



Annual Report and Accounts 2016

Driving our strategy



Strategic report

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Sales

£7.8bn

2015: £6.8bn

Adjusted earnings per share

59.6p

2015: 52.1p

Dividend per share

23.8p

2015: 20.9p

Cash returned to shareholders

£200m

2015: £182.5m

Return on capital employed

30%

2015: 30%

Visit our website for additional information and interactive features inchcape.com

Clarifying our Financial Metrics

The following table shows the key profit measures that we use throughout this report to most accurately describe underlying operating performance and how they relate to statutory measures.

Metric	Results	Use of Metric
Gross Profit	1,079.1	Direct profit contribution from Value Drivers (e.g. Vehicles and Aftersales)
<i>Less: Segment operating expenses</i>	<i>(690.5)</i>	
Trading Profit	388.6	Underlying profit generated by our Segments
<i>Less: Central Costs</i>	<i>(29.5)</i>	
Operating Profit (pre Exceptional Items)	359.1	Underlying profit generated by the Group
<i>Less: Exceptional Items</i>	<i>(81.6)</i>	
Operating Profit	277.5	Statutory measure of Operating Profit
<i>Less: share of loss after tax of JVs and associates</i>	<i>(0.1)</i>	
<i>Less: Net Finance Costs</i>	<i>(9.6)</i>	
Profit before Tax	267.8	Statutory measure of profit after the costs of financing the Group
<i>Add back: Exceptional Items</i>	<i>81.6</i>	
Profit Before Tax & Exceptional Items	349.4	One of the Group's KPIs

Driven by trust

Inchcape plc is the leading automotive Distributor and Retailer with global scale. We are present in 29 national markets, delivering exceptional customer experiences and operating as a key strategic partner to the world's foremost premium and luxury car brands.

Inchcape's track record of delivering success continued in 2016 with a resilient performance. Our global portfolio, our mix of Distribution and Retail operations in diverse markets and our focus on a balanced set of value drivers has enabled us to grow in line with our expectations, both organically and through a targeted investment programme.

The automotive industry continues to evolve. Our aim is to position our Company to evolve with it, to reinforce the strong foundation of our unique business model and then use this strength as a platform for growth. The Company's Ignite strategy was launched this year with five clear objectives which combine to realise this aim, to keep pace with and anticipate our industry's changes, and to become the automotive industry's most trusted Distributor and Retailer.

The platform for growth

Our unique business model is the foundation which combines our core strengths to create a solid platform for growth.

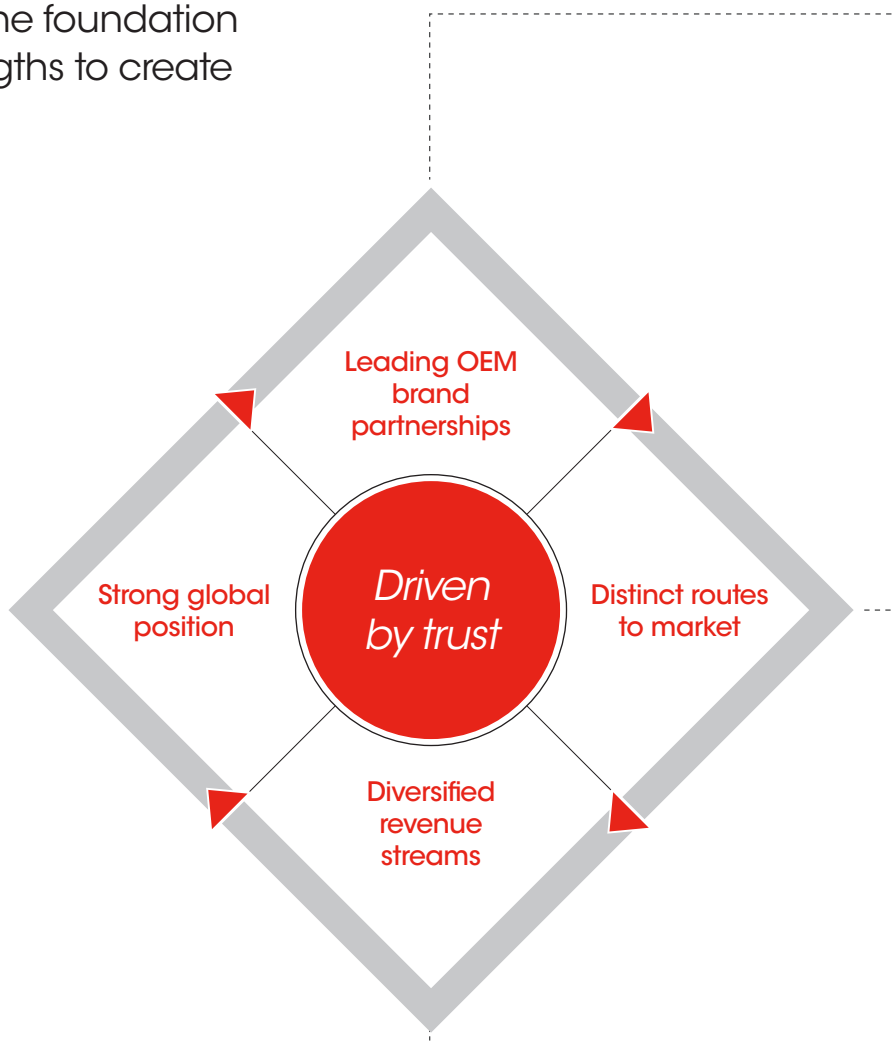


View an interactive map of our global footprint at www.inchcape.com

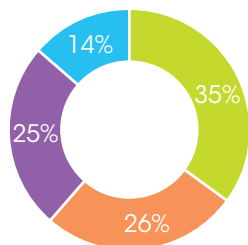
Strong global position

We have strong positions in 29 countries around the world.

Our global portfolio is a fundamental strength of the Group, with a balance between developed economies and emerging markets. We have a leading presence with our high-margin, capital-light distribution model in small, medium and emerging markets where we have secured strong positions with our marketing expertise, customer-centric approach and technical capabilities. This is complemented by our scale retail presence in medium and large markets with our strong portfolio of premium brands.



Trading profit by segment %



Asia:

Brunei
China
Guam
Hong Kong
Macau
Saipan
Singapore
Thailand

Australasia:

Australia
New Zealand

UK/Europe:

Belgium
Bulgaria
Estonia
Finland
Greece
Latvia
Lithuania
Luxembourg
Macedonia
Poland
Romania
UK

Emerging Markets:

Argentina
Chile
Colombia
Djibouti
Ethiopia
Peru
Russia

Leading OEM brand partnerships

We have strong and long-standing partnerships with the world's leading automotive OEM groups.



These OEMs (Original Equipment Manufacturer) are the world's main drivers of automotive innovation, new fuel technologies, powertrain developments, safety breakthroughs and cutting edge engineering. By consistently focusing on the core needs of our OEM partners, we seek to build and deliver ever-deeper relationships, outstanding brand representation and strength in market share.



Discover more about our OEM partnerships at www.inchcape.com

Distinct routes to market

We manage across the entire value chain post-factory gate for our OEM partners.

Trading profit split



As the exclusive Distributor in small and medium-sized markets, we are the OEM's brand custodian in these countries, responsible for everything from importing vehicles and parts to all sales and marketing activities, including the appointment and management of the third party retail network. In larger, more developed markets, such as the UK, we operate our Retail model, with a focus on delivering an exceptional customer experience online and in our retail and service centres.

Diversified revenue streams

We leverage the full range of opportunities from the New and Used Car markets.

Gross profit mix



In addition to New Vehicles, we sell Finance and Insurance products, and we take advantage of the defensiveness of the global Car Parc (the total number of cars on the road) through Used Vehicle sales, Aftersales Servicing and Parts.

Maintaining this spread prepares us well to respond to the full array of different market conditions and trends at play in all of our local markets across the world.

The route to market

We operate right across the post-factory automotive value chain for our OEM partners, providing a highly effective customer-focused route to market. In many cases we are the custodians of our OEM partners' brand equity, a role that we treat with the utmost care.

Product planning and logistics

Our in-depth knowledge of local markets, trends and customer preferences enables our OEM partners to benefit from our insights and understanding throughout the entire planning process.

Brand management

Under our Distribution model, we take on total responsibility for our OEM partners' brands, marketing and sales operations in our local markets – we handle every aspect of the customer interface from appointing and managing the dealer network to advertising and social media management.



Product specification

We work closely with our OEM partners, often for several years before a new model is launched, providing support throughout the planning process with a precise view of market pricing, local fit requirements and sales volumes.

Import and logistics

Overseeing global distribution by land or sea, combined with comprehensive local port or border-to-showroom capabilities, means we are able to remove all logistical burdens from our partners.

Appoint and manage the dealer network

Where we operate as a Distributor, we select and appoint an independent dealer network that has the best fit with our partners' brands; training and managing them to meet the demanding standards of our customer-focused ethos. Further, we typically own and operate 15-20% of the network ourselves.

National marketing and price positioning

We are scrupulous in projecting our partners' brand values and personality in all local marketing and communications, refining messages where necessary to maximise positive impact in specific markets. Our approach to price positioning is based on in-depth knowledge of market trends and competitor pricing.

New and Used Car retailing

The Inchcape approach to retailing revolves around creating exceptional customer experiences throughout the life-cycle of their vehicle ownership. Following initial engagement through digital and physical channels, we seek to create long-term ongoing relationships involving multiple New and Used Car sales.

Aftersales

Our commitment is to invest in state-of-the-art facilities and highly trained expert technicians, to ensure we become the first choice for Aftersales care.



Vehicle sales

We aim to provide the best New and Used Car buying experience in our retail centres across the world. Our people have a depth of expertise and a wealth of product knowledge which is continually reinforced through OEM as well as proprietary training, to ensure that we deliver on this aim.

Customer engagement and retention

After initial customer engagement, we aim to deepen relationships via a wide range of sophisticated retail techniques including tailored social media campaigns, loyalty strategies, rapid web response, opportunities with affinity partners and more.

Vehicle Finance and Insurance

Partnering with financial services businesses around the world means that we can provide customers with attractive, transparent options for financing their vehicle purchases.

Servicing

Our ultimate focus is on getting it right first time, every time – from the quality of a routine service to fixing a problem, this is one of the most important ways to retain our customers. We provide transparent assessments to give our customers the confidence to trust us with their servicing for the long term.

Parts

Our strong OEM relationships and specialist retail and wholesale supply capabilities make Inchcape the preferred provider of genuine brand parts and accessories.

Creating the world's most trusted automotive Distributor and Retailer



View video online at
www.inchcape.com



I am delighted to be writing to you once again following another successful year of progress for Inchcape.

Over the years, our unique business model has enabled our global organisation to consistently drive our earnings and cash generation performance. This year has been no exception and pleasingly, despite some challenges, we have delivered double digit adjusted earnings growth and continued our track record of driving sustainable shareholder returns.

Our position as the only global, independent, multi-brand automotive Distributor and Retailer with five revenue streams had an important stabilising effect and enabled our strong revenue and earnings growth in 2016. A supporting element for our results was the benefit from Sterling's weakness in the year, with over three-quarters of profits denominated in other currencies.

Besides the financial results, 2016 was a year in which we made significant progress on the 'Ignite' strategy, developing programmes designed to position Inchcape for long-term growth, and crucially,

developing our M&A proposition with a distribution acquisition in South America and expansion into Thailand.

Ignite is enabling us to take an even stronger leadership role in our industry, not just in terms of scale, but also ambition, vision and quality of service. This is particularly important at a time when the global automotive industry is developing at pace, with customer purchasing behaviour and service expectations clearly changing. We remain highly focused on differentiating our proposition through customer service excellence. This is a constantly evolving field and we continue to innovate in our physical and digital capabilities.

You can read more about progress made on Ignite on page 10 and on how our strategy is helping us to position the Company to lead in an operating environment in which successful, sustainable businesses will adapt and thrive.

Moving on, you can read about our regional performance on pages 22 to 29 in the Operating Review section of this report, where we also outline in detail the disclosure changes we are making to provide greater clarity on our reporting. To give you a quick overview of progress, however, I will briefly outline the major regional trends here.

Our performance across the world

Asia

In Asia, we saw the continuation of a challenging trading environment in Hong Kong where the market was down 21%. This was largely due to a prolonged period of subdued consumer and corporate activity that only stabilised later in the year. A number of factors, including the highly publicised political uncertainties of 2016 and stock market volatility, caused weakness across the market, within which Inchcape's performance was as robust as conditions allowed.

Indeed, our continued underlying strength in Hong Kong is illustrated by the fact that our Crown Motors subsidiary won prestigious awards during the year, including the Asia Pacific Excellence award and Toyota's Outstanding Customer Service award for the ninth year in a row. We also maintained our market leadership in Hong Kong. Elsewhere in Asia, we enjoyed a strong year in our key market of Singapore, where the Certificates of Entitlement (COE) cycle remained favourable. This helped to drive 41% growth in the New Vehicles market, with the greatest increase taking place in the first half of the year. The moderation during the second half of 2016 and our understanding of the cycle lead us to anticipate a decline in 2017 of around 14%, which would still see sales significantly above the 10-year average.

Staying with Asia, I would like to mention two projects that illustrate how we are seeking to deliver against several of the key objectives under our Ignite strategy, namely, investing to accelerate growth, aiming to lead in customer experience and becoming the OEMs' partner of choice.

First, we have been appointed as the exclusive importer and distributor of vehicles and parts for Jaguar Land Rover (JLR) in Thailand, extending our successful partnership with the company and its brands to 46 years. And second, the continuing development of our state-of-the-art, eight-storey Pandan facility in Singapore, where we are consolidating a range of activities with the aim of increasing capacity and productivity and delivering an even better experience for customers.

Australasia

Turning to Australasia, our Subaru business pleasingly gained market share, taking our position to 4.0% and represents a new full year record. Subaru has a strong line-up of premium SUV models, centred on four wheel drive, with high safety ratings and targeted at active lifestyles. All of these elements have enabled us to create a strong proposition for

customers in Australia and New Zealand. Profitability in Australasia was impacted during 2016 by an unfavourable exchange rate between the Japanese Yen and the Australian Dollar. Australasia has pioneered across a number of areas in 2016: creating a mobile servicing offer for customers in the Sydney area for Subaru, a new shopping mall brand experience store, a digital purchase offer for the new Impreza and working on greater automation for Aftersales service reminders to capture more high-margin work from this revenue stream. Innovation is very important within our evolving industry and these steps demonstrate the skills and energy in the Group to drive future success.

UK and Europe

Our delivery of strong revenue growth in the UK was achieved with good growth across all of our revenue streams; we saw pleasing improvements in Used Vehicle and Aftersales thanks to the sharper focus on these areas.

Overall, a resilient profit performance in the UK was achieved despite higher overheads caused by investments in our sites and operational processes to strengthen the long-term positioning of the business as well as a lower New Vehicle margin due to the competitive market environment. The business remains highly focused on outperforming our competitors and crystallising the significant organic opportunities of our Ignite strategy.

Elsewhere in the segment, we saw encouraging results from Finland, Belgium and Greece where sales are continuing to recover from a low base. Our performance was largely strong throughout Eastern Europe, benefiting from both cyclical and structural growth tailwinds. These include the Balkan and Baltic regions, where our operations achieved good growth and the more mature Polish market.

Emerging Markets

We delivered a strong performance in our Emerging Markets segment in 2016, with increased profitability across Africa, South America and Russia.

Despite facing a challenging environment in Russia due to the country's well-publicised economic difficulties, our presence in the cities of Moscow and St Petersburg enabled us to make a profit.

