lease, and the transaction is carried out at fair value, any profit or loss is recognised immediately.

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.

1. Accounting Policies (continued)

Inventories (continued)

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.

Deferred income

Deferred income relates to 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.

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.

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.

1. Accounting Policies (continued)

Impairment of financial and non-financial assets (continued)

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 of continuing operations 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.

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:

1. Accounting Policies (continued)

Taxation (continued)

Deferred tax (continued)

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. In practice this means that revenue is recognised when vehicles or parts are invoiced and physically despatched or when a service has been undertaken.

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.

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.

1. Accounting Policies (continued)

Pension costs

The Group operates a trust based defined benefit pension scheme, Bristol Street Pension Scheme, which was closed to new entrants and future accrual in May 2003.

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 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.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are items that are material either because of their size or their nature and are nonrecurring.

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, who is responsible for allocating resources and assessing performance of the operating segment.

1. Accounting Policies (continued)

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.

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 resulted 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.

2. Financial risk management (continued)

Liquidity Risk (continued)

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	205	10,821	11,026
Other borrowings	12,811	-	12,811
Trade and other payables (excluding social security and other taxes)	657,585	-	657,585
At 28 February 2018	**670,601**	**10,821**	**681,422**

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings	180	10,720	10,900
Other borrowings	8,671	-	8,671
Trade and other payables (excluding social security and other taxes)	604,791	-	604,791
At 28 February 2017	**613,642**	**10,720**	**624,362**

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 cash of £19,313,000 at 28 February 2018 as disclosed in note 32 to the consolidated financial statements (2017: net cash of £21,008,000).

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 approximate 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.

4. Critical accounting estimates and judgements (continued)

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.

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.

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 2018, the Group operated two defined benefit schemes, the "Bristol Street Pension Scheme" and the "SHG Pension Scheme". On 27 February 2017, the assets and liabilities of the SHG Pension Scheme were merged into the Bristol Street Pension Scheme and on 7 February 2018 the SHG Pension Scheme was wound up. Therefore at 28 February 2018, the Group only 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 2018 are provided in note 29.

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. 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.

5. Segmental information (continued)

Year ended 28 February 2018

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales*	228.2	8.2	124.7	40.4	44.5
Used cars	1,068.9	38.2	98.7	31.9	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	6.9	3.2
	2,796.1	**100.0**	**308.9**	**100.0**	**11.0**

Year ended 28 February 2017

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales*	227.0	8.0	123.4	39.4	44.6
Used cars	1,037.5	36.8	100.7	32.1	9.7
New car retail and Motability	909.4	32.2	68.3	21.8	7.5
New fleet and commercial	648.7	23.0	21.1	6.7	3.3
	2,822.6	**100.0**	**313.5**	**100.0**	**11.1**

* margin in aftersales expressed on internal and external turnover

6. Operating expenses (before exceptional items)

	2018 £'000	2017 £'000
Wages and salaries excluding share based payments charge (note 9)	157,301	157,788
Share based payments charge (note 30)	1,031	1,082
Depreciation on property, plant and equipment (note 18)	9,714	8,665
Amortisation (note 16)	614	614
Loss / (profit) on disposal of property, plant and equipment	10	(285)
Operating lease rentals – property	10,588	10,417
Operating lease rentals – plant and equipment	401	323
Operating lease rentals – vehicles	4,384	3,895
Auditors' remuneration (note 7)	222	288
Rental income	(259)	(243)
Impairment charges (notes 15 & 18)	513	-
Other expenses	95,567	98,922
	280,086	**281,466**

7. Auditors' remuneration

	2018 £'000	2017 £'000
Fees payable to the Company's auditors for the audit of the parent Company and consolidated financial statements	217	194
Fees payable to the Company's auditors and its associates for other services:		
- audit of Group's subsidiaries	5	33
- Due diligence and other services	-	61
	222	**288**

8. Exceptional items

	2018 £'000	2017 £'000
Profit on disposal of freehold property	4,149	-
Loss on disposal of Boston Volkswagen	(610)	-
	3,539	**-**

On 31 August 2017 the Group completed the sale and operating lease back of the freehold property operated by the Group's Jaguar Land Rover dealership in Leeds, West Yorkshire. This transaction realised £14,150,000 of cash proceeds and £4,149,000 profit on disposal.

On 4 January 2018, the Group disposed of the trade and certain assets of its Volkswagen dealership in Boston. The Group received sales proceeds of £1,200,000 in respect of the freehold property from which the dealership operated, incurring a loss on disposal of £610,000 representing a loss on freehold property of £510,000 and loss on goodwill of £100,000. All other assets and liabilities disposed of with this transaction recovered their carrying value.

9. Employee benefit expense

	2018 £'000	2017 £'000
Wages and salaries	159,247	160,107
Social security costs	17,289	16,560
Pension costs – defined contribution plans	2,735	2,555
	179,271	**179,222**
Share based payments charge (note 30)	1,031	1,082
	180,302	**180,304**

Employee benefit expense included in:

	2018 £'000	2017 £'000
Operating expenses	157,301	157,788
Cost of sales	21,970	21,434
Share based payment charge	1,031	1,082
	180,302	**180,304**

Details of the remuneration of the Directors who served during the year from 1 March 2017 to 28 February 2018 and the year from 1 March 2016 to 28 February 2017 are given in the Directors' Remuneration Report on pages 52 to 62.

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

	2018 Number	2017 Number
Sales and distribution	2,020	2,042
Service, parts and accident repair centres	1,986	1,943
Administration	1,265	1,260
	5,271	**5,245**

11. Finance income and costs

	2018 £'000	2017 £'000
Interest on short-term bank deposits	18	34
Net finance income relating to defined benefit pension schemes (note 29)	48	227
Finance income	**66**	**261**
Bank loans and overdrafts	(673)	(876)
Vehicle stocking interest	(1,291)	(1,639)
Finance costs	**(1,964)**	**(2,515)**

12. Taxation

	2018 £'000	2017 £'000
Current tax		
Current tax charge	5,861	6,468
Adjustment in respect of prior years	(283)	(227)
Total current tax	**5,578**	**6,241**
Deferred tax		
Origination and reversal of temporary differences	512	(70)
Adjustment in respect of prior years	(254)	(112)
Rate differences	(70)	(259)
Total deferred tax (note 27)	**188**	**(441)**
Income tax expense	**5,766**	**5,800**

	2018 £'000	2017 £'000
Profit before taxation from continuing operations	30,447	29,820
Profit before taxation multiplied by the rate of corporation tax in the UK of 19.1% (2017: 20.0%)	5,815	5,964
Non-qualifying depreciation	499	357
Non-deductible expenses	174	267
Effect on deferred tax balances due to rate change	(70)	(259)
Property adjustment	(63)	(168)
Permanent benefits	(52)	(22)
Adjustments in respect of prior years	(537)	(339)
Total tax expense included in the income statement	**5,766**	**5,800**

The Group's effective rate of tax is 18.94% (2017: 19.45%).

