

Supplementary information: International Financial Reporting Standards

The Group, along with most listed companies in the European Union, will be required to prepare Consolidated Financial Statements under International Financial Reporting Standards ("IFRS") from 1 January 2005. These standards represent a significant change from UK Generally Accepted Accounting Principles ("UK GAAP"), although they have no direct impact on the Group's strategy, long-term economic performance, risks, or cash flows.

A Group-wide project has been under way for over two years, with the objective of ensuring full compliance with IFRS in 2005. As part of the project, the Group has considered the amendments required to accounting policies along with any changes required to reporting systems to enable timely compliance with IFRS. As at 31 December 2004:

- the principal differences between the accounting principles currently followed by the Group in accordance with UK GAAP and the applicable provisions of IFRS have been identified;
- a revised Group accounting policies and procedures manual has been prepared;
- management and employees have been trained on the impacts of the implementation of IFRS; and
- processes and systems have been adapted to ensure the necessary information for the preparation of the 2005 Financial Statements (together with 2004 comparative information) will be available.

The current position with respect to IFRS may be subject to subsequent change given that there is still an element of uncertainty over the IFRS policies that will be applied by the Group. This is a consequence of several factors, including the expected issuance of new standards and the amendment of existing standards by the International Accounting Standards Board, the possible issue of interpretations by the International Financial Reporting Interpretations Committee, and the endorsement (or non endorsement) by the European Commission of recently issued standards and amendments to standards. Furthermore, the practical interpretation and application of new or recently revised standards in many cases is still being debated by the accounting profession.

First time adoption

The rules for first time adoption of IFRS are set out in IFRS 1, First-time Adoption Of International Financial Reporting Standards. In general, selected accounting policies must be applied retrospectively in determining the opening balance sheet under IFRS. However, IFRS 1 allows a number of exemptions to this general principle. Exemptions which the Group expects to take advantage of, are noted below:

Post-employment employee benefits

In accordance with IFRS 1, the Group expects to elect to fully recognise all actuarial gains and losses at the date of transition to IFRS (effectively 1 January 2004 for the Group). Subject to the endorsement by the European Union of IAS 19 (revised), ongoing actuarial gains and losses will be recognised in the Statement of Recognised Income and Expenditure.

Goodwill

Under the transitional arrangements of IFRS 1, there is the option of applying IFRS 3, Business Combinations, prospectively from the date of transition. The Group expects to elect this option rather than to restate all previous business combinations. The effect of adopting these transitional arrangements on the Group will be as follows:

- all prior business combination accounting is frozen at the transition date (effectively 1 January 2004 for the Group); and,
- the value of goodwill is frozen at 1 January 2004 and amortisation previously reported under UK GAAP for 2004 is removed on restatement.

Cumulative translation differences

IAS 21, The Effects of Changes In Foreign Exchange Rates, requires the classification of some translation differences as a separate component of equity, and on disposal of foreign operations, to transfer the relevant cumulative translation difference to the income statement as part of the gain or loss on disposal. In accordance with IFRS 1, the Group expects to elect:

- to reset the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS (effectively 1 January 2004 for the Group); and
- to calculate the gain or loss on a subsequent disposal of any foreign operation by excluding translation differences that arose before the date of transition to IFRS.

Financial instruments

In accordance with IFRS 1, the Group expects to present comparative information that excludes the application of provisions within IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement. Financial instruments within the comparative information will be treated in accordance with UK GAAP. The Group therefore expects to adopt IAS 32 and IAS 39 with effect from 1 January 2005.

Key differences

Subject to the above and based on the standards currently in issue, the Group expects the key differences arising upon adoption of IFRS to relate primarily to the following matters:

Vehicle manufacturer repurchase contracts

Vehicles used by the Group under certain manufacturer repurchase agreements which are accounted for as tangible fixed assets under UK GAAP, will be treated as operating leases for IFRS purposes. The relevant UK GAAP fixed asset balances will be reclassified as prepaid operating lease balances, together with debtor balances for the resultant re-purchase agreement receivable. The existing depreciation charge under UK GAAP for these vehicles will in future be disclosed as an operating lease charge under IFRS.

Discounting of receivable balances

The revised treatment of vehicle manufacturer re-purchase contracts as operating leases has the consequence of transferring balances from fixed assets to receivables. In accordance with IAS 39, these receivable balances will be initially recognised at fair value, and thereafter at amortised cost. The initial recognition of these balances at fair value, requires the balances be discounted, the unwinding of which creates an additional operating lease charge, offset by an increase in interest income. This classification adjustment has no impact on the Group's net profit before taxation.

Goodwill and intangible assets

In accordance with IFRS 3, Business Combinations, as from 1 January 2004 goodwill balances will not be amortised, but instead be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the goodwill might be impaired.

Pensions

IAS 19, Employee Benefits, which is similar to the requirements of FRS 17, Retirement Benefits (see Note 23), requires that surpluses or deficits on pension schemes be recognised on the balance sheet. Unexpected actuarial gains and losses are proposed to be recognised in the Statement of Recognised Income and Expense. The Group has the necessary processes in place to obtain relevant actuarial valuations from external actuarial advisers where required.

Share based payments

IFRS 2, Share Based Payments, requires that share based employee benefits are expensed to the profit and loss account based on their fair value, instead of their intrinsic value under UK GAAP. A stochastic share option valuation model has been developed in conjunction with external actuarial advisers to calculate the appropriate fair values.

Derivatives

With the exception of certain currency and interest instruments, the Group's hedging instruments are not recorded in the balance sheet for UK GAAP purposes, but are instead disclosed as off balance sheet items in Note 24. The recognised currency hedging instruments convert certain foreign currency loan balances at the hedging rate and the interest hedging instruments convert floating interest rates to fixed interest rates, or vice versa. Under IFRS, all debt will be converted at the closing rate, and all derivatives will be accounted for at fair value. Resultant changes in the fair value of derivatives will be recorded through the Income Statement, except where hedge accounting is applied.

Foreign currency accounting

Under UK GAAP, where foreign currency borrowings are used to finance foreign subsidiaries, the resulting exchange movements are taken to reserves. Under IAS 39, such net investment hedge accounting can only be undertaken where the hedge is deemed to be highly effective and appropriate documentation is completed. This limits the scope for the application of such net investment hedge accounting such that in future many of these exchange differences will be reflected in the Income Statement.

The Group is in the process of finalising the quantification of the impact of these changes on the Financial Statements. These changes will not impact the Group's principal debt arrangements, as all existing banking covenants are calculated on the basis of UK GAAP extant at 31 December 2003.

The Group intends to communicate further details of the impact of adopting IFRS on the results of the Group around the time of the Group's Annual General Meeting on 25 May 2005.