As one of the world's fastest-growing economies, Ethiopia has been an excellent market for us for many years. Performance was strong in the first half of 2016, but our business was inevitably disrupted by serious political unrest that started in August. We are optimistic that the situation will be resolved in 2017.

Our South American Distribution operations for BMW in Chile and Peru both recorded an improving performance through the second half of 2016, with particular success in growing our Aftersales revenues.

In this global round-up, I would also like to highlight our purchase, completed right at the year end on 22 December, of the Subaru and Hino Distribution businesses from the major South American company, Empresas Indumotora.

Covering Colombia and Argentina as well as our established markets of Chile and Peru, the business is recognised as a high-quality operator with a culture of excellence in customer service that complements our own. Focused on our long-standing and strong existing partnerships with Subaru and Hino, other Distribution relationships included in the deal are Suzuki in Argentina and DFSK in Chile, Peru and Argentina.

Above all, this acquisition is a compelling demonstration of Ignite in action. It gives us a scale operation and a strong, balanced line-up of brand partners in South America, positioning us well to grasp the opportunities presented by predicted increases in vehicle-ownership across all four countries. In short, it perfectly exemplifies Ignite's overriding goal of driving long-term value creation.

Shareholder returns

The strength of our business model continues to underpin the returns we can deliver to our shareholders. During the year, for example, we were able to continue the share buy-back programme we launched in 2013. This enabled us to return £109.8 million in 2016 in addition to the £90.2 million issued through dividends, and the board has approved continuation of the second tranche of the current programme.

Over the past 12 months, we have taken a great deal of action to create an operational and cultural environment in which the business model can be an even stronger driver of improving business performance. This is where the Ignite strategy fits in. I have already referred to this, our strategy to become the world's most trusted automotive Distributor and Retailer, which I outlined in last year's Annual Report.

Outlook for 2017

I believe that Inchcape has progressed substantially during 2016 on its journey to become the world's most trusted automotive Retailer and Distributor. Looking forward, we are well positioned to continue to leverage our global scale, drive growth from the expanding Car Parc and benefit from our positions across a strong spread of markets.

More specifically for 2017, although we anticipate a continuation of the transactional currency headwind for our Australasia region and a slower New Vehicle trend in some markets, we expect to deliver a resilient constant currency performance. Our overall 2017 performance will benefit from our recent South American acquisition and, if Sterling remains around current levels, from the currency translation benefit arising from the substantial proportion of our profits being generated in other regions.

As an innovative business in a fast changing industry, I know that our Ignite strategy, which is centred around trust, our strong balance sheet and our discipline in controlling cost and capital allocation are all integral parts of our overall approach that will continue to drive long-term value creation for our shareholders.

Add to these vital properties the commitment, passion and engagement of our winning teams across the world, and I believe we have an overall value proposition that is unmatched in our industry.



STEFAN BOMHARD
Group Chief Executive

Acquisition in South America

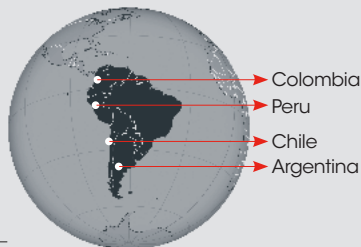


**Investing to
accelerate growth**

Biggest Distribution
acquisition in
20+ years

Creates a scale Distribution
presence in South America
with excellent structural
growth potential

Focused on long term
brand partners



Read more about progress on our strategy on pages 10 – 15

Our global leadership team

Group Executive Committee

Our Group Executive Committee is a global leadership team of experts that brings together a wealth of experience from a range of industries as well as deep local market knowledge with a focus on operational excellence. The Executive team drives the vision and direction of the Company on behalf of the Board.

I would like to highlight here some changes that have been made to the team in 2016.

The new Asia region, which replaces North Asia and South Asia, is led by George Ashford who took up this strategically important regional CEO post in October 2016. Prior to this, George was CEO of our Australasia region and he in turn has been replaced by Nick Senior, who was previously Managing Director of Subaru Australia. These appointments are examples of strong internal succession planning, leveraging our global scale and talent pool, as well as our determination to promote from within the organisation wherever possible.

Sadly, Louis Fallenstein decided to retire from Inchcape as UK CEO at the end of 2016. His contribution over 10 years in the business was significant and he has created great momentum in the UK which will now be continued and built upon by his replacement, James Brearley. James spent several months working with us on the Ignite strategy in 2016, specifically on our objective to deliver full potential on all our revenue streams. With extensive experience at executive level in a career spanning 30 years in the UK automotive market, he was a natural choice to be Louis' successor.

I would also like to welcome Dima Ivanov, our final new addition to the Group Executive Committee since the last Annual Report. Dima joined the Company from Bacardi as Chief Marketing and Communications Officer in August 2016 following the departure of Ken Lee; he brings with him a wealth of expertise in digital, social and brand marketing which will be brought to bear on Inchcape's developing customer experience proposition and corporate communications function.



From left: George Ashford; Patrick Lee; Bertrand Mallet; Louis Fallenstein; Ruslan Kinebas; Richard Howes; Stéphane Chatal; Stefan Bomhard; Nick Senior; Aris Aravanis; Alison Clarke; Dimitry Ivanov; Koh Ching Hong.



View full biographies online
at www.inchcape.com

A year of progress

The Ignite strategy has helped us to identify, plan for and respond to the developments that we are seeing in the automotive sector, as well as maximising the opportunities that will arise.

Social and technological changes are impacting businesses in every sector, not just the automotive industry or our own business. As you will see, we are already taking action in several areas to help us leverage the opportunities they bring with them.

Ignite comprises five strategic objectives (described across the following pages) with each being addressed by a dedicated workstream or resource.

The workstreams are critical to the overall success of Ignite, making them a key priority at the highest levels of the organisation. For example, each of the sequential phases that form the workstreams is individually championed by a member of the Group Executive Committee. To maximise their positive impact on Inchcape's operations across the world, every phase is delivered locally and fully supported through centralised resources. And all Ignite activities are set within a clear governance framework that includes regular updates to both the Group Executive Committee and the Board.

In 2016, the programme's focus was on mobilising teams across the Group and completing the detailed diagnostic work required to identify and prioritise the most commercially significant 'value levers'. It was also important early in the process to share 'quick wins' across the Group and to design and launch trials of new innovations for global roll-out following proof of concept.

Actions undertaken during 2016 have already made a positive financial contribution, with more significant benefits anticipated for 2017 and beyond.



View our strategy online at www.inchcape.com



Leading in customer experience



As the global car industry rapidly evolves, the purchasing behaviour and service-level expectations of consumers are clearly changing. We will invest to maintain our position as leader in customer service innovation in automotive Distribution and Retail, with digital a key priority.

Activities in this strategic workstream focused on three key areas. First, in a major piece of customer research across multiple brands and countries, we aimed to understand better what people really want from us at every stage of the journey – from buying a New or Used Vehicle to an ongoing servicing relationship or simply living with their car. This enabled us to look at how, when and where customers interacted with us, and at what the opportunities to improve were across three key areas of the journey: the digital, showroom and ownership experiences. Its findings are already enabling teams across the world to make the customer experience more pleasurable, consistent and personalised.

We have launched two major pilot schemes, the first of which, in partnership with Google, tested new marketing and communications technologies and processes that will enable us to give customers the right information and support at the moment they need it. In the second pilot, we explored new ways of

serving customers in our retail centres to ensure that our customer care practices are in line with their and our brand partners' expectations.

We have also begun to work much more closely with our OEM partners so that together we can identify specific opportunities to collaborate on further improving the customer journey.

During 2017, our focus is on rolling out successful solutions into our other markets, as well as trialling further new ways of addressing specific areas for improvement covering the decision, purchase and ownership phases of the customer journey.

We are also seeking to elevate the ways in which we measure customer satisfaction, making them properly fit for the digital age. We will then further evolve the ways in which we feed the resulting insights back into the business, so improving our processes, training activities and customer service standards, and making the Inchcape customer experience easy, effective and enjoyable.



Becoming the OEM partner of choice



We have a very strong portfolio of brands. We now need to build on our OEM partnerships to ensure that we thoroughly deserve to achieve the status of 'partner of choice' across all our relationships, and then to robustly defend that position.

We will build and strengthen our working relationships with our OEM partners by investing time in understanding their needs, seeking greater opportunities for collaboration and sharing our insight into customer and industry trends. We will collaborate on bringing new innovations to market and exceeding their expectations to deliver long-term mutual value creation both for Inchcape and our OEM partners.

Over 2016 we have taken some substantial early steps in delivering against this strategic objective. First,

we've worked hard to establish closer relationships between our brand teams where we represent a manufacturer in more than one country. As a result, we're doing better at sharing best practice, bringing innovative new solutions to market more efficiently, and collaborating across borders to improve our service levels.

We've also trialled a set of strategic best-practice tools for account management, helping us to work more effectively with OEM partners in areas including relationship and brand strategy development as well as communication and collaboration. This includes understanding our OEM partners' own KPIs and addressing them directly with our operational teams to ensure that our own measures are consistent with theirs.

An early success of this workstream has been the establishment of Partner Development Teams, our own take on 'business to business' account management. In 2016, we created new teams to manage our

OEM relationships with Toyota and Jaguar Land Rover.

Additionally, significant progress has been made in improving the relationships with OEM partners at a global level through Executive meetings to ensure that our high level objectives are aligned wherever possible.

These initiatives have proved successful, not only in strengthening existing relationships and emerging opportunities for collaboration, but also in our growing pipeline of potential business-development projects. Such successes clearly confirm the importance of investing in our partner relationships, supporting the development of our ambitious plans for further investment and engagement throughout 2017.

We're expanding brand-team collaboration across more OEM partners, and rolling out other successful trials into new markets. In addition, we will proactively continue to seek further opportunities for OEM collaboration to benefit them, ourselves and our shared customers.



Delivering full potential from all our revenue streams

Our markets have strong long-term structural growth drivers, but the addressable market for Aftersales is set to grow even faster than the New Car market. The Used Car market, which is typically a multiple of the New Car market in most of our territories, is a further growth opportunity.

We will increase our management focus on our Used Vehicles and Aftersales activities at all levels of the organisation, enhancing their perceived status within the business and further deepening reporting and analysis.

Projects relating to this workstream have included a thorough diagnosis of our Aftersales business, through which we've identified unexplored opportunities for better asset utilisation, customer retention and upselling. With three trials underway and four more in planning, we have already seen some significant positive impacts that are improving workshop capacity and efficiency. These include an increase of between 8-10% in the retail labour hours sold in one franchise in our UK Retail business – the result of a straightforward decision to centralise loading of the workshop diary.

We have also created a new blueprint for developing our Used Car operating model, which is being trialled in the UK and Australia during early 2017. If successful, this will be rolled out during the year to other retail markets, such as Russia and China. Other initiatives planned for 2017 include the trial of a wider set of solutions for global implementation and the roll-out of our new Aftersales diagnosis tool-kit, which will help us better identify the right sales 'levers' to pull from market to market.

The scope of this workstream is considerable and as a result of identifying the opportunity to create substantial additional value, we have subdivided it into three distinct initiatives: Used Cars, Finance & Insurance and Aftersales. Each of these has a dedicated stream lead and resource to further maximise the opportunities afforded us through our considerable expertise in these areas.



Leveraging our global scale



We want to exploit the full advantage of our unique position in the market place to share even more expertise and best practice across our organisation, leveraging our global scale to improve collaborative working practices and generate cost savings through shared services and global purchasing.

We will allocate more resources to innovation, sharing and benefiting even more effectively from the proven ideas generated throughout the global organisation.

In 2016 we have successfully delivered a number of initiatives under this workstream. These include the establishment of a global procurement function, which for the first time gives all our operations shared processes and a common vision of the supply chain. With some of the clearest early successes of the Ignite strategy so far, the new Procurement function delivered £4m savings in 2016, through market activities that have been rolled out over the past year.

We also launched an energy-saving programme that is already helping us to reduce our energy footprint and drive down costs. And we introduced centralised electronic lead-management for one of our OEM brands in the UK, which is already delivering the double benefits of cost savings alongside increased revenue. We are

introducing this to other brands in the UK during 2017 as well as into other markets.

The Contact Centre implementation playbook is the first to have been fully prepared in the Ignite programme. The purpose of the project is to centralise non face-to-face contacts (email, phone and 'live-chat'), using specialist contact handlers, and consequently allowing our retail and service centres to focus on their own areas of expertise: dealing with our customers in person.

Further initiatives during the year include the launch of our new global intranet, which is now underway, with the aim of reaching each and every employee in the Company, and enabling much better knowledge sharing across the business. And we will focus rigorously on sales planning and stock management to enable better customer service and reduce the impact on the business of aged stock.



Investing to accelerate growth



The automotive Distribution and Retail markets are highly fragmented; we apply a disciplined use of capital to fuel further growth through selective participation in market consolidation. We have increased our business development resources to ensure we have the management capabilities to participate in industry consolidation.

This has been a year of significant progress in our growth. Not only did we successfully obtain the Jaguar Land Rover contract in Thailand – the world's 20th largest automotive market, we also significantly expanded our operations in the fast-growing markets of South America with the acquisition of a major Subaru and Hino Distribution network in Chile, Peru, Colombia and Argentina.

This was the biggest Distribution acquisition for Inchcape in over 20 years, increasing our global footprint from 27 to 29 country markets, on-boarding 1,400 new employees and adding over 60 retail centres to our South American business.

Our OEM relationships were a key enabler for this transaction and we are becoming even more focused on the quality of our partnerships to ensure we can provide organic leadership/support and access other M&A opportunities.

We are now focusing on the integration of the new business to accelerate the Company's growth in the region. Alongside these landmark developments, we continued to make significant capex investments in our existing facilities to better meet the needs of our OEM partners and customers. And we successfully improved our project pipeline of potential new business development opportunities.

Measuring our performance

In 2016 we have taken the opportunity to review our Key Performance Indicators (KPIs) to better align them to our Ignite strategy.

KPIs provide insight into how the Board and Executive Committee monitor the Group's strategic and financial performance, as well as directly linking to the key measures for Executive remuneration.

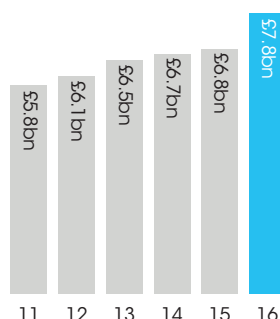
Measure

Sales

Operating margin

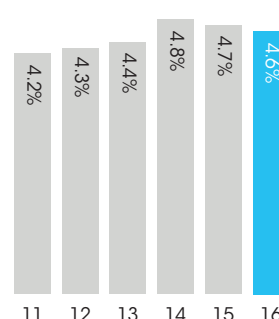
£7.8bn

2015: £6.8bn



4.6%

2015: 4.7%



Definition

Consideration receivable from the sale of goods and services. It is stated net of rebates and any discounts, and excludes sales related taxes.

Operating profit (before exceptional items) divided by sales.

Why we measure it

Top-line growth is a key financial metric of both 'Becoming the OEMs' Partner of Choice' and 'Leading in Customer Experience'.

A key metric of operational efficiency, ensuring that we are leveraging global scale to translate sales growth to profit.

2016 Highlights

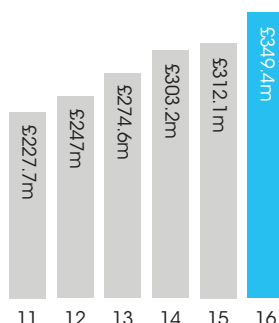
The Group has delivered £7.8bn, growth of 14.7% vs. last year.

Operating margin is down 10 bps vs. 2015 driven by mix and currency impact.