The standard rate of Corporation Tax in the UK is 19% with effect from 1 April 2017. Accordingly, the Group's profits for this accounting period are taxed at a rate of 19.1%.

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.

13. Earnings per share (continued)

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

	2018 £'000	2017 £'000
Profit attributable to equity shareholders	24,681	24,020
Amortisation of intangible assets	614	614
Exceptional items (note 8)	(3,539)	-
Share based payments charge	1,031	1,082
Tax effect of adjustments	(119)	(119)
Adjusted earnings attributable to equity shareholders	**22,668**	**25,597**
Weighted average number of shares in issue ('000s)	391,317	391,116
Potentially dilutive shares ('000s)	5,948	6,800
Diluted weighted average number of shares in issue ('000s)	**397,265**	**397,916**
Basic earnings per share	**6.31p**	**6.14p**
Diluted earnings per share	**6.21p**	**6.04p**
Basic adjusted earnings per share	**5.79p**	**6.54p**
Diluted adjusted earnings per share	**5.71p**	**6.43p**

14. Dividends per share

Dividends of £5,678,000 were paid in the year to 28 February 2018 (2017: £5,353,000), 1.45p per share (2017: 1.35p). A final dividend in respect of the year ended 28 February 2018 of 0.95p per share, is to be proposed at the annual general meeting on 25 July 2018. The ex-dividend date will be 21 June 2018 and the associated record date 22 June 2018. This dividend will be paid, subject to shareholder approval, on 30 July 2018 and these financial statements do not reflect this final dividend payable.

15. Goodwill and other indefinite life assets

	Goodwill £'000	Franchise relationships £'000	Total £'000
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**

2017	Goodwill £'000	Franchise relationships £'000	Total £'000
Cost and net book value			
At 1 March 2016	56,270	13,214	69,484
Additions	18,133	6,978	25,111
At 28 February 2017	**74,403**	**20,192**	**94,595**

15. Goodwill and other indefinite life assets (continued)

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 2018 and 28 February 2017, the acquired goodwill and other indefinite life assets were tested for impairment. During the year ended 28 February 2018, impairment charges of £114,000 were incurred 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.
A summary of the goodwill purchased is presented below:

	2018 £'000	2017 £'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
Other acquisitions	12,001	12,215
	74,189	**74,403**

A summary of franchise relationships acquired is presented below:

	2018 £'000	2017 £'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
	20,192	**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 of 3% is assumed for the first five years, 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% (2017: 8%) is applied. A pre-tax WACC of above 9% has to be applied before any entity impairment arises.

The breakdown point sensitivity of the key assumptions which would cause the first CGU to become impaired are as follows:

- The growth rate would have to fall to -0.5% from the 3% in our assumptions. If we reduced the growth rate to -2% this would lead to an impairment of £2.1m.
- The pre-tax WACC would need to increase to 8.5% from the 8% in our assumptions. If we increased the WACC to 9% this would lead to an impairment of £1.5m.

16. Other intangible assets

2018	Earn out £'000	Software costs £'000	Customer relationships £'000	Total £'000
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**

2017	Earn out £'000	Software costs £'000	Customer relationships £'000	Total £'000
Cost				
At 1 March 2016	400	3,015	855	4,270
Additions	-	460	-	460
Disposals	-	(11)	-	(11)
At 28 February 2017	**400**	**3,464**	**855**	**4,719**
Accumulated amortisation				
At 1 March 2016	178	2,094	326	2,598
Charge for the year	134	389	91	614
Disposals	-	(11)	-	(11)
At 28 February 2017	**312**	**2,472**	**417**	**3,201**
Net book value at 28 February 2017	**88**	**992**	**438**	**1,518**
Net book value at 29 February 2016	**222**	**921**	**529**	**1,672**

17. Business combinations

Business disposals

On 31 March 2017, the Group disposed of the trade and certain assets of its Peugeot dealership in Chesterfield.

On 4 January 2018, the Group disposed of the trade and certain assets of its Volkswagen dealership in Boston.

Details of the fair value of the combined net assets disposed of are as follows:

	Fair Value £'000
Property, plant and equipment	1,227
Inventories	432
Trade and other receivables	24
Trade and other payables	(155)
Net cash consideration received	**1,528**

Disposal related costs (included in the consolidated income statement for the year ended 28 February 2018) totalled £18,000 in respect of these disposals.

17. Business combinations (continued)

Deferred consideration

Deferred consideration outstanding at 28 February 2018:

	2018 £'000	2017 £'000
SHG Holdings Limited	-	1,500
Other businesses*	100	308
Total deferred consideration	**100**	**1,808**

Maturity of deferred consideration:

	2018 £'000	2017 £'000
Payable in less than 12 months	-	1,572
Payable in greater than 12 months	100	236
Total deferred consideration	**100**	**1,808**

During the year ended 28 February 2018, £1,181,250 was paid in respect of the SHG Holdings acquisition which took place during the year ended 28 February 2016. The valuation of the final payment was dependent on certain performance criteria.

*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.

18. Property, plant and equipment

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**

* Includes leasehold improvements and franchise standards property improvements.

18. Property, plant and equipment (continued)

Depreciation expense of £9,714,000 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 (2017: £10,900,000) have been granted to manufacturer partners as security against consignment stocking lines.

2017	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 2016	150,191	4,889	6,931	12,351	174,362
Acquisitions	30,528	-	364	555	31,447
Additions	18,075	1,049	2,076	4,498	25,698
Disposals	(1,297)	(798)	(1,757)	(2,284)	(6,136)
Reclassifications	289	(67)	(112)	(110)	-
At 28 February 2017	**197,786**	**5,073**	**7,502**	**15,010**	**225,371**
Accumulated depreciation and impairment					
At 1 March 2016	12,530	1,995	3,203	6,273	24,001
Depreciation charge	3,597	699	1,576	2,793	8,665
Disposals	(379)	(798)	(1,512)	(2,151)	(4,840)
Reclassifications	82	(40)	(70)	28	-
At 28 February 2017	**15,830**	**1,856**	**3,197**	**6,943**	**27,826**
Net Book Value					
At 28 February 2017	**181,956**	**3,217**	**4,305**	**8,067**	**197,545**
At 29 February 2016	**137,661**	**2,894**	**3,728**	**6,078**	**150,361**

19. Subsidiary undertakings

A list of subsidiary undertakings (ordinary shares 100% owned and incorporated within the United Kingdom), as at 28 February 2018 and 28 February 2017 is given in note 7 of the Vertu Motors plc company only financial statements (pages 117 to 119).

20. Inventories

	2018 £'000	2017 £'000
New vehicle stock	417,939	385,368
Used, demonstrator and courtesy vehicles	124,541	106,116
Parts and sundry stocks	15,906	14,986
	558,386	**506,470**

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

	2018 £'000	2017 £'000
Interest bearing consignment stock	26,732	34,091
Stock invoiced not yet paid held by Manufacturers to the order of the Group	339,425	305,740
Other new vehicle stock	51,782	45,537
	417,939	**385,368**

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 £2,565,965,000 (2017: £2,584,811,000).

