

## **AutoLogic Holdings plc**

### **IFRS Accounting policies**

#### **Basis of preparation**

As an EU-listed company AutoLogic Holdings plc has been required to adopt International Financial Reporting Standards (IFRS) with effect from 1 January 2005. The results for the six months ended 30 June 2005 represent the Group's first interim financial statements prepared in accordance with its accounting policies under IFRS and has been prepared in accordance with the IFRS accounting policies that AutoLogic expects to apply in the 2005 IFRS compliant full year financial statements. These standards are subject to ongoing review and endorsement by the European Union or possible amendment by interpretive guidance from the International Accounting Standard Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and are therefore still subject to change.

Previously the Group reported under UK generally accepted accounting policies (UK GAAP). Detailed UK GAAP to IFRS reconciliations of equity for 1 January 2004, 31 December 2004, and 30 June 2004, and of profit for the six months ended 30 June 2004 and for the year ended 31 December 2004 were issued on 11 August 2005 and are available on the Group's website ([www.autologic.co.uk](http://www.autologic.co.uk)).

#### **First time adoption of International Financial Reporting Standards**

The Group has applied IFRS 1 - First Time Adoption of International Financial Reporting Standards to provide a starting point for reporting under IFRS. The rules regarding transitional arrangements are set out in IFRS 1 which generally requires full retrospective adoption of all standards effective at the reporting date. The primary IFRS exemptions the Group has taken are:

- business combinations that occurred prior to 1 January 2004 have not been restated
- cumulative translation differences on foreign currency denominated operations are deemed to be £nil at 1 January 2004
- the recognition of the expense of share-based payments has been restricted to those awards granted after 7 November 2002 which have not vested as by 1 January 2005.
- measuring the value of tangible fixed assets at 1 January 2004 at historic cost, and
- IAS 32 - Financial Instruments: Disclosure and Presentation and IAS 39 - Financial Instruments: Recognition and Measurement have been adopted from 1 January 2005, with no restatement of comparative information.

The Group has, as permitted, early adopted the amendment to IAS 19 - Employee Benefits - Actuarial Gains and Losses, that was published by the International Accounting Standards Board in December 2004. The Directors expect that this amendment will be fully adopted by the European Commission and will therefore be available for use in the IFRS financial statements for the year-ended 31 December 2005.

#### **Basis of consolidation**

The results of the Company and all of its subsidiaries undertakings are included in the Consolidated Financial Statements which are drawn up to 30 June or 31 December. The results of subsidiaries acquired are included in the consolidated results from the date control passes. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date and alignment with Group accounting policies. All changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control of the subsidiary are charged to the post acquisition Income Statement. On acquisition of a business, the acquisition method of accounting is adopted, and the Group result includes the results of subsidiary and business undertakings purchased during the period from the date control is assumed. Purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition. On the sale of a business, the Group result includes the results of that business to the date of disposal. The Group's share of profits less losses of joint ventures is included in the results, and the Group's share of their net assets is included in the Consolidated Balance Sheet under the gross equity method.

**Foreign currencies**

The Group will continue to translate trading transactions in foreign currencies at average exchange rates. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at the exchange rates ruling at the Balance Sheet date except where rates are fixed by contract.

Assets and liabilities of subsidiaries and joint ventures denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiaries are translated at the average rate of exchange for the period. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies, and from the translation of the results of those companies at average rates, are taken to reserves and are reported in the Consolidated Statement of Recognised Income and Expense.

Under IAS 21 the group will be required to separately identify translation differences for each foreign currency denominated operation and account for the differences in subsequent disposals. Any translation differences arising under IFRS will be separately recorded in equity, net of any foreign exchange movements on related hedging instruments. On disposal of a foreign currency denominated operation, the cumulative translation differences for that operation are transferred to the consolidated income statement as part of the profit or loss on disposal. This was not the case under previous accounting policies. The Group will take advantage of the election under IFRS 1 not to record cumulative translation differences arising before the transition date and all subsequent disposals shall exclude any translation differences prior to 1 January 2004.

**Turnover**

Turnover comprises the value of charges for the sale of goods and services to third parties. Turnover is recognised based on the fair value of the right to consideration for those goods and services and excludes value added tax and equivalent taxes on customer and inter company transactions.

**Segmental reporting**

Each of the Group's business and geographical segments provide services that are subject to risks and returns that are different from those of the other business segments. Due to the nature of the Group's operations the distinct business segments align directly with distinct geographical segments which are operating in separate economic environments.

**Goodwill**

Goodwill arising on the acquisition of subsidiaries and joint ventures during the year is capitalised and represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Fair value accounting adjustments are made in respect of acquisitions. Fair value adjustments based on provisional estimates are amended within one year of the acquisition if required, with a corresponding adjustment to goodwill, in order to refine adjustments to reflect further information gained post acquisition. Following initial recognition, goodwill is stated at historic cost less any accumulated impairment in value. In accordance with IFRS 3 'Business combinations', goodwill is not amortised. All goodwill is subject to an annual test of impairment and an impairment charge recognised as required. The net book value of goodwill that was capitalised in the restated Balance Sheets at both 1 January 2004 (the date of transition to IFRS) and 31 December 2004 has been tested for impairment.