Profit before tax & exceptional items

£349.4m

2015: £312.1m



Represents the profit made after operating and interest expense excluding the impact of exceptional items and before tax is charged.

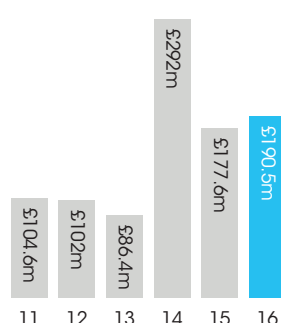
A key driver of delivering sustainable and growing earnings to shareholders.

In 2016 this increased by 12% to a record £349.4m.

Free cash flow

£190.5m

2015: £177.6m



Net cash flows from operating activities, before exceptional cash flows, less normalised net capital expenditure and dividends paid to non-controlling interests.

A key driver of the Group's ability to 'Invest to Accelerate Growth' and to make distributions to shareholders.

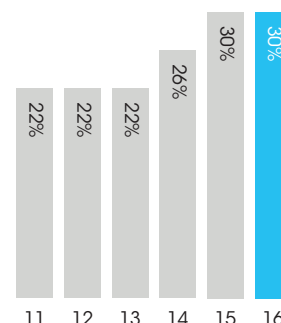
The Group delivered free cash flow of £190.5m, a 7.3% improvement on 2015.

For a reconciliation of free cashflow, see page 31.

Return on capital employed

30%

2015: 30%



Operating profit (before exceptional items) divided by the average of opening and closing capital employed, where capital employed is defined as net assets less net funds.

A key measure of Ignite (Invest to Accelerate Growth), ROCE is a measure of the Group's ability to drive better returns for investors on the capital we invest.

The Group delivered ROCE of 30%. Underlying ROCE (excluding the acquisition of businesses in South America) was a record 33%.

Continued earnings growth and strong cash generation



Changes to disclosure

"2016 marked the launch of the Group's Ignite strategy and consistent with this also saw changes to the management of our geographic regions to better leverage our regional and global scale. For our 2016 results we have made changes to disclosure across two principal areas, value drivers and geographic segments".

Group sales of £7.8bn are up 7.6% year-on-year, with strong top line growth in all regions excluding Asia. The Group delivered an operating profit of £359.1m, in line with last year. Our operating margin declined by 10bps to 4.6%. This reflects a lower margin in New Vehicles, impacted by the strengthening in the Japanese Yen versus the Australian Dollar in Australasia. In addition, this reflects the adverse mix effect of faster growth in Vehicle sales versus Aftersales as well as the adverse geographical mix effect of a difficult trading environment in Hong Kong.

Profit before tax and exceptional items of £349.4m is up 1.3% year-on-year, a resilient performance in the face of material currency headwinds in our Australian business and market decline in Hong Kong.

The Group delivered strong free cash flow of £190.5m, up 7.3% versus 2015, as favourable currency translation more than offset a timing-related increase in cash tax paid.

Our results are stated at actual rates of exchange. However, to enhance comparability we also present year-on-year changes in sales and trading profit in constant currency, thereby isolating the impact of exchange. Unless otherwise stated, changes in sales and trading profit in the operating review are at constant currency. The 2017 outlook commentary is also referenced at constant currency.

Key Performance Indicators – results

	Year ended 2016 £m	Year ended 2015 £m	% change	% change in constant currency
Sales	7,838.4	6,836.3	14.7%	7.6%
Operating margin	4.6%	4.7%	(10bps)	(10bps)
Profit before tax and exceptional items	349.4	312.1	12.0%	1.3%
Free cash flow	190.5	177.6	7.3%	
Return on capital employed	30%	30%		

The Group reports its regional analysis in line with IFRS 8 'Operating Segments'. This standard requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to assess their performance and to allocate resources to the segments. These operating segments are then aggregated into reporting segments to combine those with similar characteristics.

Regional analysis

	2016 Operating/ Trading profit	2016 Exceptional items	2016 Reported	2015 Operating/ Trading profit	2015 Exceptional items	2015 Reported
	£m	£m	£m	£m	£m	£m
Asia	136.7	(11.6)	125.1	133.4	–	133.4
Australasia	102.4	(5.2)	97.2	90.6	–	90.6
Emerging Markets	52.4	(0.9)	51.5	41.8	(49.5)	(7.7)
UK and Europe	97.1	(36.7)	60.4	88.9	–	88.9
Trading profit	388.6	(54.4)	334.2	354.7	(49.5)	305.2
Central costs	(29.5)	(27.2)	(56.7)	(30.0)	–	(30.0)
Operating profit	359.1	(81.6)	277.5	324.7	(49.5)	275.2

Return on capital employed (ROCE) of 30% again reflects disciplined management of the Group's balance sheet and selective investments to grow the business.

Net capital expenditure in 2016 was £72.1m. We have invested in new facilities in Singapore as well as continuing to develop our facilities in the UK, Australia and Emerging Markets.

Working capital continues to be tightly managed and we ended the year at £89m, with £48m attributable to the South American assets acquired in December 2016. This control supported our good cash conversion and free cash flow generation of £190.5m. Net cash at the end of the year was £26.5m, a very good position given the £227m outflow in December 2016 in relation to the acquisition of the Subaru and Hino distribution businesses and other assets from Empresas Indumotora. In line with our accounting policies and previous transactions, the costs associated with this transaction have been charged as exceptional operating costs.

During 2016, we completed £59m of our 2015 £100m share buyback scheme at an average price of 699p and the first £50m of our 2016 scheme at 675p.

Disclosure changes

2016 marked the launch of the Group's Ignite strategy and consistent with this also saw changes to the management of our geographic regions to better leverage our regional and global scale. For our 2016 results we have made changes to disclosure across two principal areas, value drivers and geographic segments.

We are providing greater disclosure on the value drivers behind revenue and profit. This includes:

- Gross profit attributable to Vehicles: New Vehicles, Used Vehicles and the associated Finance and Insurance (F&I) income; and
- Gross profit attributable to Aftersales: Service and Parts.

This will be applied to both our Distribution and Retail channels, providing visibility on the diversified nature of our value drivers and defensive characteristic of having a significant percentage of our gross profit linked to the installed base of vehicles (often referred to as the Car Parc). Furthermore, this improved disclosure reflects the Group's commitment to our shareholders to achieve success against the Ignite strategic objective of 'Deliver Full Potential on all our Revenue Streams'.

Linked to the Ignite objective of 'Leverage our Global Scale', the management and reporting of the previous North Asia and South Asia regions has changed to encompass the combination of these to form an Asia region, as well as moving China from the Emerging Markets region to Asia. George Ashford was appointed as CEO for Asia in September 2016.

In addition, and reflecting the percentage of the European region as a proportion of the Group across revenue, profit and assets, UK and Europe has been formed as a new reporting region. The new region encompasses the UK, Belgium, Luxembourg, Greece, Finland, Poland, Romania, Bulgaria, Macedonia, Latvia, Lithuania and Estonia. Within this segment, the historically reported UK Distribution business, comprising our fleet management and leasing business, Inchcape Fleet Solutions (IFS), is now reported in the Retail result such that the total UK results are represented within the UK and Europe Retail.

The Emerging Markets region following these changes consists of Ethiopia, Djibouti, Russia, Chile, Peru, Colombia, and Argentina.

To support our stakeholders with these changes we have produced a restatement document to simply show the new and historic disclosures, this is available on our website www.inchcape.com.

Distribution

The Distribution segment delivered a solid performance at constant currency, growing revenue year-on-year by 5.1%. This was driven by strong growth in Singapore and a good performance from Emerging Markets, despite civil unrest during the second half of the year in Ethiopia. These growth drivers offset the slowdown in Hong Kong where continued lower corporate and consumer confidence has impacted both Commercial vehicle and Private car purchases.

Trading profit is down 5.0% in constant currency as this includes the transactional currency impact of the weakening of the Australian Dollar against the Japanese Yen and the decline in profit in Hong Kong as a consequence of the market decline highlighted above. At actual currency, profit growth of 6.0% has benefited from the weakness of Sterling.

Retail

The Retail segment delivered a robust performance, growing revenue by 9.6% driven by strong top-line growth of 11.5% in our UK and Europe segment.

The competitive UK environment continues to drive margin pressure on New Cars. However, this is being offset across other revenue streams as we are starting to see the benefit of our Ignite strategy being delivered through strong growth in revenue and margins on Used Cars growth and margin improvement on Aftersales.

Value drivers

The value driver disclosure for Vehicles and Aftersales gross profit shows our commitment under the Ignite strategy to delivering growth across our revenue streams and especially in Aftersales as New Vehicles reach a slower growth environment in a number of markets. The growth in Aftersales gross profit ahead of Vehicles shows delivery, even at this early stage, on the Ignite strategy in addition to the market and transactional currency dynamics at play in our portfolio.

The decline in Distribution Vehicles gross profit of 7.1% at constant currency reflects two key factors, the significant decline of the New Vehicle market in Hong Kong as well as the decline in gross profit from vehicles in Australasia as a result of the Yen strengthening.

Business analysis

	Year ended 2016 £m	Year ended 2015 £m	% change	% change in constant currency
Sales				
Retail	4,440.8	3,939.0	12.7%	9.6%
Distribution	3,397.6	2,897.3	17.3%	5.1%
Trading profit				
Retail	105.6	87.7	20.4%	16.4%
Distribution	283.0	267.0	6.0%	(5.0)%

Value Drivers

Group		Gross profit £m		% change	% change in constant currency
		Year ended 2016	Year ended 2015		
	Vehicles	678.7	631.5	7.5%	0.2%
	Aftersales	400.4	357.3	12.1%	4.0%
	Total	1,079.1	988.8	9.1%	1.5%
Distribution	Vehicles	339.7	326.5	4.0%	(7.1)%
	Aftersales	242.1	203.8	18.8%	7.0%
	Total	581.8	530.3	9.7%	(1.7)%
Retail	Vehicles	339.0	305.0	11.1%	7.9%
	Aftersales	158.3	153.5	3.1%	-
	Total	497.3	458.5	8.5%	5.2%

The Distribution Aftersales gross profit increase of 7.0% stems from our success in capturing growth in the one to five year old Car Parc in Singapore, with our new Pandan facility up and running, alongside strong structural growth, complemented by operational focus driving Aftersales strength in South America and Ethiopia.

The Retail business saw 7.9% growth in Vehicles gross profit and flat Aftersales gross profit, at constant currency. The good performance in Vehicles gross profit is the result of growth across all three geographic regions, led by our large Retail presence in the UK, and supported by an improved performance from our Russian business, albeit off a low base.

At the Aftersales level for Retail, the outcome at constant currency reflects disposals in our Australian business of non-core sites, including Peugeot, Harley Davidson and Volvo, as well as a decline for Aftersales in Russia where the prolonged weak trend in New Cars has impacted the size of the young addressable Car Parc. Importantly, we have seen good progress in the UK underpinned by the focus on the Ignite strategy and the underlying growth in the Car Parc.

Exceptional items

Along with the costs associated with the acquisition of the Subaru and Hino distribution businesses in South America, there have been a number of exceptional items in the year totalling £81.6m (2015: £49.5m).

The annual impairment review of our Baltics operations determined that whilst positive, the estimated future growth rates in both Lithuania and Estonia were not sufficient to support the carrying value of the Goodwill and a non-cash exceptional impairment of £24.9m has been taken (see note 11 on page 121).

During the year, the Group has made configuration changes to the iPower system to better reflect the Ignite strategy. This has resulted in a number of areas of functionality being superseded and as such, we have recorded an exceptional, non-cash impairment charge of £23.1m.

The cost review announced on 27 October 2016 has identified opportunities to better leverage our global scale under the Ignite strategy and ensure we are appropriately positioned for the future. The total associated exceptional cost of this action is c.£35m, with cash outlay primarily in 2017. £24.8m been charged in 2016 in respect of the cost review. We expect the payback to be circa two years.

Asia

Challenging Hong Kong market partially offset by strong Singapore

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Australasia

Resilient performance despite transactional currency headwinds

→ Page 24

UK and Europe

Strong top line growth across the region

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Emerging Markets

Strong broad-based performance

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Asia



Business model

At the heart of the Asia region, we are the Distributor and exclusive Retailer for Toyota, Lexus and Hino and operate Distribution and exclusive Retail for Jaguar, Land Rover and Ford in Hong Kong with additional Distribution and Retail franchises across the region.

Country	Route to market	Brands
Hong Kong Macau	Distribution and Exclusive Retail	      
Singapore	Distribution and Exclusive Retail	   
Brunei	Distribution and Exclusive Retail	 
Guam	Distribution and Exclusive Retail	  
Saipan	Distribution and Exclusive Retail	
Thailand	Distribution and Exclusive Retail	 
China	Retail	    

Challenging Hong Kong market partially offset by strong Singapore

Key Financial Highlights

	£m	£m	% change	% change in constant currency
	Year ended 2016	Year ended 2015		
Sales	1,591.6	1,431.9	11.2%	(0.7%)
Trading profit	136.7	133.4	2.5%	(9.0%)
Trading margin %	8.6%	9.3%	(0.7ppt)	(0.8ppt)

Operating performance

Our two biggest markets in this segment, Hong Kong and Singapore, largely offset each other in 2016 driven by very different underlying market dynamics.

In Hong Kong, driven by reduced consumer and corporate confidence, the New Car market declined 20.5%, with similar decreases for Passenger and Commercial Vehicles. Consumer confidence has been impacted on a number of fronts, including stock market volatility, declining property values and a weaker corporate environment linking into the private sector. The Commercial Vehicle decrease is also driven in part by the multi-year government sponsored scrappage scheme where the phase-out volume for 2016 was, as expected, lower year-on-year.

We performed well against this backdrop, retaining our strong market leadership position in Hong Kong. We continue to generate very good returns from our Aftersales business, leveraging the scale of the Car Parc for the OEM partners we represent and our strategic focus under Ignite.

We have delivered strong growth in Singapore. Our business in Singapore delivered revenue growth of 30% for the year as growing de-registrations created an increase in the quota of available Certificates of Entitlement (COEs), driving market growth of 41%. There was a slowdown in growth rate in the second half, consistent with our expectation, as more Singaporean passenger vehicle owners renewed their COEs for either five or 10 years. The Singaporean Government relaxed automotive loan rules at the end of May 2016, both the maximum loan to value and tenure, which has helped keep competition for COEs strong and impacted our margin on New Vehicles in the second half.

Overall, revenue for the segment was down marginally versus a strong 2015 with Sterling weakness driving 11.2% actual currency revenue growth.

Trading profit for the segment in 2016 was down 9.0% year-on-year driven by the decline in Hong Kong. This is both the consequence of lower volume in the market and, to a more limited degree, pressure on margins as market participants looked to protect share in a declining market. The result included profit on disposal of property in Hong Kong.

During the year the Group gained the Distribution rights for Jaguar Land Rover in Thailand and the first year of operation is performing well against plan.

Outlook

In 2017, we expect a flat New Vehicle market for Hong Kong and a decline in Singapore, reflecting a lower supply of COEs. Our Aftersales business in Singapore will continue to benefit from growth in vehicles aged one to five years and our strategic focus to maximise the opportunity from this revenue stream across the Group. Overall we expect to deliver a resilient 2017 performance in Asia.

Australasia



Business model

We are the Distributor for Subaru in both Australia and New Zealand. In addition, we operate multi-franchise Retail operations in Sydney, Melbourne and Brisbane. At the end of 2016, we owned 35 Retail Centres and managed a network of 101 independent Subaru sites.