21. Property assets held for resale

	2018 £'000	2017 £'000
At beginning of year	-	537
Transfers in from freehold property	2,449	-
Property sold during the year	-	(537)
At end of year	**2,449**	**-**

The transfer in from freehold property during year ended 28 February 2018 relates to three assets: surplus land at Newcastle under Lyme which was sold on 19 March 2018 realising cash proceeds of £2,000,000 and a £630,000 profit on disposal; a dealership property in Barnsley which the Group ceased to operate and the property is now under offer for sale with a fair value and net book value of £574,000; and 2 domestic properties in Slough with a fair value and net book value of £505,000.

22. Trade and other receivables

Current

	2018 £'000	2017 £'000
Trade receivables	44,235	40,759
Less provision for impairment of trade receivables	(1,224)	(1,704)
Trade receivables (net)	**43,011**	**39,055**
Other receivables	15,723	6,438
Prepayments and accrued income	7,538	7,052
	66,272	**52,545**

As at 28 February 2018, trade receivables of £1,988,000 (2017: £1,844,000) were past due but not impaired. The ageing of these receivables are all within 3 months overdue.

As at 28 February 2018, trade receivables of £1,224,000 (2017: £1,704,000) were impaired and provided for.

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

	2018 £'000	2017 £'000
At beginning of year	1,704	1,159
Charge for receivables impairment	239	918
Receivables written off during the year as uncollectible	(90)	(48)
Unused amounts reversed	(629)	(325)
At end of year	**1,224**	**1,704**

22. Trade and other receivables (continued)

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 allowance account are generally written off when there is no expectation of recovering additional cash.

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

	2018 £'000	2017 £'000
Cash in bank and in hand	41,709	39,845

24. Trade and other payables

	2018 £'000	2017 £'000
Current		
Trade payables	577,384	529,181
Social security and other taxes	5,819	5,526
Accruals	48,753	44,151
Deferred income	8,448	6,459
Other payables	23,000	25,000
	663,404	**610,317**

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 £12,557,000 (2017: £11,057,000) in respect of outstanding service plans.

25. Borrowings

	2018 £'000	2017 £'000
Current		
Other borrowings	12,811	8,671
	12,811	8,671
Non-current		
Bank borrowings	9,585	10,000
Other borrowings	-	166
	9,585	10,166
	22,396	**18,837**

Borrowings are repayable as follows:

	2018 £'000	2017 £'000
6 months or less	12,811	8,671
6-12 months	-	-
1-5 years	9,585	10,166
	22,396	**18,837**

25. Borrowings (continued)

Non-current other borrowing at 28 February 2017 comprised cumulative preference shares of £166,000 which were repurchased during the year ended 28 February 2018.

a) Bank borrowings

The fair value of bank borrowings equals their carrying amount, as the impact of discounting is not significant. Bank borrowings are designated as financial liabilities carried at amortised cost.

The Group's £40,000,000 Revolving Credit Facility ("RCF") was available throughout the year ended 28 February 2018. 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 2018. On 31 July 2017, the Group entered into an interest rate swap in respect of the first £10,000,000 of this facility, swapping LIBOR for a fixed interest rate of 0.675%. £10,000,000 of the RCF was drawn at 28 February 2018. 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.

In addition to the RCF facility, the Group also has access to an additional £30,000,000 uncommitted "accordion" facility.

On 28 February 2018, the Group exercised the option to extend these facilities for a further 12 months such that the facility is now in place until 28 February 2023.

The overdraft and CMML facilities were renewed for a further 12 months on 16 February 2018 with the CMML facility now rising to £68,000,000 for four peak months of the year. During the year ended 28 February 2018 the facility during these peak months was £63,000,000. 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 2018:

	2018 £'000	2017 £'000
Floating rate		
- Overdraft (uncommitted) expiring in one year	5,000	5,000
- CMML (committed) facility expiring in one year	68,000	63,000
- RCF facility expiring in greater than one year *	30,000	30,000
- Used car stocking facility expiring in one year	17,189	16,329
	120,189	**114,329**

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

b) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £41,709,000 (2017: £39,845,000). The cash deposits comprise deposits placed on money market at call, seven day and cash deposited with counterparty banks at commercially negotiated interest rates.

Trade and other receivables and cash and cash equivalents are designated as loans and receivables, carried at amortised cost. Their fair value is deemed to be equal to their carrying value.

26. Derivative financial instruments

Interest rate swap contracts

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

	2018 £'000	2017 £'000
Interest rate swaps – cash flow hedges	92	-
Total derivates designated as hedging instruments	**92**	**-**

26. Derivative financial instruments (continued)

	2018 £'000	2017 £'000
Non-current borrowings subject to hedging instruments	10,000	-
Total derivative financial liabilities	**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 2018 totalled £10,000,000 (2017: £Nil). Their fair value was £92,000 (2017: £Nil).

The ineffective portion recognised in the finance expense that arises from cash flow hedges amounts to a loss of £Nil (2017: £Nil).

At 28 February 2018, 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 2018 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:

	2018 £'000	2017 £'000
Deferred tax asset to be recovered after more than 12 months	(1,737)	(1,504)
Deferred tax liabilities to be recovered after more than 12 months	8,214	7,059
Deferred tax liabilities (net)	**6,477**	**5,555**

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

2018	**Deferred tax liabilities £'000**	**Deferred tax assets £'000**	**Net £'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**

2017	**Deferred tax liabilities £'000**	**Deferred tax assets £'000**	**Net £'000**
At 1 March 2016	5,820	(1,370)	4,450
Credited to income statement (note 12)	(388)	(53)	(441)
Credited directly to equity	(937)	-	(937)
Acquisitions	2,564	(81)	2,483
At 28 February 2017	**7,059**	**(1,504)**	**5,555**

27. Deferred income tax liabilities (continued)

2018

	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Total £'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**

2017

	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Total £'000
At 1 March 2016	1,606	(434)	1,098	2,180	4,450
(Credited) / charged to income statement (note 12)	(431)	(54)	160	(116)	(441)
Acquisitions	1,297	-	-	1,186	2,483
Credited directly to equity	-	-	(937)	-	(937)
At 28 February 2017	**2,472**	**(488)**	**321**	**3,250**	**5,555**

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. Deferred income due in greater than one year

	2018 £'000	2017 £'000
Warranty income	8,877	7,616
	8,877	**7,616**

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 £6,684,000 included in 'deferred income' in current trade and other payables in respect of such warranties recognising the amount to be released over the next 12 months (2017: £5,536,000).

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.

In the year ended 29 February 2016, the Group acquired a second defined benefit pension scheme, SHG Pension Scheme, with the acquisition of SHG Holdings Limited in the same period. On 27 February 2017, the assets and liabilities of the SHG Pension Scheme were merged into the Bristol Street Pension Scheme, and on 7 February 2018 the SHG Pension Scheme was wound up.