Goodwill, which arose prior to 1 January 1998, remains eliminated against reserves and will be charged in the Income Statement on disposal of the business to which it relates. Negative goodwill, which arose prior to 1 January 1998, has been credited to a capital reserve and negative goodwill arising after this date is included in the Balance Sheet and will be released to the Income Statement on disposal of the business to which it relates.

**Capitalised software costs**

Under IFRS, capitalised software costs that are not an integral part of the associated hardware are required to be classified as intangible assets. The Group has previously capitalised eligible software costs within tangible fixed assets. Capitalised software costs continue to be written off over 2 years.

**Tangible fixed assets**

The costs of tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned.

The principal lives used for this purpose are:

Freehold buildings	30 - 50 years
Plant and machinery	3 - 5 years
Motor vehicles	4 - 8 years
Fixtures and fittings	5 years

Leasehold land and buildings are amortised over the duration of the lease. Freehold land is not depreciated. The carrying value of items of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis.

**Leased assets**

Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of the assets concerned. Costs in respect of operating leases are charged on a straight line basis over the lease term. Where assets are financed by leasing agreements that give risks and rewards approximating to ownership (finance lease) they are treated as if they had been purchased outright on credit. They are therefore initially recorded as a fixed asset and a liability at a sum equal to the fair value of the asset. Leasing payments on such assets are regarded as consisting of a capital element, which reduces the outstanding liability, and an interest charge (calculated on a straight line basis), which is taken to the Profit and Loss Account.

**Investments**

Investments which are held for the long term and in which the Group has a participating interest and exercises joint control with one or more other parties are treated as joint ventures and accounted for by the gross equity method. Investments which are held for the long term and in which the Group has a participating interest and exercises significant influence are treated as associates and accounted for by the equity method. In both cases, the Group's share of the results of the investment is included in the Income Statement and the Group's share of net assets is included in investments in the Balance Sheet. Overseas investments are translated at the exchange rate ruling at the year end date less any provision for permanent diminution in value.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis. Net realisable value is the price at which inventories can be sold in the normal course of business. Provision is made where necessary for obsolete, slow moving and defective inventories.

**Trade and other receivables**

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Doubtful debts are provided for when collection of the full amount is no longer probable, whilst bad debts are written off when identified.

**Cash and cash equivalents**

Cash and cash equivalents as defined for the Cash Flow Statement comprise cash in hand, cash held at bank with immediate access, other short-term investments and bank deposits with maturities of three months or less from the date of inception and bank overdrafts. In the Consolidated Balance Sheet cash includes cash and cash equivalents excluding bank overdrafts.

**Current and deferred taxation**

Current tax is provided on taxable profits earned according to the local rates applicable where the profits are earned, subject to the availability of recognised tax losses. Deferred tax is provided in full, using the liability method, in respect of all material temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse based on tax rates in place at the balance sheet date. Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying temporary differences can be deducted. Their carrying amount is reviewed at each balance sheet date on the same basis. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

**Government grants**

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement over the expected useful economic life of the assets concerned.

**Borrowings**

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with other finance costs are charged to the Income Statement over the period of the term of the borrowings at a constant rate. Accrued finance charges and issue costs are added to the carrying value of those borrowings.

**Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

**Financial Instruments**

The Group uses financial instruments to hedge its exposures to fluctuations in interest rates and exchange rates. Instruments accounted for as hedges are structured so as to reduce the risk associated with the underlying transaction and are designated as a hedge at their inception. Interest rate swaps are used to manage the interest basis of borrowings. Income and expenditure arising from such transactions is recognised over the term of the swap and included in interest receivable and similar income and interest payable and similar charges respectively. Currency swaps are used to manage exchange rate fluctuations. The currency swap is recorded in the Balance Sheet at fair value and reassessed at each period end. Movements in the fair value are included in the Statement of Recognised Income and Expense as translation differences. Income and expenditure arising from the currency swap is recognised in the Income Statement over the term of the swap. The Group followed the transitional provisions of IFRS 1.

**Share option schemes**

The Group has both an Executive share option scheme 'ESOS' and a Long term incentive plan 'LTIP' in place. Under IFRS 1, the Group has taken the option not to apply IFRS 2 to share options granted prior to 7 November 2002 and vested by 1 January 2005. These share options have been valued at fair value at the grant date, using the Black Scholes Model for the ESOS and the Monte Carlo model for the LTIP. The resulting expense is being charged to the Income Statement over the period between the grant dates and the vesting dates (vesting periods).

**Pension arrangements and other post-employment benefits**

The Group has a number of pension schemes, both of a defined benefit and defined contribution nature. The liability in respect of defined benefit schemes is the present value of the relevant defined benefit obligation at the balance sheet date less the fair value of plan assets, along with adjustments for actuarial gains and losses and past service cost. The trustees complete a full actuarial valuation triennially, but the obligation is updated annually by external professional actuaries using the projected unit method for financial reporting purposes. The present value of the obligation is determined by the estimated future cash

outflows using interest rates of high quality corporate bonds which have terms to maturity approximating the terms of the related liability. The current service cost and gains and losses on settlements and curtailments are recognised in operating costs in the Income Statement. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. The expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities comprise the finance element of the pension cost and are also included in operating costs. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to the Statement of Recognised Income or Expense in the period in which they arise.

For defined contribution schemes, costs are charged to the Income Statement. Overseas subsidiary undertakings make provisions for pensions in accordance with local law and practice. The Group provides no other post retirement benefits to its employees.