Country	Route to market	Brands
Australia	Distribution and Retail	
	Retail	            
New Zealand	Distribution	

Resilient performance despite currency headwinds

Key Financial Highlights

	£m	£m	% change	% change in constant currency
	Year ended 2016	Year ended 2015		
Sales	1,429.1	1,219.9	17.1%	4.5%
Retail	701.3	642.2	9.2%	(2.6%)
Distribution	727.8	577.7	26.0%	12.3%
Trading profit	102.4	90.6	13.0%	0.8%
Retail	34.6	23.6	46.6%	31.1%
Distribution	67.8	67.0	1.2%	(9.9%)
Trading margin %	7.2%	7.4%	(0.2ppt)	(0.3ppt)
Retail	4.9%	3.7%	1.2ppt	1.3ppt
Distribution	9.3%	11.6%	(2.3ppt)	(2.3ppt)

Operating performance

Our Australasian segment delivered a resilient performance, offsetting significant transactional currency pressure as the Australian Dollar weakened against the Japanese Yen throughout the year, impacting the cost of Subaru vehicles.

The Australian car market reached a record level of 1.18m cars, up 2.3% on 2015, with growth driven by the ongoing shift to the SUV segment, which increased by 8.5%. Our Subaru business continues to win market share, with registrations growing well ahead of the market at 7.8% and taking our share position to 4.0%, up 20bps. Revenue growth of 4.5% was driven by strong growth in Subaru Distribution where we have delivered record volume performance, despite some capacity constraints in the second half of the year. Our outperformance was supported by the successful launch of the Subaru 'Do' marketing campaign, generating leads and importantly bringing new customers to the brand, as well as the successful launch of the Levorg Tourer in the second half of the year.

In our Retail business, BMW and Jaguar Land Rover as premium and luxury brands continued to grow ahead of the market and during the year we successfully launched the Jaguar F-Pace into the fast-growing premium SUV segment. The total sales decline for Retail reflects a number of site disposals of non-core franchises in Sydney and Melbourne.

During the year our Subaru Retail business innovated by introducing new mobile service vans in Sydney, whereby qualified Subaru mobile service technicians perform the service work from the convenience of the customer's chosen location. Given the success so far, we expect to introduce more mobile service vans across different regions.

Trading profit was in line with last year at constant currency as significant transactional currency impact in the Distribution business was partially mitigated through careful price positioning, leveraging procurement opportunities and disciplined cost control. Retail trading profit growth benefited from a year-on-year net increase in property profits.

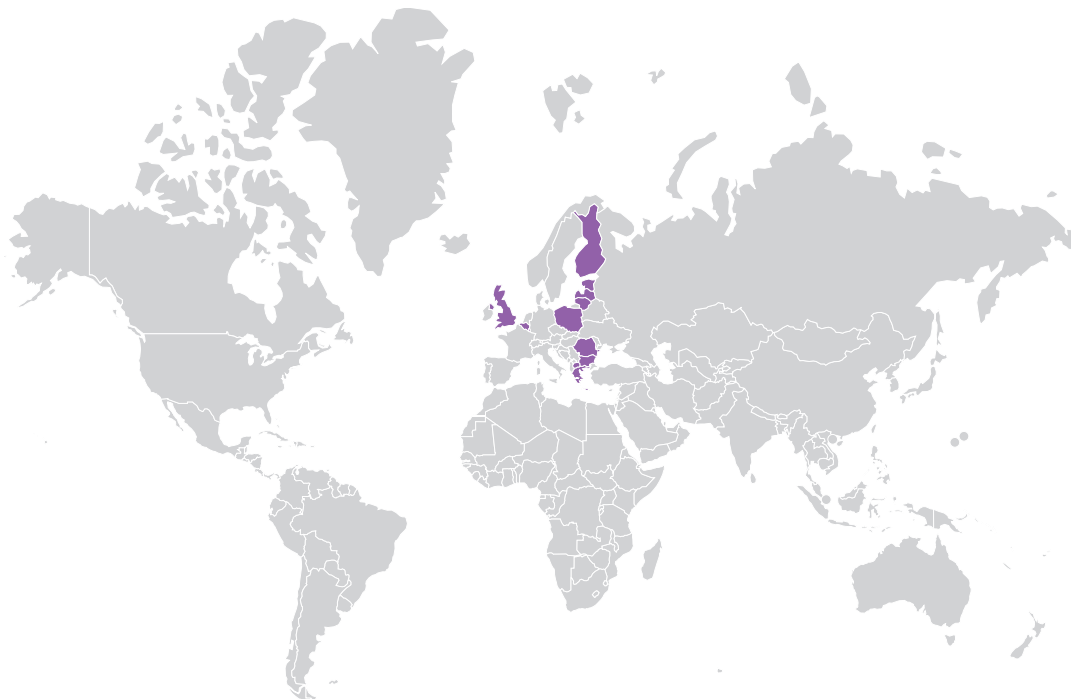
The currency-driven decline in Distribution margin was mostly offset at the total segment level by a 130bps improvement in Retail trading margin. This was partially driven by continued rationalisation and optimisation of the Retail footprint following the franchise disposals last year.

Outlook

We expect modest underlying growth in the New Vehicle market for 2017, with the relatively old Car Parc supporting the replacement cycle. The 2017 completion of an expansion of a Subaru production centre in the United States will free up Japanese capacity and remove some supply constraints.

However, given the transactional currency headwind from the Japanese Yen and Australian Dollar, we expect 2017 to be a difficult year at constant currency for Australasia, particularly in the first half of the year.

UK and Europe



Business model

We have scale Retail operations across the core regions of the UK focused on premium and luxury brands. Our European operations are centred on Toyota and Lexus Distribution in Belgium, Greece and the Balkans, BMW Retail in Poland and a number of fast-growing businesses in the Baltic region focused on Jaguar Land Rover, Mazda and other brands.

Country	Route to market	Brands
UK	Retail	          
Belgium Bulgaria Greece Luxembourg Macedonia Romania	Distribution and Retail	 
Finland	Distribution	  
Estonia	Retail	
Latvia	Retail	     
Lithuania	Distribution and Retail	     
Poland	Retail	 

Strong top line growth across the region

Key Financial Highlights

	£m	£m	% change	% change in constant currency
	Year ended 2016	Year ended 2015		
Sales	4,062.9	3,534.9	14.9%	11.9%
Retail	3,318.1	2,951.0	12.4%	11.5%
Distribution	744.8	583.9	27.6%	13.7%
Trading profit	97.1	88.9	9.2%	5.5%
Retail	70.6	66.1	6.8%	6.4%
Distribution	26.5	22.8	16.2%	3.5%
Trading margin %	2.4%	2.5%	(0.1ppt)	(0.1ppt)
Retail	2.1%	2.2%	(0.1ppt)	(0.1ppt)
Distribution	3.6%	3.9%	(0.3ppt)	(0.4ppt)

Operating performance

We delivered strong growth across our UK and Europe segment with revenue up 11.9%. This top-line performance was broad-based with all key markets within the segment growing strongly in 2016.

The UK car market continued to grow in 2017, with registrations of 2.7m setting another record year for car sales and representing growth of 2.3%. This slowed in the second half but the OEM partners that Inchcape represents have continued to outperform the market. Overall, our UK business delivered revenue of £3.0bn, up 11.2% on last year, and a trading profit of £63.5m.

Pleasingly in the UK, we saw good progress on Used Cars, simultaneously growing volume by 15% and expanding margin as we roll out the Ignite strategy. Similarly in Aftersales, in line with the increased operational focus on all revenue streams, we delivered robust growth in hours sold and gross profit delivered. During the year, we worked in conjunction with Jaguar Land Rover to optimise our footprint, acquiring and disposing of sites ahead of the new combined site format being launched across the UK.

The Greek market was up 3.7% as it continued to recover from years of decline following a sustained period of macro-economic and political uncertainty. Our Toyota Lexus business in Greece improved its strong overall market leadership position with share of 12.4%, gaining 10bps of share, and within this a shift towards the more profitable private retail segment.

In Belgium, the passenger car market grew by 7.8%. Diesel as a percentage of the private vehicle market declined from 60% in the prior year to 52% this year driven by government taxation changes. Our Toyota Lexus business is focused on hybrid and petrol technology and therefore this trend plays to our long-term benefit.

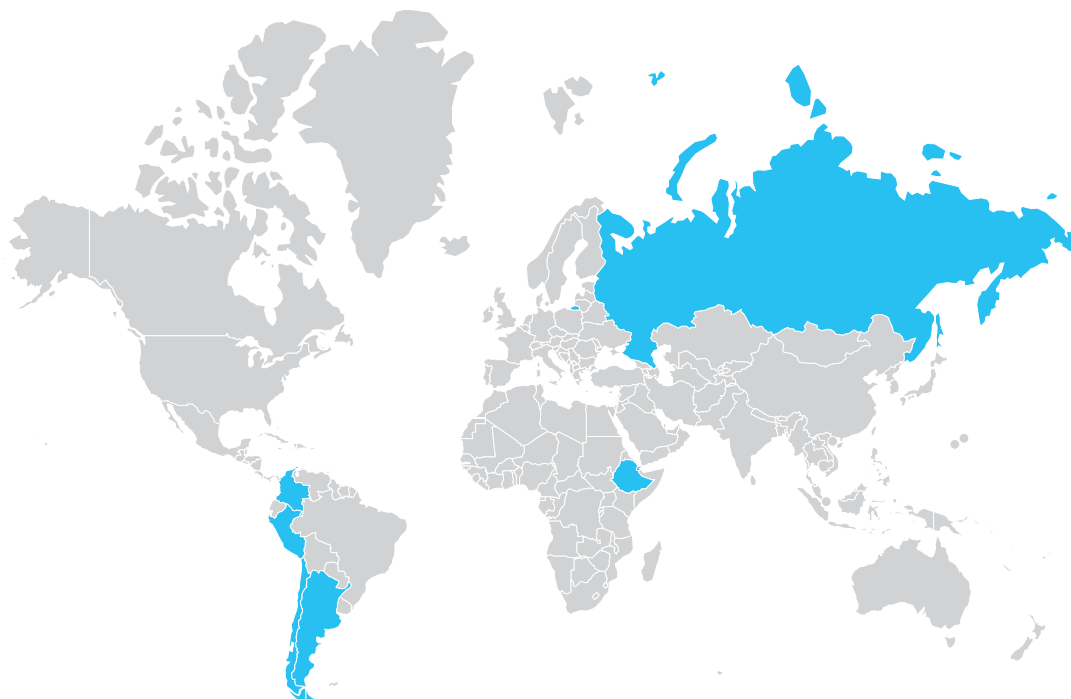
Finland performed well in 2016, driven by the government incentive of a vehicle taxation reduction, announced in 2015, for all vehicles emitting CO₂ lower than 140 grams per kilometre. In Eastern Europe we delivered strong performances in our Toyota operations in Bulgaria and Romania as well as in our BMW Retail business in Poland.

The trading profit increase of 5.5% was driven by the performances of our Western and Eastern European operations, with a broadly flat total UK profit trend. However, our UK business excluding our Inchcape Fleet Solutions business saw profit growth of 3.7% in 2016, a pleasing improvement from the 1.0% growth rate for the first half of 2016.

Outlook

In 2017, we expect the New Vehicle market to decline in the UK, to be broadly flat in Belgium and continue to grow in Greece and across our Eastern European operations. However, given our Ignite strategy, we are well prepared to counter slower New Vehicle trends in some markets with increased focus on Used Vehicles and Aftersales. Overall, we expect to deliver a resilient performance in the UK and Europe segment in 2017.

Emerging Markets



Business model

Our business in Ethiopia is centred on Distribution and exclusive Retail for Toyota. In Russia we operate 21 retail centres in Moscow and St Petersburg representing a number of our global OEM partners. In South America, our recent acquisition complements our BMW Distribution businesses in Chile and Peru with Subaru and Hino operations across the existing presence and also in two new countries, Colombia and Argentina.

Country	Route to market	Brands
Ethiopia & Djibouti	Distribution and Exclusive Retail	    
Russia	Retail	        
Chile	Distribution and Retail	    
Peru	Distribution and Retail	  
Colombia	Distribution and Retail	   
Argentina	Distribution and Retail	 

Strong broad-based performance

Key Financial Highlights

	£m	£m	% change	% change in constant currency
	Year ended 2016	Year ended 2015		
Sales	754.8	649.6	16.2%	10.2%
Retail	421.4	345.8	21.9%	18.0%
Distribution	333.4	303.8	9.7%	1.7%
Trading profit	52.4	41.8	25.4%	17.0%
Retail	0.4	(2.0)	120.0%	122.5%
Distribution	52.0	43.8	18.7%	10.9%
Trading margin %	6.9%	6.4%	0.5ppt	0.4ppt
Retail	0.1%	(0.6)%	0.7ppt	0.7ppt
Distribution	15.6%	14.4%	1.2ppt	1.3ppt

Operating performance

We delivered another strong year of growth across our Emerging Markets segment with double-digit sales and profit growth as well as an expansion in trading margin.

The business delivered revenue of £421.4m, an 18% increase on the previous year, and a small trading profit of £0.4m. These results were achieved despite a continued decline in the overall New Car market, demonstrating the resilience of our Retail model based in the major cities with leading luxury brands.

In South America our BMW business also grew strongly as the luxury New Vehicle markets in Chile and Peru improved after a number of years of commodity weakness dampening demand. These results do not include any revenue or profit for 2016 from the South American acquisition completed towards the end of December.

Revenue growth moderated from the first half as expected, against a tougher comparative, and with the outcome partially influenced by the effects of civil unrest in Ethiopia.

Profit growth was broad-based for the segment, but led by South America and with a solid full-year performance from our African business. Trading margins improved across all our Emerging Markets businesses as we start to see the benefits of increased focus across all revenue streams as part of our Ignite strategy.

Outlook

In 2017, we are set to continue benefiting from the strong underlying fundamentals in Ethiopia and from the investments we have made in recent years which will support growth.

Benefiting from a more stable New Vehicle market outlook for Russia in 2017, and from the Ignite objective of delivering the full potential on all our revenue streams, notably Used Vehicles in this case, we forecast another year of improvement ahead.

We are in the right places with the right brands in South America and are benefiting from gradual improvements in the underlying economies. The South America acquisition of the Subaru and Hino businesses from Empresas Indumotora has created a scale Distribution platform for Inchcape. Overall, with the benefit of the accretion from the acquisition we expect to deliver a very strong performance in our Emerging Markets segment in 2017.

Central costs

Unallocated central costs for the full year are £29.5m before exceptional items (2015: £30.0m) with underlying operational costs broadly equal to last year. Included in these costs is income of £6.5m in relation to the gross amount of the Group's claim for restitution of Advanced Corporation Tax (ACT) paid under the Foreign Income Dividend (FID) regime. This income has offset one-off costs associated with the mobilisation phase of the Group's Ignite strategy and a charge in relation to historic account balances in Chile.

Operating exceptional items

In 2016, the Group has recorded exceptional operating costs of £81.6m (2015: £49.5m). The 2016 charge is comprised of a non-cash impairment of £24.9m in respect of the goodwill associated with businesses in Lithuania and Estonia; a non-cash impairment of £23.1m relating to superseded functionality within the iPower ERP system; restructuring costs of £24.8m associated with the global cost reduction programme; and £8.8m in relation to the acquisition of the Subaru and Hino distribution businesses in South America. In 2015, the Group fully impaired the carrying value of goodwill attributable to the Russian business. Further detail can be found in note 2 (page 108) and note 11 (page 121).

Net financing costs

Net financing costs for the year are £9.6m (2015: £13.3m). During 2016, we have benefitted from reduced forward points expense on hedging activities and foreign exchange losses. In 2016, the Group reported a gain of £1.0m (2015: a gain of £0.9m) in our mark to market reporting of the hedges for the US loan notes and net interest income on pension assets of £4.2m (2015: net income of £4.2m).