In the Bristol Street Pension Scheme disclosures below, the comparatives reflect the combined position of the formerly separate Bristol Street Pension Scheme and SHG Pension Scheme to aid comparability of the Scheme performance for the financial year ended 28 February 2018.

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.

29. Retirement benefit asset (continued)

a) Bristol Street Pension Scheme

Regular employer contributions to the scheme (including contributions paid in respect of scheme expenses) for the year commencing 1 March 2018 are estimated to be £32,000.

The last actuarial valuation upon which the IAS 19 (Revised) figures and disclosures have been based was as at 5 April 2015. 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 2018 £'000	Market Value 28 February 2017 £'000
Equities and Diversified growth funds	20,796	24,578
Bonds	-	1,731
Liability driven Investment Funds	32,434	28,635
Other	448	356
	53,678	**55,300**

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 2017 was 2.4%. This is equal to the discount rate used in the calculation of the net interest income for the year ended 28 February 2018.

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:

	2018 £'000	2017 £'000
Fair value of scheme assets	53,678	55,300
Present value of funded obligations	(47,127)	(53,416)
Asset on the balance sheet	**6,551**	**1,884**

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:

	2018 £'000	2017 £'000
Opening fair value of scheme assets	55,108	47,596
Interest income	1,304	1,693
Actuarial (losses) / gains	(981)	7,289
Employer contributions	380	380
Benefits paid	(1,950)	(1,525)
Expenses recognised in the income statement	(183)	(133)
Closing fair value of scheme assets	**53,678**	**55,300**

29. Retirement benefit asset (continued)

a) Bristol Street Pension Scheme (continued)

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

	2018 £'000	2017 £'000
Opening fair value of scheme liabilities	53,224	41,499
Interest cost	1,256	1,466
Actuarial (gains) / losses	(5,403)	11,976
Benefits paid	(1,950)	(1,525)
Closing fair value of scheme liabilities	**47,127**	**53,416**

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

	2018 £'000	2017 £'000
Expenses	183	133
Net interest income (note 11)	(48)	(227)
Total expense / (income) included in income statement	**135**	**(94)**

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

	2018 £'000	2017 £'000
Expected return on scheme assets	1,304	1,693
Actuarial (losses) / gains	(981)	7,289
	323	**8,982**

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

	2018	2017
Discount rate	2.70%	2.40%
Limited Price Indexation ("LPI") pension increases	3.20%	3.50%
Inflation rate	2.20%	2.50%

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:

	2018	2017
Male	22	22
Female	23	24

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

	2018	2017
Male	23	24
Female	25	26

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

	2018 £'000	2017 £'000
Actuarial gains / (losses)	4,422	(4,687)
Related deferred tax liability (note 27)	(752)	937
Total, included within retained earnings	**3,670**	**(3,750)**
Cumulative actuarial gains / (losses)	**(1,229)**	**(4,899)**

29. Retirement benefit asset (continued)

a) Bristol Street Pension Scheme (continued)

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	1,843
0.25% decrease in discount rate	(1,956)
0.25% increase in price inflation (and associated assumptions)	(1,331)
0.25% decrease in price inflation (and associated assumptions)	1,632
1 year increase in life expectancy at age 65	(1,759)
1 year decrease in life expectancy at age 65	1,734

b) SHG Pension Scheme

Following the transfer of scheme assets and liabilities from the SHG Pension Scheme into the Bristol Street Pension Scheme on 27 February 2017, £192,000 remained in the SHG scheme bank account (included in total scheme assets at 28 February 2017) for administrative purposes in order to meet final payments due to remaining members. Benefits of £192,000 were paid to members during the year to February 2018 and the scheme was subsequently wound up on 7 February 2018.

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

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**

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

2017	Ordinary shares of 10p each Number of shares ('000)	Ordinary shares £'000	Share premium £'000	Other reserve £'000	Treasury share reserve £'000	Total £'000
At 1 March 2016	341,270	34,127	96,901	10,645	-	141,673
Shares issued during the year	56,000	5,600	29,400	-	-	35,000
Costs on issuance of shares	-	-	(1,369)	-	-	(1,369)
Purchase of treasury shares	(2,636)	-	-	-	(1,000)	(1,000)
Issuance of treasury shares in satisfaction of exercised LTIP awards	625	-	-	-	237	237
Issuance of treasury shares in satisfaction of exercised CSOP awards	20	-	-	-	7	7
At 28 February 2017	**395,279**	**39,727**	**124,932**	**10,645**	**(756)**	**174,548**

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

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 70, a share based payments charge of £1,031,000 (2017: £1,082,000) 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 2018 No of shares	Granted / Outstanding at 28 February 2017 No of shares	Exercise price	Date from which exercisable	Expiry date
4 May 2007	CSOP	-	111,111	81.00p	4 May 2010	4 May 2017
13 Jun 2007	CSOP	-	77,170	77.75p	13 Jun 2010	13 Jun 2017
1 Aug 2007	CSOP	-	591,549	71.00p	1 Aug 2010	1 Aug 2017
28 Aug 2007	CSOP	-	169,231	65.00p	28 Aug 2010	28 Aug 2017
7 Sep 2007	CSOP	-	136,363	66.00p	7 Sep 2010	7 Sep 2017
4 Jan 2008	CSOP	-	115,000	40.00p	4 Jan 2011	4 Jan 2018
26 Feb 2008	CSOP	-	10,000	43.00p	26 Feb 2011	26 Feb 2018
21 May 2008*	CSOP	74,799	79,200	44.00p	21 May 2011	21 May 2018
28 Nov 2011*	CSOP	639,230	749,230	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	2,120,000	2,530,000	39.25p	30 Aug 2015	24 Oct 2022
20 Aug 2013*	LTIP	107,166	107,166	0.00p	20 Aug 2016	20 Aug 2018
30 Oct 2013	CSOP	-	1,050,000	59.50p	30 Oct 2016	30 Oct 2023
16 May 2014	LTIP	-	2,404,665	0.00p	16 May 2017	16 May 2024
5 Nov 2014	CSOP	1,160,000	1,310,000	57.50p	5 Nov 2017	5 Nov 2024
13 Nov 2015	CSOP	2,055,000	2,375,000	74.50p	16 Nov 2018	16 Nov 2025
16 Jun 2015**	LTIP	1,128,205	1,128,205	0.00p	16 Jun 2018	16 Jun 2020
5 Sep 2016	LTIP	1,920,289	1,920,289	0.00p	5 Sep 2021	5 Sep 2026
13 Oct 2016	CSOP	2,340,000	2,760,000	45.38p	13 Oct 2019	13 Oct 2026
23 Jun 2017	LTIP	2,007,576	-	0.00p	23 Jun 2020	23 Jun 2022
6 Nov 2017	CSOP	3,305,000	-	45.00p	7 Nov 2020	7 Nov 2027
		19,257,265	**20,024,179**			

*Vested
** Lapsed in full subsequent to 28 February 2018

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

	2018 No of share options	2017 No of share options
At beginning of year	20,024,179	17,133,663
Granted	5,402,576	4,780,289
Forfeited	(1,524,400)	(515,263)
Lapsed	(4,470,090)	(729,376)
Exercised	(175,000)	(645,134)
At end of year	**19,257,265**	**20,024,179**

The weighted average share price during the year was 45.6p (2017: 48.9p). The weighted average fair value of CSOP options granted during the year, determined using the Black-Scholes model was 8p (2017: 10p) per option.