Tax

The effective tax rate for the year before exceptional items was 25.2% (2015: 24.0%). The increase in the underlying rate includes the impact of profit mix increasing the Group's weighted average tax rate and the tax treatment of the FID gain (see note 8 on page 118). During 2016, tax cash flow was £99.5m (2015: £69.6m) with the increase principally driven by increased profit delivery and timing of tax instalment payments in Australia. Following the acquisition in South America, we have identified intangible assets relating to the Distribution contracts for Subaru and Hino and these have resulted in an associated deferred tax liability of £50.2m (see note 16 on page 126).

We expect the effective rate to increase marginally for 2017 given the profit mix across the Group.

Non-controlling interests

Profits attributable to our non-controlling interests were £6.9m, compared to £7.1m in 2015. The Group's non-controlling interests principally comprised a 33% minority holding in UAB Vitvela in Lithuania, a 30% share in NBT Brunei, a 10% share of Subaru Australia and 6% of the Motor & Engineering Company of Ethiopia.

Foreign currency

During 2016 and driven by the weakening of Sterling, the translation of the Group's overseas profits before tax into Sterling at the 2016 average exchange rate positively impacted the year's results by £32.5m (2015: negative impact of £1.0m).

Dividend

The Board recommends a final ordinary dividend of 16.8p per ordinary share which is subject to the approval of shareholders at the 2016 Annual General Meeting. This gives a total dividend for the year of 23.8p per ordinary share (2015: 20.9p), an increase of 13.9% vs. 2015.

Pensions

In 2016, the IAS 19 net post-retirement surplus was £37.3m (2015: £98.9m), with the reduction in surplus driven by the reduction in discount rates leading to an increase in pension liabilities, which has been partially offset by experience gains and an increase in the value of pension assets. In line with the funding programme agreed with the Trustees, the Group made additional cash contributions to the UK pension schemes amounting to £2.1m (2015: £1.7m). We have agreed with the Trustees that future cash contributions will continue at broadly this level.

Acquisitions and disposals

On 22 December 2016, the Group acquired a multi-country scale Distribution business in South America, focused on Subaru and Hino from subsidiaries and affiliates of Empresas Indumotora S.A. for a total cash consideration of £226.7m. The acquired business consists of Distribution operations in Chile, Peru, Colombia and Argentina. In Light Vehicles, it includes Subaru (in all four countries), DFSK (in Chile, Peru and Colombia) and Suzuki (in Argentina). In Commercial Vehicles it includes Hino (in Chile and Colombia), as well as the truck brand Mack and a number of machinery and components brands in Colombia. Around 1,400 employees have joined Inchcape. See note 28 (page 141) for additional detail.

The assets and liabilities acquired are largely represented by their book values within the acquired business and will be subject to a fair value assessment as permitted under IFRS 3 to be finalised during 2017. The acquisition has given rise to provisional goodwill of £51.2m and intangibles relating to the distribution contracts for Subaru and Hino (net of deferred tax) of £112.2m.

In addition to this, during 2016 the Group acquired and disposed of sites in the UK in relation to the optimisation of our Jaguar Land Rover footprint. The Group also disposed of a site in Australia and finalised the liquidation of a joint venture in Greece. Consideration for these acquisitions was £4.3m and disposal proceeds were £2.8m.

In 2015, the Group acquired one retail centre in the UK for £5.1m and disposed of non-core businesses in Australia and its interest in the Excelease joint venture, generating disposal proceeds of £5.4m.

Refinancing

In December, the Group successfully concluded a US Private Placement (USPP) transaction, raising £210m with a blended 7, 10 and 12 year tenor to refinance existing USPP facilities maturing in May 2017. Delayed funding was arranged for January and May 2017 and an initial £70.0m was funded on 25 January 2017. In January 2017, the Group also successfully concluded the second one year extension of the £400.0m Revolving Credit Facility (RCF) with all the Group's relationship banks participating. In combination, these refinancing events extend the Group's committed facilities at attractive financing rates (see note 22 on pages 130-131).

Capital expenditure

During the year, the Group invested £72.1m (2015: £53.6m) of net capital expenditure in the development of greenfield sites, the enhancement of existing facilities and the continued roll-out of the iPower system. During 2016 the Group opened the new Pandan multi-story aftersales and bodyshop site in Singapore, a significant investment behind the Ignite objective of Delivering Full Potential on all our Revenue Streams.

Cash flow and net funds

The Group delivered free cash of £190.5m (2015: £177.6m). After the acquisition of the Subaru and Hino Distribution businesses in Latin America, and buying back shares at a cost of £109.8m, the Group closed the year with net cash of £26.5m (2015: £166.4m).

Reconciliation of free cash flow

	£m	£m
Net cash generated from operating activities		271.6
Add: Payments in respect of exceptional items		3.2
Net cash generated from operating activities, before exceptional items		274.8
Purchase of property, plant and equipment	(71.1)	
Purchase of intangible assets	(22.7)	
Proceeds from disposal of property plant and equipment	21.7	
Net capital expenditure		(72.1)
Dividends paid to non-controlling interests		(12.2)
Free cash flow		190.5

Risk management

By managing our risks in a professional and consistent way, we operate with true 'peace of mind'.

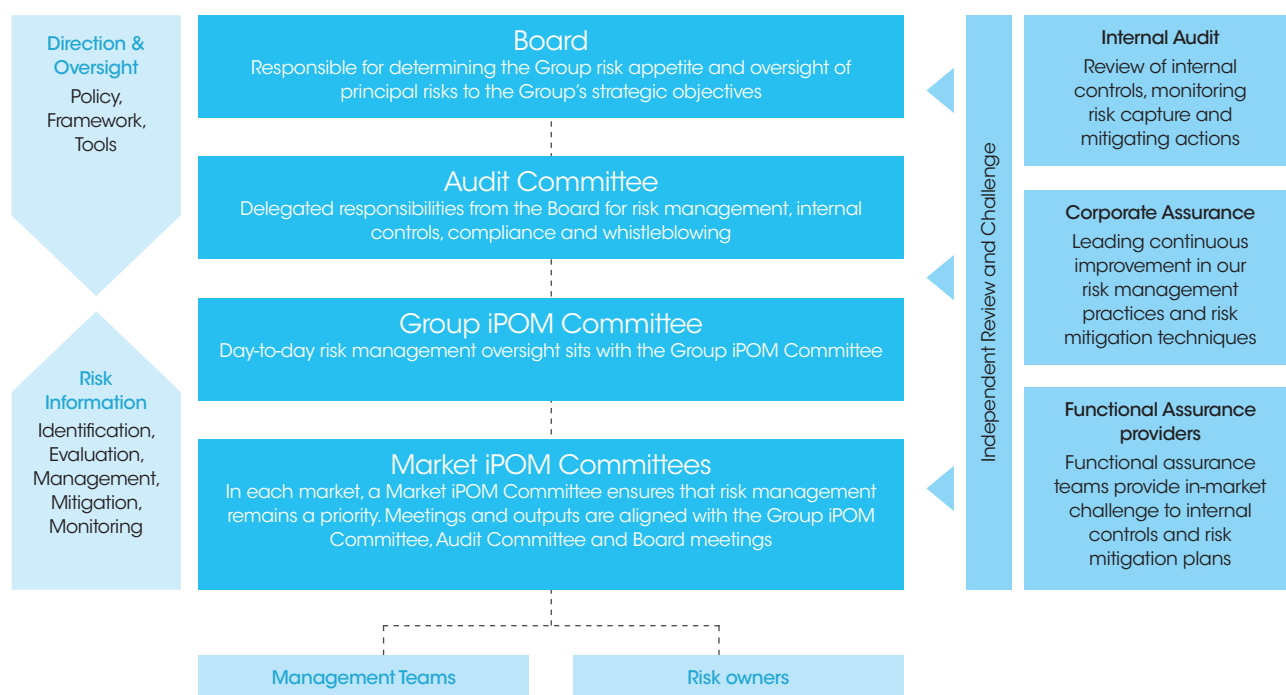
Inchcape Peace of Mind – our approach to risk

Knowing that we have in place the right procedures, processes and frameworks to prevent risks from impacting our business, or to enable us to respond promptly and decisively when they do, gives us confidence in our ability to achieve our strategic objectives and support the long-term sustainable growth of our business.

Our reputation as a global automotive Distributor and Retailer is built on our ability to take calculated risks to create value for the Company and its shareholders, at the same time evaluating and managing those risks to protect the long-term value and reputation of the Group.

Inchcape Peace of Mind (iPOM) is our Group-wide risk management and governance framework which focuses on empowering each and every one of our colleagues to consider the risks associated with the decisions they take and to balance the potential consequences of their actions or inactions as they take them. Embedded in our day-to-day management practices, iPOM helps us identify, manage and reduce our risks, raise awareness through education and training, give guidance and direction, encourage open and honest communication and engage our colleagues with the understanding of risks and how to manage them, no matter where they are in the world.

Risk management governance structure



Risk management in action

The Board During the year, the Board carried out a risk review for the purpose of determining the Group principal risk footprint and to confirm the Group's current and ongoing processes to identify, review, agree and monitor risk. Risks are also considered throughout the year as part of the Board's review of each strategic objective of the Ignite strategy. Further information on strategy is set out on pages 2 to 15 and the key risks are given on page 34. Further information on risk management is given on pages 84 to 85. The Board also reviewed and approved the viability statement including its assessment of the methodology used by management to reach its conclusion. The viability statement is given on page 38.

The Audit Committee During the year, the Committee reviewed, assessed and challenged management on the risk management and internal control framework in place throughout the year to enable the correct risk appetite and culture to be embedded throughout the Group. The Committee chair reports to the Board after each meeting to ensure full oversight of the risks within the Group's operations. Further information on the work of the Audit Committee can be found on pages 50 to 53.

The Group Executive Committee During the year, the Group Executive Committee undertook a routine evaluation of the principal risk footprint, based on various inputs including the risk registers maintained within each of our markets. This evaluation comprised a review of the impact and likelihood of the principal risks the Group faces, the underlying causal factors, and the mitigating actions required to address those factors. The resulting changes to the risk footprint were agreed with the Board. The risk footprint and associated mitigating actions will continue to be monitored by the Group Executive Committee on an ongoing basis. Risks facing the Group are discussed on an ongoing basis at both Market and Group level through the iPOM Committee framework with the most pressing issues escalated to the Group Executive Committee and the Board as appropriate.

The Group iPOM Committee meets a minimum of six times a year to manage oversight of risk, at Group level and throughout the markets. The remit of the iPOM Committee is broad, but its core focus areas are to ensure:

- There is an appropriate mechanism in place to identify the risks the Group faces;
- Management teams have the correct focus on those risks and, in particular, action plans to mitigate or respond to those risks;

- A compliance programme is in place in all markets and offices that meets or exceeds external benchmarks and is appropriate in terms of legal requirements, content, sector, cost and resources;
- Internal controls are appropriate, well designed, and operating consistently across the Group; and
- The Group's fraud and whistleblowing programme is appropriately managed to reduce the risk of fraud, or respond quickly and decisively in the event the Group falls victim to fraud.

The Market iPOM Committees are the representative of iPOM in each of our markets. The Market iPOM Committees have primary responsibility to identify and control market risks, maintain local risk registers, regularly update mitigation plans and update the Group's risk mitigation monitoring system. The Committees meet quarterly to review all systemic and dynamic risks and ensure that the mitigation plans are up to date. Evaluation of each risk's potential impact and likelihood is defined by guidelines issued by the Group Corporate Assurance team and are consistent across the Group.

A case study in our approach to data

In response to a key risk identified on the risk footprint, the Group iPOM Committee commissioned a project to review our overall approach to data management and data protection. The project was co-sponsored by Internal Audit and the Group Chief Information Officer, who is also the executive responsible for this risk at Group level. Working with external consultants, the objectives were to:

- Assess our ability to comply with prevailing legislation including readiness for the General Data Protection Regulation (2018)
- Identify and prioritise our core information assets including confidential and sensitive data
- Evaluate, challenge, and benchmark our current data protection arrangements including physical and logical security
- Investigate our IS estate for evidence of attack/breach, either current or historic

The results of the project have been analysed at the Group Executive and Group iPOM Committees as well as by the Audit Committee and the Board. The conclusions have been fed into a series of improvement projects to be implemented in 2017.

Inchcape principal risk footprint

The principal risk footprint comprises the most pressing risks that would cause the most damage to the reputation or financial strength of the Company if they are not effectively evaluated, understood and managed. The risk footprint is distilled from Group-wide risk registers and iPOM Committee discussions and is regularly reviewed by the Group Executive Committee, the Group iPOM Committee and the Board.

The **key** risks, which are given in detail on pages 36 and 37, are a subset of our principal risks which we believe would have the most immediate and damaging impact and therefore are of particular focus. Each of the key risks is overseen by an allocated member of the Group Executive Committee.

We recognise, and are actively managing, further risks (both at Group level and within individual business units) as identified by our comprehensive risk management process, but these are deemed less material than the 16 principal risk factors noted on the footprint.

Given the size and geographical diversity of our business, we understand there may be additional risks not currently known to management and we continuously improve our iPOM processes to identify, evaluate and mitigate these risks.

As a Group, we continue to experience an ever-changing, dynamic risk environment where economic, political, environmental, social, legal and technological changes present a complex risk landscape which threatens our ability to achieve our strategic objectives. However, we believe that our diversity of brand portfolio and geographic spread, combined with our strong balance sheet, cost control and risk-aware decision-making processes, make us resilient to all but the most significant and persistent risks.

Principal risks

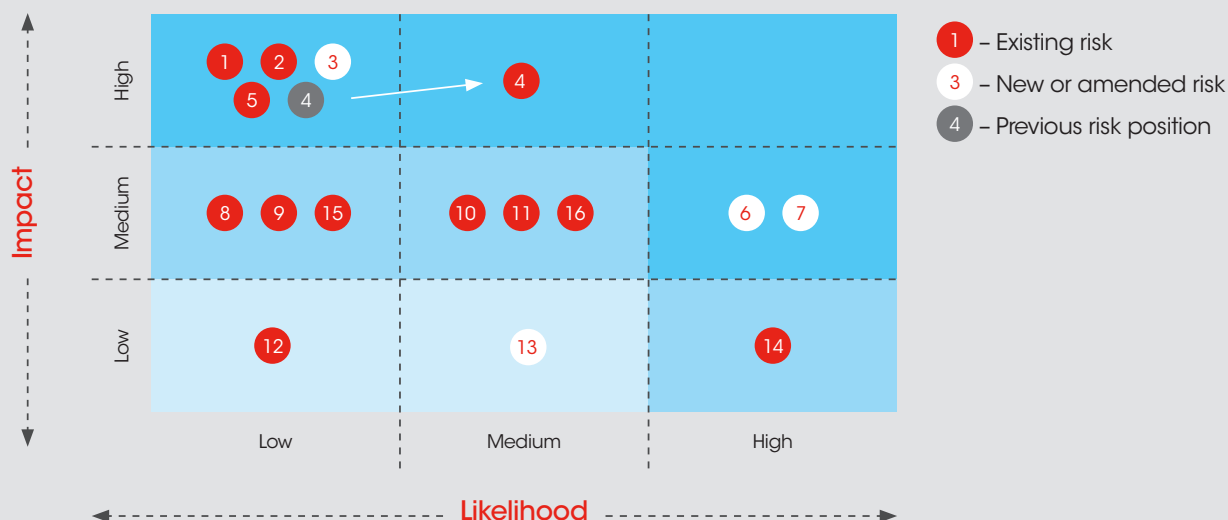
The principal risks to achievement of our strategy are:

Key risks

1	Loss of distribution contract with major brand partner
2	Significant retrenchment of credit available to customers, dealer network or Inchcape plc
3	Brand failure or major interruption to OEM operations or product
4	Major loss of confidential or sensitive data
5	Failure to extract value from acquisitions
6	Impact of disruptive technologies and/or methods of engaging the next generation of customers
7	Fluctuations in exchange rates with negative impact on financial performance

Other principal risks

8	Interruption to iPower, or major systems failure
9	Failure to safeguard our customers and employees by not consistently applying EH&S standards across the Group
10	Internal controls failure sufficient to affect reputation
11	Individual governments increasing restrictions on cross-border currency movements leading to higher incidents of trapped cash across the Group
12	Dynamic changes in local or international tax rules (e.g. changes to transfer pricing rules as a result of the OECD's Base Erosion and Profit Shifting Initiative)
13	Social, political and regulatory instability in Emerging Markets
14	Changes in legislation directly affecting customer demand
15	Non-compliance with dynamic changes in laws and regulations
16	Failure to attract, retain and develop our people



Following an in-depth review of the principal risk footprint, by the Group Executive Committee and Board, the following changes have been made during the year, to best reflect the current principal risks facing the Group.

Additions

- The Board decided to add one risk to the footprint during 2016 – ‘Fluctuations in exchange rates with negative impact on financial performance’. This reflects the experience of currency fluctuations that have affected our business, particularly the fall of sterling in H2 2016 and our transactional exposure to Japanese Yen, and the continuing uncertainty over exchange rates.

Amendment/consolidations

- The risks of ‘Brand failure globally’ and ‘Major interruption to OEM operations’ have been consolidated into a single risk as the underlying factors, the outcomes, and the mitigation plans are fundamentally the same.
- We increased the likelihood of ‘Major loss of confidential or sensitive data’ to Medium, following enhanced awareness of this risk.
- We combined the risk of ‘OEM data ownership’ and ‘Growth in new routes to market and methods of engaging the customer’ into a single risk – ‘Impact of disruptive technologies and/or methods of engaging the next generation of customers’ as the underlying factors and outcomes are fundamentally the same and mitigation plans are most efficiently addressed concurrently within the Ignite strategy.

- To reflect the instability in Ethiopia and the reach of the Russian political/economic problem, we combined into a single risk ‘Social, political and regulatory instability in Emerging Markets’.

How our footprint has changed

- The 2015 risk footprint included a risk relating to the shared service centre strategy and the increase in the number of single points of failure. This has been removed for 2016, as we have successfully completed the implementation of Shared Service Centres into our UK business. These centres are now operating on a ‘business as usual’ basis and we therefore do not believe that there is sufficient risk to be included in the principal risk footprint.

Key risks

Loss of distribution contract with major brand partner

Causal factors	Impact	Mitigating activity
Distribution and Retail contracts are fundamental to our business model. Although our brand diversification strategy is designed to mitigate this risk, an event which leads to any of these contracts being cancelled, or not renewed, will have a significant long-term impact on revenue and profit. These causal factors could include but are not limited to: – Major fraud, bribery, data security or other systemic compliance failure. – Consistent failure to deliver to targets or standards in major markets or across multiple markets. – Failure to deliver value proposition to brand partners. – Failure to deliver on growth strategy or defend our business model against new entrants. – Failure to connect with the next generation of customers.	Loss of significant contribution to revenue and operating profit. Significant impact on reputation. Cost of business interruption/closure and staff termination costs.	– High quality operational, commercial and digital standards with multi-channel assessments. – In-depth, regular performance reporting and business performance reviews. – Clear compliance and risk management framework in place (including Minimum Control Framework) to address compliance issues. – Strong anti-fraud procedures including ethics and compliance hotline. – Dedicated in-house business development function overseeing M&A and strategic direction. – Connected customers a core element of strategic direction.

Significant retrenchment of credit available to customers, dealer network or Inchcape plc

Causal factors	Impact	Mitigating activity
Another economic crash may lead to a significant constriction in global liquidity, so that funding is unavailable to Inchcape plc, floor plan financing disappears and customer credit dries up. New Vehicle sales volumes rely on our customers (both end users and dealers) being able to access affordable credit lines. Credit availability globally, whilst improving, remains uncertain and a significant retrenchment would adversely impact New Vehicle volumes. Underlying factors include: – Difficulty in securing credit for customers and floor plan financing. – Independent dealers face challenges obtaining credit. – Funding unavailable, or unaffordable, for Inchcape Group either from commercial lenders or from supplier-related funding.	Adverse impact on retail volumes. Dealers unable to finance inventory, impacting Distribution volumes.	– Maintenance of accounts with relationship banks. – Continuous monitoring of credit lines to customers and independent dealer network. – Close management of credit extended to independent dealer network including short-term support where needed. – Cash reserves maintained. – Headroom funding model to monitor cash flow.

Brand failure or major interruption to OEM operations or product

Causal factors	Impact	Mitigating activity
A major reputational disaster at one of our brand partners could lead to complete commercial failure of that partner. For example: – A major recall or similar event causes loss of product reputation and severe drop off in customer demand. – An event of sufficient significance could also affect the reputation of our brand partners to the extent that viability of that brand is affected. Interruptions to our supply chain or an event which adversely impacts the reputation of the products we sell could have a knock-on effect on our revenues, margins or reputation. Specific incidents could include: – Damage to product reputation in light of product recalls. – Significant failure in the supply chain for key components or products.	Loss of reputation of product leading to significantly reduced demand. Loss of company reputation leading to failure of brand partner. Adverse impact on supply of inventory. Adverse effect on volumes, margin and reputation.	– Internal monitoring process and response plan for major incidents. – Brand diversification strategy. – Monitoring procedures to anticipate product recalls and quality issues. – Monitoring of product recall events and continuous liaison with brand partners regarding quality/competitiveness of product line-up. – Diversification of suppliers where possible. – Incident response and business continuity plan in place. – Lobbying and communication with OEM regarding competitiveness of models.

Major loss of confidential or sensitive data

Causal factors	Impact	Mitigating activity
As a business we hold a large amount of confidential data pertaining to ourselves, as well as our customers and brand partners. Whilst we only hold and use this data for the purposes of continuously improving the customer experience, we recognise our responsibility to protect this information and preserve its integrity. Failure to protect confidential or sensitive data, whether held electronically or otherwise, could result in significant operational and reputational damage.	Impact on customer relationship and erosion of reputation. Adverse financial impact as a result of fines and sanctions.	– Clearly understood data protection standards and processes. – Global cyber security steering committee in place. – Information assets defined and security controls benchmarked to ensure best practice. – Clear IT security policies and procedures. – Minimum standards developed and implemented.

Failure to extract value from acquisitions

Causal factors	Impact	Mitigating activity
Inchcape complements its organic growth agenda by pursuing inorganic growth through acquisition. Failure to identify and acquire the right targets, and efficiently integrate new businesses into our operation will adversely impact our ability to recognise the synergies and benefits from those acquisitions.	Inefficient or ineffective use of capital. Lost revenue opportunities. Adverse impact on control environment.	– Business Development team run acquisition process. – Central synergy plan developed to inform business development activity and due diligence. – Detailed acquisition planning. – Due diligence performed in advance on all acquisitions. – Post-acquisition reviews and detailed integration processes.

Impact of disruptive technologies and/or methods of engaging the next generation of customers

Causal factors	Impact	Mitigating activity
The growth of online platforms to interact with customers presents in equal terms real opportunity to improve the customer offering, whilst at the same time presenting new risks around data protection, maintenance of standards and customer engagement through, for example, social media. Digital platforms also allow our brand partners to reach out to our customer base directly, in effect bypassing the relationship between the retailer and even the distributor in favour of a direct relationship with the customer. This may impact the quality and intensity of the relationship that we as an intermediary hold with our customers and impact our ability to drive demand and margin. Over the longer time horizon, major new competitors are likely to enter the automotive market from the technology sector as the lines between automotive and technology become ever more blurred, changing attitudes to vehicle ownership and threatening the existing Retail model.	Volume and margin are adversely impacted across our markets. Adverse impact on value of Retail sites. Reduced ability to drive demand/ margin. Loss of customer relationships and possibly reduction in loyalty.	– Connected customer a core part of strategy, including controlled use of social media as a communications channel. – Business performance reviews and regular margin monitoring. – Continuous review of operating procedures and commercial offering to ensure potential is maximised. – Continuing dialogue with OEM partners to build awareness of the commercial benefit of our involvement in the process. – Close monitoring of developments in new technologies alongside our brand partners. – Review investment opportunities in non-traditional automotive markets.

Fluctuations in exchange rates with negative impact on financial performance

Causal factors	Impact	Mitigating activity
Inchcape has a broad geographical footprint and therefore many of our subsidiaries operate with functional currencies that are not GBP. Given recent economic and political events, coupled with continuing uncertainty over the strength of the global economy, we have seen increasing volatility in currency rates over the course of 2016.	Negative transactional impact on trading profits. Adverse translational impact on profitability.	– Centralised Group Treasury function responsible for ensuring that foreign currency exchange risks are identified and managed. – Hedging of net currency flows. – Geographically diverse operations.

Viability statement

The Group's business model and strategy are outlined on pages 2 and 15 and the long-term viability of the Group is intrinsically linked to delivery of this strategy and the cash-generative nature of this business model.

It is in the nature of our business that our continued viability is dependent upon the continuation of our relationships with Original Equipment Manufacturers (OEMs). Based on the longevity of our relationships shown below, it is reasonable for us to expect that, when viewed across a three year time horizon, a sufficient number of those contracts will be renewed, such that the Company will continue in viable operation.

In seeking to become and remain the OEMs' partner of choice, we expect to continue to build on the long-term strategic relationships we have developed with our OEM partners over the years to grow our businesses together over a far longer timeframe.

The plans and projections prepared as part of the Group's annual strategic planning process consider the Group's cash flows, committed and uncommitted funding positions, forecast future funding requirements and lending covenants.

As a component part of the strategic planning process, the Board adopts a rigorous approach to the identification of the principal risks facing the Group and to the monitoring of the actions taken to mitigate these risks as outlined in this Report.

The Board has prioritised a subset of these principal risks for the purposes of assessing the longer-term viability of the Group. The three risks modelled for the purpose are:

- the loss of distribution contract with major brand partner;
- brand failure or major interruption to OEM operations or product; and
- a significant retrenchment of credit available to customers, dealer network or Inchcape.

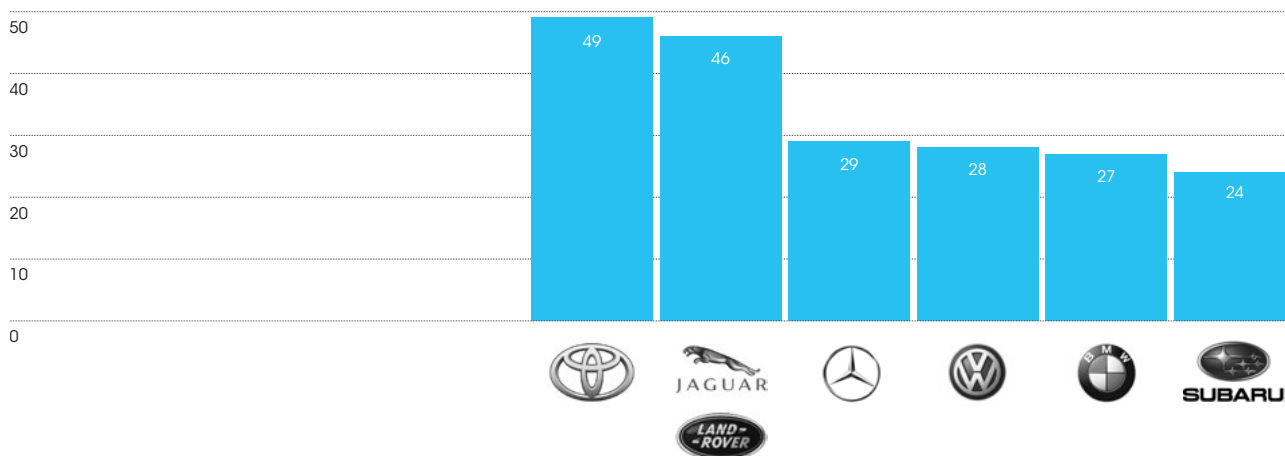
Sensitivity analysis is undertaken to stress-test the resilience of the Group and its business model. For the purposes of viability testing we modelled both the loss of a distribution contract with a major brand partner and the failure or major interruption to OEM operations or product. The third risk, liquidity/credit shock, has been modelled as a sensitivity on top of both of these risks.

The recent successful refinancing of the Group, both in the US Private Placement market and through our syndicate of relationship banks, coupled with the existing cash-generative nature of our business model, combine to generate sufficient cash flow headroom under the extreme scenarios tested.

On the basis of an assessment of the critical risks, and on the assumption that the principal risks set out on pages 34 to 37 are managed and mitigated in the ways described, and based on the Board's review of the strategic plan, and the results of the sensitivity analysis undertaken, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2019.

OEM relationship

No. of years



Building a trusted business

In 2016 we launched Ignite, our new strategy centred on trust. This launch provided an opportunity for us to review and align our corporate responsibility (CR) approach and initiatives to our strategic purpose, and embrace CR as a critical business process. We believe that this re-focus of our CR strategy will enable the delivery of our five key objectives and ultimately supports our vision to become the world's most trusted automotive Distributor and Retailer.

Through this review we have identified five major CR priorities that will underpin our trust ambition and enable the delivery of our strategy:

1. Growing sustainable talent

Leveraging our capability and best practices to accelerate our growth.

2. Driving a Health and Safety culture

Adopting global standards and processes for Health and Safety.

3. Building sustainable communities

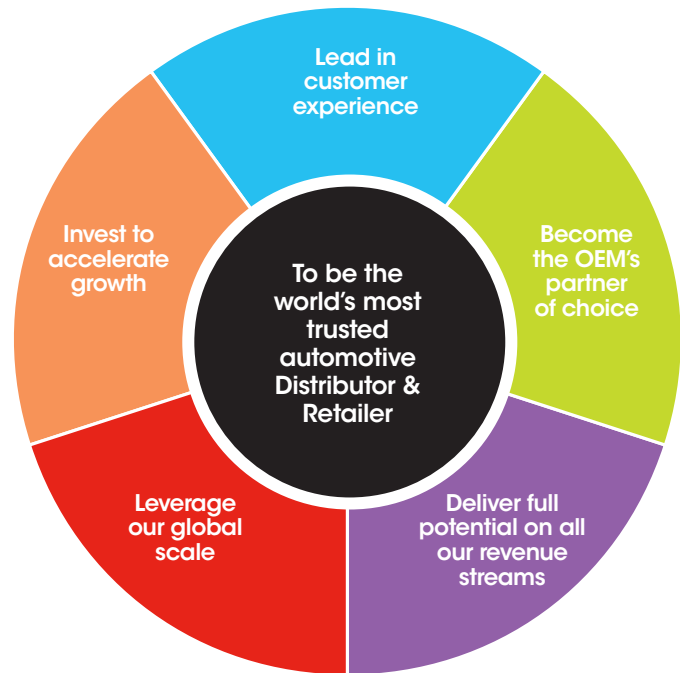
Working with our local communities to make a difference.

4. Listening to our customers and OEM brand partners

Continuing to forge trusting relationships through listening.

5. Managing our business sustainably

Measurement and management of carbon emissions for our global business.