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

Share Option Schemes (continued)

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

Vesting period	3 years
Expected volatility	25%
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 44p (2017: 46p) 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	25%
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.

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 104.

The CSOP options issued on 5 November 2014 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2017 and 31 July 2018 is above 70p and then 100% of the options vest. At an average share price of below 70p none of the options are exercisable.

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.

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

Share Option Schemes (continued)

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

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 90p none of the options are exercisable.

The following CSOP share options were issued during the financial year to 28 February 2018. None of these options were issued to the Executive Directors of Vertu Motors plc.

3,395,000 CSOP options were issued on 6 November 2017. 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 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.

c) Long Term Incentive Plan ("LTIP")

On 16 May 2014 2,404,665 LTIP share awards were issued to Executive Directors and Senior Managers. In May 2017 these awards lapsed in full as the market based performance criteria had not been satisfied.

A further 1,128,205 LTIP share awards were issued to Executive Directors and Senior Managers on 16 June 2015. These awards lapsed in full, subsequent to the year end, as the market based performance criteria had not been satisfied.

Each tranche of awards made prior to 16 June 2015 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 relative growth in TSR against FTSE small cap index (excluding investment trusts). Further detail on the vesting conditions is given in the Directors Remuneration Report on page 55 of the Financial Statements.

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. The awards may vest in September 2019. A further 2,007,576 LTIP share awards were made to Executive Directors and Senior Managers on 23 June 2017 which may vest in June 2020.

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:

	2018 £'000	2017 £'000
At beginning of year	-	-
Fair value losses on derivative financial instruments during the year	(93)	-
Deferred taxation on fair value losses during year	18	-
At end of year	**(75)**	**-**

32. Reconciliation of net cash flow to movement in net cash

	2018 £'000	2017 £'000
Net increase / (decrease) in cash and cash equivalents	1,864	(4,070)
Cash inflow from proceeds of borrowings	(4,140)	(10,831)
Cash outflow from repayment of borrowings	166	14,000
Cash movement in net cash	**(2,110)**	**(901)**
Borrowings acquired	-	(1,085)
Capitalisation of loan arrangement fees	501	107
Amortisation of loan arrangement fees	(86)	(261)
Non-cash movement in net cash	**415**	**(1,239)**
Movement in net cash	**(1,695)**	**(2,140)**
Opening net cash	**21,008**	**23,148**
Closing net cash	**19,313**	**21,008**

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.

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)			(663,404)	
Deferred consideration (Note 17)			(100)	
Deferred income (Note 28)			(8,877)	
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 (Note 17)	(432)	(24)	155	
Deferred consideration on acquisitions (Note 17)	-	-	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)**

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

2017

	Inventories £'000	Current trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(610,317)	
Deferred consideration			(1,808)	
Deferred income			(7,616)	
At 28 February 2017	506,470	52,545	(619,741)	
At 29 February 2016	530,371	63,412	(639,126)	
Balance sheet movement	**23,901**	**10,867**	**(19,385)**	
Acquisitions	17,345	4,325	(21,583)	
Disposals	(149)	(56)	199	
Movement excluding business combinations	**41,097**	**15,136**	**(40,769)**	**15,464**
Pension related balances				(247)
Decrease in capital creditors				736
Decrease in interest accrual				87
Movement as shown in Consolidated *Cash Flow Statement*				**16,040**

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 2017	8,671	10,166	124,932	(756)	71,881	214,894
Cash flows from financing activities:						
Dividends paid	-	-	-	-	(5,678)	(5,678)
Shares issued	-	-	2	66	(6)	62
Share repurchase	-	-	-	-	(5,451)	(5,451)
Repayment of loans	-	(166)	-	-	-	(166)
Proceeds from issue of loan	4,140	-	-	-	-	4,140
Net cash outflow from financing activities	4,140	(166)	2	66	(11,135)	(7,093)
Other changes:						
Liability related: amortisation of loan fees and expenses	-	(415)	-	-	-	(415)
Equity related: other movements	-	-	-	-	29,131	29,131
As at 28 February 2018	**12,811**	**9,585**	**124,934**	**(690)**	**89,877**	**236,517**

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 2018 until they are satisfied in full. These liabilities total £717,453,000 (2017: £617,304,000), including intercompany loans of £117,385,000 (2017: £120,190,000). Such guarantees are enforceable against Vertu Motors plc by any person to whom any such liability is due.

36. Commitments

a) Capital Commitments

Capital commitments in respect of property, plant and equipment amounting to £5,478,000 were outstanding as at 28 February 2018 (2017: £3,242,000).

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.

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

	2018		2017	
	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	10,384	2,980	8,772	3,413
Later than 1 year and no later than 5 years	35,301	1,008	30,825	1,033
Later than 5 years	41,128	-	37,211	-
	86,813	**3,988**	**76,808**	**4,446**

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 2018 is set out in the Directors' Remuneration Report on pages 58 to 62.

During the year, Robert Forrester and Peter Jones sat on the board of Trusted Dealers Limited as unpaid non-Executive Directors. Trusted Dealers Limited operates a used car sales website. In the year ended 28 February 2018, the value of services provided by Trusted Dealers Limited to the Group was £60,000 (2017: £60,000). No outstanding balances were due to Trusted Dealers Limited in respect of these services at 28 February 2018 (2017: £Nil). Both Robert Forrester and Peter Jones resigned as Non-Executive Directors of Trusted Dealers Limited on 24 January 2018 and 12 January 2018 respectively.

Nigel Stead, a Director of the Company also sits on the Board of Prohire plc. The Group sells vehicles and provides aftersales services to Prohire plc on normal commercial terms. In the year ended 28 February 2018, sales of vehicles to Prohire plc totalled £150,000 (2017: £66,000). The value of aftersales services invoiced in the same period was £9,000 (2017: £26,000). £1,000 was unpaid at 28 February 2018 in respect of these supplies (2017: £2,000). Nigel Stead resigned as Non-Executive Director of Prohire Plc on 21 March 2018.

William Teasdale, a Director of the Company until his resignation on 26 July 2017 also sits on the Board of Remedios Limited. Remedios Limited provides environmental investigation services to the Group on normal commercial terms. In the year ended 28 February 2018, the value of such services provided was £120 (2017: £33,000). £Nil was unpaid at 28 February 2018 in respect of these services received (2017: £Nil).