Governance

CR at Inchcape is governed by the CR Committee which meets twice annually, and is supported by a Group operational team and a network of CR champions across our portfolio of 29 markets. The CR Committee is chaired by Till Vestring, Non-Executive Director, and its members are Inchcape's Chairman, Ken Hanna, Non-Executive Director Coline McConville, Group CEO Stefan Bomhard and Chief Human Resources Officer, Alison Clarke.

Maintaining a robust and transparent approach to CR is important for the long-term sustainability of our business, and we take our responsibilities towards all our stakeholders and the world at large seriously. The next few pages contain some of the ways in which we try to make a positive difference at Inchcape.

Read the CR Committee shareholder letter on page 56

1. Growing sustainable talent

In the first half of 2016 we conducted a global talent review of the top 200 senior leaders, the people that are responsible for driving performance for the business across our 29 markets. The aim of the review was to understand the strength and depth of the capability of our people, to ensure we have the right resource in the right place to deliver our strategic priorities.

The outcome of this review provided insights on how we can leverage our global capabilities. In light of these insights we have created a global succession plan for our senior leaders, and created a training and development framework to maximise the contribution of all of our employees. We have also made a number of promotional moves around the world to share best practice across our markets.

The review has also provided the opportunity to set new performance expectations, behaviours and values for all of our people through the design of our new performance and talent framework called DRIVE5.

Case study: Technicians

In the UK we have set ourselves the goal of becoming 'the employer of choice within the motor industry' for technician talent. We held a number of focus groups with technicians across the country to understand their key drivers of engagement, covering every element of their career within Inchcape including reward, recognition, communication and development. Feedback and learning from the focus groups will result in a significant re-design of all elements of our reward, incentive and recognition programmes in 2017.

In Ethiopia, we run an 'Apprentice Technician Programme'. This involves selecting candidates from well-known technical schools for a two year on-the-job training programme, partnering them with more experienced technicians. After two years they are evaluated and, subject to vacancy, are then recruited as Junior Technicians on a permanent basis. Further, all our technicians develop and progress through the Company as they gain experience, which helps with retention and supports our internal succession planning. As a result, we do not recruit senior technician roles from outside the Company. In 2016 we had 88 trainee technicians in our Ethiopian operations, 46 of whom started with the Company in 2015.

This framework was developed using inputs from colleague and customer focus groups, and incorporates our OEM brand partners' existing frameworks of skills and behaviours to ensure we can deliver against all our stakeholders' expectations in support of our trust ambition.

DRIVE5 is being rolled out across the Inchcape Group in a series of workshops by our executive leadership team and is designed to ensure that all our employees are aligned with and capable of delivering our strategy. We believe this will step-change our performance for all of our stakeholders.

In 2016 we also undertook a review of our technician programmes to ensure we have the best technical capability available in our markets and as a result we have strengthened our apprenticeship programmes.

Case study: Sunday Times Best Companies to Work For

At Inchcape we continue to measure and focus on the engagement and commitment of our employees. In 2016 Inchcape UK, using an external benchmarking review, entered The Sunday Times 'Best Companies to Work For'; the Company was awarded first place in the Times Top 25 Big Companies to Work For, having risen from eighth place in 2015. A cross-section of employees was surveyed by Best Companies and the results showed how employees feel about working for Inchcape UK as an organisation; the support with which they are provided and the development they receive was considered to be amongst the best. While we are proud of this recognition, more importantly we take it as an encouragement to strive for further improvements in our practices and our culture.

2. Building a Health & Safety Culture

We believe that health, safety and well-being are critical contributors to our future commercial success. We care about our people and customers and are committed to the promotion of safe, healthy behaviours and practices to help them avoid illness or injury whilst on our sites or in our care. Our ambition is for zero avoidable safety incidents, and we believe we will achieve this by continually

challenging our existing efforts, building on existing best practices and committing resource and investment where needed.

In 2016, we identified the need to move on from simply managing health and safety and instead focus on developing a 'Health & Safety Culture' across the Group.

We identified the following criteria to assess our current state and undertook a detailed review of all countries' performance against these elements:

- management focus and culture
- policy, procedure and practice
- resources, training and competence
- compliance, reporting and monitoring
- incident management

In each case the review was driven by the country head, demonstrating top level ownership. Following the review, the Group Executive Committee identified specific action plans for every country developing new policies and practices to achieve our newly defined standards that were developed in partnership with our brokers. These global standards and processes will help us to achieve our objective of becoming the world's most trusted automotive Distributor and Retailer.

From that work, we identified leading Health & Safety practices for Inchcape to continue to pursue:

- develop and maintain a safety first culture across our business with demonstrable leadership
- maintain a consistent standard across all of our markets which meets or exceeds local regulations
- ensure that all of our staff understand and embrace the right practices and behaviours
- ensure we are devoting sufficient resources to identifying and addressing safety concerns
- build awareness of Health & Safety risks through training and employee development
- identify and act upon hazards and incidents proactively
- help us learn effectively from our mistakes when incidents do occur to prevent future recurrence

Globally we have also identified three key areas of focus to deliver these objectives:

- Regular internal inspections alongside independent assessment with clear action planning assessed against our scorecard KPIs
- Best practice sharing to leverage our global scale
- Centre of excellence to further improve global Health & Safety standards wherever we operate

Progress against country and global action plans will be measured and reviewed regularly at iPOM committee meetings. See page 33 for more information on the iPOM Committee.

Case study: Australasia

Health & Safety performance (to year ending 2016) resulted in Australasia achieving greater than three years 'lost time injury free', which means that no employee has been injured and not been able to return to work within the same day.

As a result of changes to H&S practices, Australasia has saved AUS\$6.4 million on workers' compensation premium costs over a period of four years.

At the end of 2016, 70 key managers have been credited with tertiary qualifications in work Health & Safety. Training was run in-house from the Health & Safety department who are government accredited, resulting in an internal community of H&S professionals.

3. Building sustainable communities

Inchcape aspires to support and develop the communities in which it operates. Working with our local communities makes business sense and supports our strategic vision by generating trust for the brand.

Working with local charities is a great way to get involved in communities, understanding what's important to them and the challenges they face. Charitable work also builds employee engagement, empowering colleagues to make a difference and support causes close to their hearts. In line with this, every year colleagues from each Inchcape country or region vote for a charitable cause to support over the year.

The short case studies that follow demonstrate some of the ways in which our colleagues fulfil this important aspect of our business.

Case study: MCRC, Ethiopia & Head Office

Inchcape is the distributor for Toyota in Ethiopia. The organisation is called MOENCO and is run by Chris De Muynck. When they arrived in Ethiopia, Chris and his wife Jutta were moved by the poverty in the local area and decided to help the community by setting up the Mother and Child Rehabilitation Centre to provide food, shelter, education, medical care and therapy for disadvantaged children from Addis Ababa and its surrounding areas. In 2016, Inchcape's Head Office in London adopted MCRC as its charity partner, raising over £2,200 from employee fundraising, as well as a corporate donation of £25,000. This was added to nearly £80,000 donated by MOENCO over the course of the year. The Group Executive Committee visited the centre to learn more about the operation, meet some of the children and present Jutta De Muynck with the funds raised.

Case study: Macmillan, UK

With a very high proportion of people diagnosed with or otherwise personally affected by cancer, the UK team selected Macmillan Cancer Support to work with in 2016. Having had a very successful and highly engaging year working in partnership with Macmillan, they have now extended this for a further year in 2017. During the past year employees from all over the country played a very active part in cycling events, fun runs and bake-offs which managed to raise £74,000 for the charity. Macmillan Cancer Support is delighted and so are our teams.

Case study: Singapore Children's Society, Singapore

In August 2016, we renewed our long-term partnership with Singapore Children's Society, which seeks to provide support on three fronts: fund raising and donations, career placement for beneficiaries and employee volunteering. In November Borneo Motors, Inchcape's Singapore business, co-sponsored the 27th Toyota Classics 'Music that Moves Lives' charity concert. Through this sponsorship the Company donated SGD\$100,000, and over the course of the year donations totalled nearly SGD\$320,000.

As well as working proactively with charities, Inchcape's market operations have also mobilised to assist when communities are affected by natural disasters.

Case study: Thailand floods

In December 2016, southern Thailand was hit by severe flooding, destroying homes and displacing thousands of families. Our team from Jaguar Land Rover in Bangkok mobilised a fleet of Land Rover and Range Rover vehicles to distribute 1,000 cases of bottled water and other much needed supplies to stricken villages and a school.

Mr. Charnchai Mahantakhun, Inchcape Thailand's JLR Managing Director, said: "We planned on being the givers on this trip but I feel that we received more than we gave. We learned about the lives of the villagers, and we saw the smiles of our team members and of the villagers affected by the flood."

4. Listening to our customers and OEM brand partners

We believe that the sustainability of our business relies upon honest and trusting relationships with all stakeholders. Creating a relationship built upon trust with our customers means listening to and understanding their needs, and then working in close partnership with our OEM partners to enable us to improve what we do every day.

We have spent much of 2016 listening to our customers to inform and help to shape how we can better interact with them, ensuring that the Ignite objective to Lead in Customer Experience becomes a reality. This year we listened to 5,000 members of the car-buying public right across our global network, getting feedback on their experiences, what we are good at and areas where they wanted us to improve.

The insights from these interviews and surveys underpin our plans to continue to provide leading customer experience.

Our interaction with customers extends beyond strategic projects however. We continue to receive many hundreds of positive contacts from our customers each year, by letter, email and telephone, and many of these have been featured and fed back to the whole Company through our weekly internal emails highlighting customer service. This is

an initiative that we are looking to evolve during the year in line with the Ignite customer experience strategy.

5. Managing our business sustainably

This has always been a focus for Inchcape, but this year we have reviewed our approach to strengthen measurement and management of carbon emissions around the world. To support us in this review we engaged the Carbon Trust, independent specialists on carbon reduction and resource efficiency.

The first part of the review involved engaging 25 individual regional contacts to improve data sources and standardise collection processes. Following their feedback, a bespoke and easy-to-use carbon 'footprint tool' was developed by the Carbon Trust, which integrates reporting across all international operations. The tool is aligned with best practice reporting guidance under the Greenhouse Gas Protocol Corporate Standard, as well as meeting the mandatory non-financial reporting requirements on greenhouse gases for listed UK companies. The new carbon footprint tool has been rolled out globally with a series of training webinars and the data for 2016 has been captured under the new system.

Through putting in place a state-of-the-art carbon accounting system Inchcape can gather credible and robust data on key impact areas such as site energy use, logistics and staff travel. As well as improving the quality of environmental reporting, when analysed this can reveal opportunities for greater efficiency and cost saving across our global operations. It allows for benchmarking against competitors and provides a unified framework for driving continual improvement across multiple regions.

The GHG Inventory stated in the table below for the current and previous years has been adjusted and re-stated to ensure consistency with the existing protocols. This change in representation has been made following the review of carbon accounting processes undertaken in the last year as described here.

Building on this work, Inchcape is now working with the Carbon Trust to look at the opportunity to set a science-based target for carbon emissions reduction. This would ensure that operations are directly aligned with the reductions that the best available science says will be necessary to keep global warming well below 2°C above the pre-Industrial average. This will put Inchcape within a small and exclusive group of sustainability leaders – currently numbered at just over 200, including some of the world's largest companies – that have committed to objectively adequate goals on addressing climate change.

Reviewing our approach to corporate responsibility has helped us to improve our focus on the issues and provide greater clarity in our reporting. We have evolved our strategy and aligned it with our strategic objectives; our five CR priorities build on the successful initiatives of previous years, but this tighter alignment to our business strategy will refine and sharpen the impact of our initiatives, and we will be able to demonstrate clear, measurable business outcomes as a result.

We look forward to reporting further on our progress in corporate responsibility in next years annual report.

GHG Emissions

	Total emissions (tonnes CO ₂ e)		
	Year ended 31 Dec 2016	Year ended 31 Dec 2015	Change in Emissions
Scope 1 and 2 emissions			
Scope 1 (Direct emissions from combustion of fuels and operation of facilities)	11,760	13,000	-10%
Scope 2 (Electricity, heat, steam and cooling purchased for own use)	44,795	49,360	-9%
Total scope 1 and 2 emissions	56,555	62,360	-9%
Operational Emissions Intensity			
Intensity Metric – Total Revenue (£m) ¹	7,838	6,836	+15%
Total scope 1 and 2 emissions (tonnes CO ₂ e)	56,555	62,360	-9%
Scope 1 and 2 emissions per £m (tCO ₂ e/£m)	7.2	9.1	-21%

¹ Stated at actual rate.

A trusted team



Standing: Left to right – Richard Howes, Coline McConville, Rachel Empey, Nigel Stein, John Langston, Nigel Northridge, Till Vestring, Alison Cooper
Seated: Left to right – Ken Hanna, Stefan Bomhard



Full biographies, including past employment history, can be found on www.inchcape.com

Ken Hanna

Chairman

Appointed: September 2001

Skills and experience:

Ken has extensive international financial experience gained in a number of business sectors. He also possesses strong leadership and governance skills obtained in a variety of leading UK plc's, including Cadbury plc and Aggreko plc.

Other appointments:

Chair of Aggreko plc.

Committee membership:

Chair of the Nomination Committee, member of Remuneration and CR Committees.

Stefan Bomhard

Group Chief Executive

Appointed: April 2015

Skills and experience:

Stefan has senior level experience gained in a wide range of retail and FMCG businesses. Prior to joining the Group, he was President of Bacardi Limited's European region and was also responsible for Bacardi's global commercial organisation and global travel retail.

Other appointments:

Non-Executive Director of Compass plc.

Richard Howes

Chief Financial Officer

Appointed: April 2016

Skills and experience:

Richard has a wealth of experience across the financial and commercial sectors, working for multi-site businesses with substantial global footprints. He joined the Group from Coates plc where he was Chief Financial Officer.

Richard is a chartered accountant.

Alison Cooper

Non-Executive Director

Appointed: July 2009

Skills and experience:

Alison is Chief Executive of Imperial Brands plc and since her appointment in 2010 has led the development and implementation of Imperial's sustainable growth strategy. Alison also has financial and commercial experience gained from a number of senior roles she has held since she joined Imperial in 1999.

In January 2017, we announced that Alison would retire from the Board at the end of February 2017.

Alison is a chartered accountant.

Committee membership:

Audit and Nomination Committees.

Rachel Empey

Non-Executive Director

Appointed: May 2016

Skills and experience:

Rachel is Chief Financial Officer of Telefonica Deutschland and is also responsible for strategy and innovation. She led the largest IPO in Europe in 2012 to take Telefónica Deutschland public and has experience in technology, finance and strategy.

Rachel is a chartered accountant.

Committee membership:

Audit and Nomination Committees.

John Langston

Non-Executive Director

Appointed: August 2013

Skills and experience:

John has corporate finance, accounting and international experience acquired in senior financial roles in the engineering sector. He is an experienced Non-Executive Director who has a strong governance background and was the Audit Committee Chair of Rexam PLC until its sale to Ball Group in 2016.

John is a chartered accountant.

Committee membership:

Chair of Audit Committee and member of Nomination Committee.

Coline McConville

Non-Executive Director

Appointed: June 2014

Skills and experience:

Coline has a wealth of strategy, consultancy and communications experience gained in a variety of senior roles. Coline also has extensive remuneration experience as the Remuneration Committee Chair of Travis Perkins plc and Fevertree plc and of TUI Travel plc until its merger with TUI AG. Coline is an experienced Non-Executive Director and has served as a director on several UK boards.

Other appointments:

Non-Executive Director of Fevertree Drinks plc, Travis Perkins plc and a

member of the supervisory board of TUI AG.