During the year to 28 February 2018, Robert Forrester, Michael Sherwin, Peter Jones, Bill Teasdale, Nigel Stead and Pauline Best bought and sold vehicles from and to the Group. The value of these transactions for the year ended 28 February 2018 and the year ended 28 February 2017 is presented below. No profit or loss was made in respect of these transactions in the year ended 28 February 2018 or the year ended 28 February 2017. 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 2018 (2017: £Nil).

37. Related party transactions (continued)

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 2017.

2017

	Bought from the Group		Sold to the Group	
	Number of vehicles	Purchase price £'000	Number of vehicles	Sale price £'000
Robert Forrester	5	339	5	330
Michael Sherwin	5	216	5	227
Peter Jones	2	180	2	177
Bill Teasdale	3	210	3	216
Nigel Stead	4	249	4	251
Pauline Best	3	212	2	144

38. Post balance sheet events

On 19 March 2018, the Group disposed of surplus land, held in property assets held for resale at 28 February 2018, at Newcastle under Lyme realising £2,000,000 of cash and a £630,000 profit on disposal.

Company Balance Sheet

As at 28 February 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	5	968	990
Tangible assets	6	3,480	2,988
Investments	7	153,633	153,397
		158,081	**157,375**
Current assets			
Debtors	8	138,386	136,294
Cash at bank and in hand		37,730	28,293
Total current assets		**176,116**	**164,587**
Creditors: amounts falling due within one year	10	**(68,938)**	**(70,619)**
Net current assets		**107,178**	**93,968**
Total assets less current liabilities		**265,259**	**251,343**
Creditors: amounts falling due after more than one year	11	**(18,562)**	**(17,852)**
Net assets		**246,697**	**233,491**
Capital and reserves			
Called up share capital	13	38,552	39,727
Share premium account	13	124,934	124,932
Other reserve	13	10,645	10,645
Hedging reserve	14	(75)	-
Treasury share reserve	13	(690)	(756)
Capital redemption reserve	13	1,175	-
Profit and loss account:	15		
At start of year		58,943	43,792
Profit for the year		23,382	19,726
Other changes in retained earnings		(10,169)	(4,575)
		72,156	58,943
Total shareholders' funds		**246,697**	**233,491**

These financial statements, on pages 111 to 122, have been approved for issue by the Board of Directors on 9 May 2018:

Robert Forrester
Chief Executive

Michael Sherwin
Chief Financial Officer

Company Statement of Changes in Equity

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**

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 2017

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Treasury share reserve £'000	Profit and loss account £'000	Total Equity £'000
As at 1 March 2016	**34,127**	**96,901**	**10,645**	**-**	**43,792**	**185,465**
Profit for the year	-	-	-	-	19,726	19,726
Total comprehensive income for the year	-	-	-	-	19,726	19,726
New ordinary shares issued	5,600	29,400	-	-	-	35,000
Cost of issuance of ordinary shares	-	(1,369)	-	-	-	(1,369)
Purchase of treasury shares	-	-	-	(1,000)	-	(1,000)
Treasury shares issued	-	-	-	244	(237)	7
Dividend paid	-	-	-	-	(5,353)	(5,353)
Share based payments charge	-	-	-	-	1,015	1,015
As at 28 February 2017	**39,727**	**124,932**	**10,645**	**(756)**	**58,943**	**233,491**

Notes to the Company Financial Statements

For the year ended 28 February 2018

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 2018 was £23,382,000 (2017: £19,726,000).

The consolidated financial statements include the results of all subsidiaries owned by Vertu Motors plc listed on pages 117 to 119 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 2018 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 2018 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 2018 of the subsidiaries listed below, further detail of which is provided in note 35 to the consolidated financial statements on page 108.

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2018 by virtue of s479A Companies Act 2006 are:

Bristol Street First Investments Limited
Bristol Street Fourth Investments Limited
Vertu Motors (Knaresborough) Limited
Vertu Motors (VMC) Limited
South Hereford Garages Limited
South Hereford Garages Trade Parts LLP
Vertu Motors (Chingford) Limited
Vertu Motors (Property 2) Limited
Greenoaks (Maidenhead) Limited
Macklin Property Limited
Tyne Tees Finance Limited
Grantham Motor Company Limited
Vertu Motors (Property) Limited
Albert Farnell Limited
All Car Parts Limited
Sigma Holdings Limited
Gordon Lamb Limited
Gordon Lamb Holdings 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 2018 by virtue of s394A of Companies Act 2006 are:

Blake Holdings Limited
Bristol Street (No.1) Limited
Bristol Street (No.2) Limited
Bristol Street Fifth Investments Limited
Bristol Street Fleet Services Limited
Bristol Street Group Limited
Bristol Street Limited
BSH Pension Trustee Limited
Merifield Properties Limited
Motor Nation Car Hypermarkets Limited
Dunfermline Autocentre Limited
Widnes Car Centre (1994) Limited
Compare Click Call Limited
K C Motability Solutions Limited
Bristol Street Commercials (Italia) Limited
Newbolds Garage (Mansfield) Limited
Gordon Lamb Group Limited
Aceparts Limited
Why Pay More For Cars Limited
Hillendale Group Limited
Hillendale LR Limited
International Concessionaires Limited
National Allparts Limited
Peter Blake (Chatsworth) Limited
Peter Blake (Clumber) Limited
Peter Blake Limited
Typocar Limited
Vertu Fleet Limited
Vertu Motors (Finance) Limited
Vertu Motors (Retail) Limited
Boydslaw 103 Limited
Vertu Motors (Pity Me) Limited
Widnes Car Centre Limited
Vertu Motors (Durham) Limited
Dobies (Carlisle) Limited
Vertu Motors (AMC) Limited
Brookside (1998) Limited
Nottingham TPS LLP
Vertu Motors Property 2 Holdings Limited
SHG Holdings Limited
Blacks Autos Limited
The Taxi Centre Limited
Easy Vehicle Finance

The auditors' remuneration for audit and other services was £25,000 (2017: £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.

3. Employee benefit expense

	2018 £'000	2017 £'000
Wages and salaries	12,470	11,608
Social security costs	1,731	1,514
Pension costs – defined contribution plans	1,551	1,308
	15,752	**14,430**
Share based payments charge (note 17)	1,031	1,082
	16,783	**15,512**

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

	2018 Number	2017 Number
Sales	117	98
Service	17	18
Administration	388	355
	522	**471**

5. Intangible assets

	Computer Software £'000
Cost	
At 1 March 2017	3,465
Additions	421
Disposals	(1,761)
At 28 February 2018	**2,125**
Accumulated Amortisation	
At 1 March 2017	2,475
Amortisation charge	442
Disposal	(1,760)
At 28 February 2018	**1,157**
Net Book Value	
At 28 February 2018	**968**
At 28 February 2017	**990**

6. Tangible assets

	Computer equipment £'000	Office equipment £'000	Total £'000
Cost			
At 1 March 2017	7,094	683	7,777
Additions	2,004	36	2,040
Disposals	(2,761)	(193)	(2,954)
At 28 February 2018	**6,337**	**526**	**6,863**
Accumulated Depreciation			
At 1 March 2017	4,335	454	4,789
Depreciation charge	1,472	76	1,548
Disposals	(2,761)	(193)	(2,954)
At 28 February 2018	**3,046**	**337**	**3,383**
Net Book Value			
At 28 February 2018	**3,291**	**189**	**3,480**
At 28 February 2017	**2,759**	**229**	**2,988**

Notes to the Company Financial Statements (continued)

7. Fixed asset investments

	2018 £'000
Cost	
At 1 March 2017	155,797
Additions	350
At 28 February 2018	**156,147**
Accumulated impairment charges	
At 1 March 2017	2,400
Impairment charges	114
At 28 February 2018	**2,514**
Net Book Value	
At 28 February 2018	**153,633**
At 28 February 2017	**153,397**

Vertu Motors plc, the Company, as at 28 February 2018 and 28 February 2017, invested in 100% of the ordinary share capital of the following subsidiary undertakings, incorporated in the United Kingdom:

Company	Principal activity
The registered office address of the following companies is Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead, Tyne & Wear, NE11 0XA:	
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
Greenoaks (Maidenhead) Limited *	Motor retailer
Gordon Lamb Limited *	Motor retailer
South Hereford Garages Trade Parts LLP *	Parts 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
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
Bristol Street (No. 1) Limited *	Dormant company

7. Fixed asset investments (continued)

Company	Principal activity
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
Alpha Banbury *	Dormant company
Alpha Birmingham *	Dormant company
Alpha Bromley *	Dormant company
Alpha Cheltenham*	Dormant company
Alpha Huddersfield *	Dormant company
Alpha Ilford *	Dormant company
Alpha Leeds *	Dormant company
Alpha Newcastle *	Dormant company
Alpha Nottingham *	Dormant company
Alpha Parts *	Dormant company
Alpha Poole *	Dormant company
Alpha Romford *	Dormant company
Alpha Ruislip *	Dormant company
Alpha Sherwood *	Dormant company
Alpha Shirley *	Dormant company
Alpha Southampton *	Dormant company
Alpha Stamford *	Dormant company
Alpha Stourbridge *	Dormant company
Alpha Sunderland *	Dormant company
Alpha Worcester *	Dormant company
Dispose Seton (No 2) *	Dormant company
Jessups Motor Group *	Dormant company
Alpha Bournemouth Limited *	Dormant company
Alpha Cramlington Limited *	Dormant company
Alpha Jessups Limited *	Dormant company
Alpha Stamford Hill Limited *	Dormant company
Alpha Stanley Limited *	Dormant company
Fleet Datascan Limited *	Dormant company
Milehire Limited *	Dormant company
Seton House Manchester 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

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

7. Fixed asset investments (continued)

The registered address of the following companies is Peugeot Paisley, Saturn Avenue, Pheonix 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

	2018 £'000	2017 £'000
Trade debtors	922	1,388
Amounts owed by Group undertakings	125,989	127,794
Deferred tax asset (note 9)	1,323	1,126
Value Added Tax	6,928	2,153
Prepayments and accrued income	3,224	3,833
	138,386	**136,294**

Amounts owed by Group undertakings are unsecured, bear no interest and have no fixed repayment date.

9. Deferred tax asset

	2018 £'000	2017 £'000
At beginning of year	1,126	815
Credited to the profit and loss account	179	311
Charged directly to equity	18	-
At end of year	**1,323**	**1,126**

The amounts recognised for deferred tax assets, calculated under the liability method at 17% (2017: 17%) are set out below:

	2018 £'000	2017 £'000
Depreciation in excess of capital allowances	452	372
Other short-term timing differences	871	754
Total	**1,323**	**1,126**

During the year ending 28 February 2019, the reversal of deferred tax assets is expected to decrease the corporation tax charge for the year by £127,000. This is primarily due to timing differences in relation to depreciation in excess of capital allowances.

10. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	5,515	6,387
Other creditors	23,000	25,000
Corporation tax	2,304	2,909
Deferred consideration	-	1,571
Other taxation and social security	4,553	4,307
Accruals	25,118	23,986
Deferred income	8,448	6,459
	68,938	**70,619**

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

Accruals includes £12,557,000 (2017: £11,057,000) in respect of outstanding service plans.

11. Creditors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Bank borrowings	9,585	10,000
Deferred consideration	100	236
Deferred income (note 12)	8,877	7,616
	18,562	**17,852**

Borrowings are repayable as follows:	2018 £'000	2017 £'000
Under 1 year	-	-
1-2 years	-	-
2-5 years	9,585	10,000
	9,585	**10,000**

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.

	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**

	Within one year £'000	Within two to five years £'000	Total £'000
Bank borrowings	-	10,000	10,000
Trade and other creditors	70,619	7,852	78,471
At 28 February 2017	**70,619**	**17,852**	**88,471**

12. Deferred income

Deferred income due in greater than one year comprises:

	2018 £'000	2017 £'000
Warranty income	8,877	7,616
	8,877	**7,616**

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 £6,684,000 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 (2017: £5,536,000).

Notes to the Company Financial Statements (continued)

13. Called up share capital, share premium, other reserve, treasury share reserve and capital redemption reserve

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	-	-	2	-	66	-	68
Cancellation of repurchased shares	(11,745)	(1,175)	-	-	-	1,175	-
At 28 February 2018	**383,534**	**38,552**	**124,934**	**10,645**	**(690)**	**1,175**	**174,616**

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.

2017	Ordinary shares of 10p each Number of shares ('000)	Called up Share capital £'000	Share premium account £'000	Treasury Share Reserve £'000	Other Reserve £'000	Total £'000
At 1 March 2016	341,270	34,127	96,901	-	10,645	141,673
Shares issued during the year	56,000	5,600	29,400	-	-	35,000
Cost of issuance of ordinary shares	-	-	(1,369)	-	-	(1,369)
Purchase of treasury shares	(2,636)	-	-	(1,000)	-	(1,000)
Issuance of treasury shares	645	-	-	244	-	244
At 28 February 2017	**395,279**	**39,727**	**124,932**	**(756)**	**10,645**	**174,548**

14. Hedging reserve

	2018 £'000	2017 £'000
Cash flow hedges:		
At beginning of year	-	-
Fair value losses on derivative financial instruments during the year	(93)	-
Deferred taxation on fair value losses during year	18	-
At end of year	**(75)**	**-**

15. Profit and loss account

	2018 £'000	2017 £'000
As at beginning of year	58,943	43,792
Profit for the financial year	23,382	19,726
Dividend paid	(5,678)	(5,353)
Share based payments charge	954	1,015
Repurchase of own shares	(5,441)	
Treasury shares issued	(4)	(237)
As at end of year	**72,156**	**58,943**

The issue of treasury shares in the period was in satisfaction of the exercise of vested share options by senior managers.

Notes to the Company Financial Statements (continued)

16. Dividends per share

Dividends of £5,678,000 were paid in the year to 28 February 2018 (2017: £5,353,000), 1.45p per share (2017: 1.35p). A final dividend in respect of the year ended 28 February 2018 of 0.95p per share, is to be proposed at the annual general meeting on 25 July 2018. The ex-dividend date will be 21 June 2018 and the associated record date 22 June 2018. This dividend will be paid, subject to shareholder approval, on 30 July 2018 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 £1,031,000 (2017: £1,082,000).

18. Contingencies

See note 35 to the consolidated financial statements for details of contingent liabilities as at the balance sheet date.

19. Directors' Remuneration

The remuneration of the Directors who served during the year from 1 March 2017 to 28 February 2018 is set out within the Directors' Remuneration Report on pages 58 to 62.

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:

Commitments under non-cancellable operating leases payable:	2018 Vehicles £'000	2017 Vehicles £'000
No later than 1 year	188	395
Later than 1 year and no later than 5 years	124	121
Later than 5 years	-	18
	312	**534**

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 2018, the Company made cash contributions of £380,000 into the Bristol Street Pension Scheme (2017: £380,000). Under the terms of the recovery plan as agreed between the Company and the Trustees, these contributions will continue until 31 March 2018.

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, only the comparable period is measured as "like-for-like"
FY2018	The twelve month period ended 28 February 2018
H2 FY2018	The six month period ended 28 February 2018
H2 FY2017	The six month period ended 28 February 2017
Adjusted	Adjusted for exceptional items, amortisation of intangible assets and share based payments as these are unconnected with the ordinary business of the Group.
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)

	2018 £'000	2017 £'000
Operating profit	32,345	32,074
Impairment charges (note 6)	513	-
Depreciation (note 18)	9,714	8,665
Amortisation (note 16)	614	614
EBITDA	**43,186**	**41,353**

Adjusted EBITDA (adjusted for exceptional items and share based payment charge)

	2018 £'000	2017 £'000
EBITDA	43,186	41,353
Exceptional items (note 8)	(3,539)	-
Share based payment charge (note 30)	1,031	1,082
Adjusted EBITDA	**40,678**	**42,435**

Adjusted Profit Before Tax (PBT)

	2018 £'000	2017 £'000
Profit before tax	30,447	29,820
Amortisation (note 16)	614	614
Exceptional items (note 8)	(3,539)	-
Share based payment charge (note 30)	1,031	1,082
Adjusted PBT	**28,553**	**31,516**

Alternative Performance Measures (continued)

Tangible net assets per share

	2018 £'000
Net assets	264,418
Less:	
Goodwill and other indefinite life assets	(94,381)
Other intangible assets	(1,316)
Add:	
Deferred tax on above adjustments	5,561
Tangible net assets	**174,282**
Tangible net assets per share	**45.4p**

Like-for-like reconciliations:

Revenues by department

	FY18 Group revenue £'m	FY17 Acquisition revenue £'m	FY18 Disposals revenue £'m	FY18 Like-for-like revenue £'m	FY17 Like-for-like revenue £'m
New car retail and Motability	836.5	(73.2)	(11.9)	751.4	803.8
New fleet and commercial	662.5	(14.1)	(1.3)	647.1	631.9
Used cars	1,068.9	(84.4)	(15.6)	968.9	940.8
Aftersales	228.2	(22.7)	(3.0)	202.5	198.6
Total revenue	**2,796.1**	**(194.4)**	**(31.8)**	**2,569.9**	**2,575.1**

Aftersales revenue by department

	FY18 Group revenue £'m	FY17 Acquisition revenue £'m	FY18 Disposals revenue £'m	FY18 Like-for-like revenue £'m	FY17 Like-for-like revenue £'m
Parts	159.9	(17.7)	(1.8)	140.4	138.2
Accident repair	5.8	-	(0.3)	5.5	5.6
Parts and accident repair	165.7	(17.7)	(2.1)	145.9	143.8
Service	114.8	(10.8)	(1.2)	102.8	98.2
Total revenue*	**280.5**	**(28.5)**	**(3.3)**	**248.7**	**242.0**

*Inclusive of both internal and external revenue

Alternative Performance Measures (continued)

Gross profit by department

	FY18 Group gross profit £'m	FY17 Acquisition gross profit £'m	FY18 Disposals gross profit £'m	FY18 Like-for-like gross profit £'m	FY17 Like-for-like gross profit £'m
New car retail and Motability	64.1	(5.9)	(0.6)	57.6	60.3
New fleet and commercial	21.4	(1.0)	-	20.4	19.8
Used cars	98.7	(5.2)	(0.7)	92.8	95.4
Aftersales	124.7	(11.4)	(1.2)	112.1	109.1
Gross profit	**308.9**	**(23.5)**	**(2.5)**	**282.9**	**284.6**

Aftersales gross profit by department

	FY18 Group gross profit £'m	FY17 Acquisition gross profit £'m	FY18 Disposal gross profit £'m	FY18 Like-for-like gross profit £'m	FY17 Like-for-like gross profit £'m
Parts	33.4	(3.2)	(0.1)	30.1	29.5
Accident repair	3.7	-	(0.2)	3.5	3.7
Parts and accident repair	37.1	(3.2)	(0.3)	33.6	33.2
Service	87.6	(8.2)	(0.9)	78.5	75.9
Gross profit	**124.7**	**(11.4)**	**(1.3)**	**112.1**	**109.1**

Number of units sold by department

	FY18 Group	FY17 Acquisition	FY18 Disposals	FY18 Like-for-like	FY17 Group	FY17 Like-for-like
New car retail	35,412	(554)	(47)	34,811	41,528	40,157
New car Motability	10,770	(118)	(2)	10,650	11,397	11,127
New fleet	18,712	(229)	(4)	18,479	19,912	19,448
New commercial	16,140	(64)	-	16,076	16,829	16,787
Used cars	79,821	(627)	(142)	79,052	81,636	79,445
Total units	**160,855**	**(1,592)**	**(195)**	**159,068**	**171,302**	**166,964**

Average selling price by department

	FY18 Group	FY17 Acquisition	FY18 Disposals	FY18 Like-for-like	FY17 Like-for-like
New car retail and Motability*	16,534	24,321	16,279	16,038	15,297
New fleet and commercial*	18,786	19,515	23,679	18,763	17,503
Used cars	13,391	22,308	13,107	12,945	12,445

*Average selling price is stated inclusive of wholesale units

Operating expenses

	FY18 Group £'m	FY17 Acquisition £'m	FY18 Disposals £'m	FY18 Like-for-like £'m	FY18 Like-for-like £'m
Operating expenses	280.1	(22.3)	(3.7)	254.1	251.1

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