Committee membership:

Chair of Remuneration Committee and member of Nomination and CR Committees.

Nigel Northridge

Senior Independent Director

Appointed: July 2009

Skills and experience:

Nigel brings international and commercial experience acquired across a number of sectors. He is an experienced Non-Executive Director and has served as a director on the boards of several large UK and global plc's.

Other appointments:

Chairman of Hogg Robinson plc and Vice-Chairman of Scandinavian Tobacco Group A/S.

Committee membership:

Remuneration, Audit and Nomination Committees.

Nigel Stein

Non-Executive Director

Appointed: October 2015

Skills and experience:

Nigel became Chief Executive of GKN in January 2012. He has a wide range of international, general management and finance experience gained in various roles at GKN plc and also has experience in the automotive and manufacturing sector.

Nigel is a chartered accountant.

Committee membership:

Audit, Remuneration and Nomination Committees.

Till Vestring

Non-Executive Director

Appointed: September 2011

Skills and experience:

Till is a Senior Partner with Bain & Co, based in Singapore. He has extensive experience advising multinationals on growth strategy across Asia and leading Asian companies on strategy, M&A and organisation.

Other appointments:

Non-Executive Director of Keppel Corporation.

Committee membership:

Chair of CR Committee and member of Remuneration and Nomination Committees.

Creating long-term shareholder value



Dear Shareholder

On behalf of the Board, I am pleased to present Inchcape's Corporate Governance Report for the year ended 31 December 2016. This year, routine disclosures required under the UK Corporate Governance Code are detailed in the Compliance Report on pages 82 to 86 which should be read in conjunction with this report.

I am pleased with our ability to grow profit and achieve robust cash generation in 2016. The Ignite strategy has already delivered meaningfully and positions us well to adapt and find growth opportunities as the automotive industry evolves. We have a strong platform for future growth across our markets and revenue streams, enabling Inchcape to deliver sustainable returns for our shareholders.

Inchcape's long-term success will draw on our strength as the only independent multi-brand automotive Distributor and Retailer with global scale. The Group has long-standing and multi-country relationships across our OEM partners. The ability to expand with our partners in 2016 into new and existing growth markets is testament to the strength

of our relationships and the Ignite objective of becoming the OEM's partner of choice. Our global scale and expertise also creates opportunities to fully leverage our strategic assets and drive growth from all of our revenue streams. I am encouraged by the results in 2016 to deliver in these areas and confident in the management team to continue our long-term track record of growth and success for our stakeholders.

The acquisition of the business in South America and the expansion into Thailand were great achievements for the Group and clearly demonstrate the success of the Ignite strategy, and I would like to take this opportunity to welcome the new colleagues to Inchcape. As you will see from Stefan's CEO report and Richard's CFO report on pages 6 to 31, the Group, despite challenges in some markets, has delivered good earnings growth in 2016.

We, as a Board, feel that the Ignite strategy which has been developed during the last 18 months puts the Group in a good position to grow our business in a competitive global market.

Changes to the Board

The last two years have seen several changes to the Board. During the year, Richard Howes joined as the Chief Financial Officer and Rachel Empey joined as a Non-Executive Director. In January 2017 we announced that Alison Cooper will stand down at the end of February 2017 after nearly eight years as a Non-Executive Director. I would like to thank Alison for her valuable contribution. In March 2017 we announced the appointment of Jerry Buhlmann as a Non-Executive Director. Further information on the succession planning and recruitment process can be found in the Nomination Committee Report on pages 54 to 55.

In addition to an effective Board, it is important to have the right key management in place to deliver the Group's strategy. Whilst the Nomination Committee usually has responsibility for reviewing and monitoring the succession planning of the Group Executive Committee, the full Board reviewed the global talent plans at the July and December meetings and is confident that the team is well placed to deliver the Ignite strategy. Further information on the Group Executive Committee can be found on page 9 and information on the global talent review can be found in the CR Report on page 40.

Board activities

As part of the Board's annual planning process, the Board agreed to carry out a 'deep dive' on one strategic objective of the Ignite strategy at Board meetings throughout the year. The purpose is to enable the Board to review strategy on a continuous basis rather than as a once a year event. It also frees up time on the annual strategy day for the Board to focus on key issues such as disruptive trends facing the industry and the risks and opportunities associated with the Ignite strategy.

In addition to the regular agenda items such as the CEO, CFO and Investor Relations reports, and the monthly performance report, the Board also debated certain key issues shown on the table on page 48. During the year, the Board approved a new Group Tax Policy applicable to all entities within the Group. In addition and in accordance with the requirements of the Finance Act 2016 in the UK, a formal tax strategy statement has been published on the Group's website www.inchcape.com.

Board evaluation

This year, we carried out an internal Board evaluation which consisted of a comprehensive questionnaire covering oversight responsibilities, Board effectiveness, the performance of the Chairman and

the operation and effectiveness of the Committees. The results were analysed by the Company Secretary and the findings were presented to the Board in February 2017.

The evaluation showed that the Board is functioning well and the issues of concern raised last year, specifically succession planning and the CR Committee, had significantly improved during 2016. The evaluation did not show any areas of significant concern for the Board. However, we will continue to review the Board and Committee processes during the year to ensure that they are functioning well. The Board evaluation in 2017 will be an externally facilitated review.

Dividend

The Board is pleased to recommend payment of a final dividend for the year ended 31 December 2016 of 16.8p. This gives a total dividend for 2016 of 23.8p, a 13.9% increase on 2015 (20.0p). Subject to approval at the Annual General Meeting on 25 May 2017, the final dividend will be paid on 23 June 2017 to shareholders of the Company on the register of members at the close of business on 19 May 2017.

Outlook

Inchcape has a good track record of growth and from the focus on the Ignite strategic objectives, coupled with our strong fundamentals, a platform for future growth from our global portfolio of markets and diversified revenue streams. The acquisition of the Subaru and Hino Distribution businesses in a number of markets in South America at the end of 2016 provides us with an opportunity to grow our Emerging Markets operations in 2017.

The Group has identified opportunities to better leverage our scale in some of our regions and respond to slower market conditions in some markets. This action will protect our profitability as well as our future potential to compete and win. The outlook for Inchcape remains one of growth and the ability to drive robust returns for our shareholders and success for our stakeholders across the business.

Finally, I would like to thank the Board members, the management team and all Inchcape colleagues for their hard work and dedication during 2016.



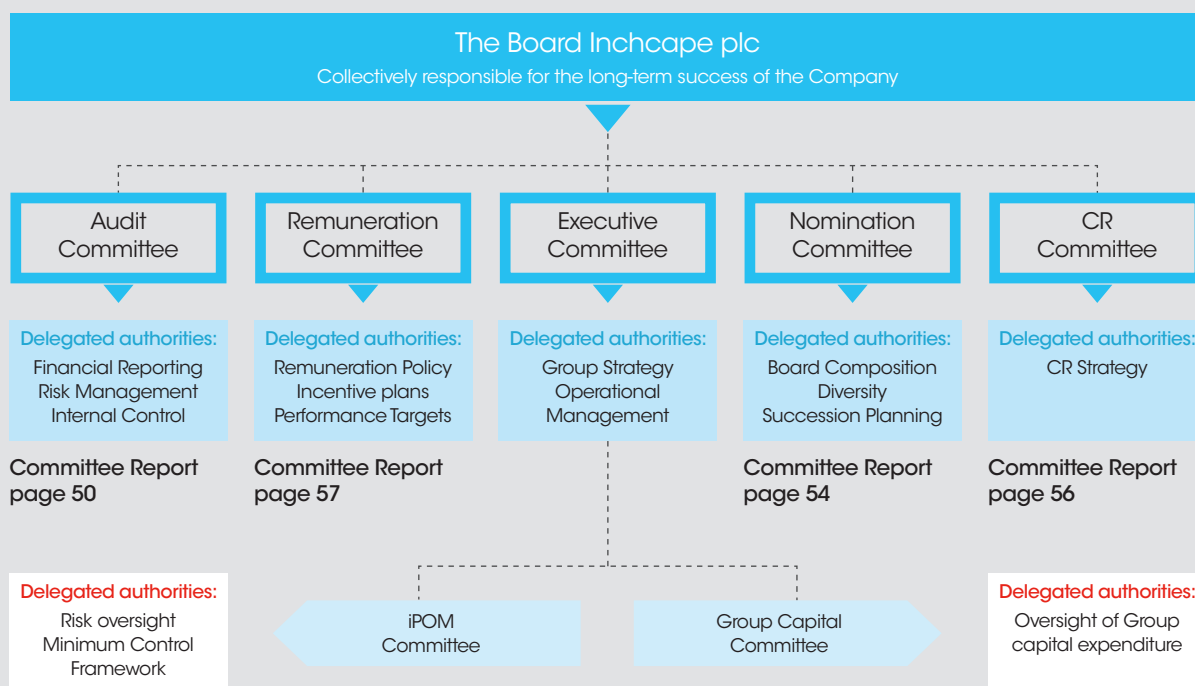
KEN HANNA
Chairman

Statement of Code Compliance

The Company was compliant with the provisions of the 2014 UK Corporate Governance Code throughout the year. Details of compliance with Code C3.7 are given in the Audit Committee Report on page 53. The Code can be found on the FRC's website www.frc.org.uk

The information required under DTR 7 is given on pages 44 to 86 and forms part of this report.

Governance structure



Board meeting

Key activities

January	Viability statement, Corporate Governance Review
March	2016 Budget, full year results, Annual Report & Accounts, final dividend, risk review Ignite strategy – Lead in customer experience
May	AGM, iPower review, Market Abuse Regulations update and training for Board Directors, 3+9 review Ignite strategy – Leveraging our global scale Ignite strategy – Invest to accelerate growth
July	Interim results, interim dividend, share buy back, talent planning Ignite strategy – OEM partner of choice
October	Overseas visit to BMW Poland Annual Strategy Review
December	2017 Budget, talent planning, ADR scheme, tax policy, Board evaluation



personalities, perspectives, and the independence that a really diverse Board team can bring are hugely valuable, particularly in key strategic decision-making and to help businesses evolve, grow and transform in a fast-changing world.

What skills and experience do you bring to Inchcape?

I would like to think that I bring one of the different perspectives that I mentioned earlier. My key executive experience is in the telecoms sector, where we have seen significant disruption and digitalisation in recent years that has evolved and changed markets and businesses. I try to bring these experiences and perspectives to the Board debates to help shape Inchcape's strategy. I have also had significant capital markets and M&A experience, as well as being an experienced listed company CFO, so hope that I can support these specifics as part of Inchcape's development.

Interview with Rachel Empey

What attracted you to the NED role at Inchcape?

Inchcape really appealed to me because of its global nature, in an industry where I have always had a very strong personal interest. At the same time a varied business model, operating in some very diverse parts of the world, and a business that will see significant changes/innovations and digitalisations in the coming years. Finally, a very prestigious, successful business that has ridden many financial cycles and successfully reinvented itself and maintained a very high reputation.

What benefit do you think NEDs add to Board discussions?

I think that NEDs bring a unique perspective to Board discussions and Company strategy. The breadth of

What aspect of the induction programme provided the most insight into Inchcape?

I have found the induction programme at Inchcape very helpful in getting me up and running as a new Board member. I think that it is important to quickly understand the basics of the business model, and what makes the business tick, as well as having a feeling for the culture of the business.

For me, the most important perspectives came from the opportunity to meet a wide range of the Inchcape team on a one-to-one basis, as well as the chance to complete site visits to get a feel for the customer experience first-hand. An experience of the brand and real-time service is invaluable in understanding where the business is and how it might move forward.

Overseas Board meeting and annual strategy review

In 2016, the Board visited Inchcape Poland for its annual strategy day during which the Board discussed:

- Progress of the Ignite strategy
- Observations on changes in automotive market outlook
- The disruptive trends facing the industry
- Implications for the strategic plan and financials

The review of the Ignite strategy also included discussion on the key considerations for each strategic objective and the risks and opportunities associated with the disruptive trends, during which the Board agreed the risk appetite for the Group and where the Group should focus its response.

The visit included a trip to the BMW dealership in Warsaw where the Board was able to meet colleagues at both the BMW and MINI showrooms as well as the office team. The business was named best BMW F&I dealer of the year for the ninth consecutive year.





JOHN LANGSTON

Chair of the Audit Committee

Committee members

Alison Cooper – left February 2017

Rachel Empey – joined May 2016

Nigel Northridge

Nigel Stein

Dear Shareholder

I am pleased to present the report of the Audit Committee for the year ended 31 December 2016. This year, certain disclosures, including how the Committee has complied with the UK Corporate Governance Code, are detailed in the Compliance Report on pages 82 to 86 which should be read in conjunction with this report.

It is the role of the Audit Committee to look to ensure the integrity of the financial reporting and audit processes, to check that sound internal control and risk management systems are in place and review their effectiveness, to review the Group's whistleblowing procedures and to ensure an appropriate relationship with the auditor.

2016 was a year of transition with the previous Finance Director departing at the end of February and Richard Howes joining as Chief Financial Officer in April 2016. The change was managed well internally and the high level of diligence shown by management was maintained throughout the transition.

I am also pleased to report that the Group received a 'no response' letter from the Conduct Committee of the Financial Reporting Council ("FRC") in respect of the review of last year's Annual Report and Accounts. The letter confirmed that there were no questions or queries the FRC wished to raise with us, but they did note a number of matters where they believed that the Report and Accounts could benefit from improvements in disclosures. We have taken their guidance into account when preparing the 2016 Annual Report and Accounts and we hope the amendments add clarity for shareholders.

The key activities of the Committee are given in the table below and the following pages set out the work carried out by the Committee during the year and the key decisions made.

The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

Financial reporting

The Committee monitors the integrity of the financial statements by:

- Assessing and reviewing the final and interim results
- by reviewing supporting papers and assessing key disclosures to ensure adequacy, clarity and completeness.

Committee meeting	Key activities
March	Annual Report & Accounts including going concern, viability assessment, financial review, and financial statements External auditor report, auditor independence review
May	Internal controls review, external auditor effectiveness, cyber security review, warranty review
July	Interim results including accounting judgements and going concern External auditor report, 2016 Audit Plan, Chile update
November	Inventory and financing review, impairment testing review, treasury policy review, external audit tender, 2017 Internal Audit plan, review of response to FRC letter on disclosures, review of terms of reference and committee membership

- Considering key audit issues, accounting treatment and judgements – by assessing information presented by management to ensure issues have been dealt with appropriately.
- Challenging management on the assumptions and judgements that had been applied – including the assessment of viability given on page 38 and going concern given on page 80.

In addition to the significant issues considered by the Committee which are given on page 52, the Committee also considered the following matters for the year ended 31 December 2016:

- Cyber security and readiness for the General Data Protection Regulation in May 2018; and
- Global warranty processes and associated controls.

Further information on financial and business reporting is given on page 84 of the Compliance Report.

Risk management and internal control

The Committee regularly reviews the progress of the Minimum Control Framework ("MCF") which was introduced to raise and continuously improve controls and incorporate internal and external best practice throughout the Group and to minimise financial risk. Further detail is given in the significant issues on page 52.

The Committee receives regular reports from PwC and Group Internal Audit. The reporting process is designed to enable the Committee to ensure that the Company maintains a sound system of internal controls and to satisfy itself that the control environment is as accurate, efficient and effective as possible. The Committee reviews, monitors and assesses the implementation of MCF, any control gaps identified and the mitigation plans put in place by management.

The risk management process and findings are also reviewed by the Committee and further details, along with the principal risks facing the Group, are given on page 34. Further information on internal control and the risk management system is also given in the Compliance Report on pages 84 to 85.

Internal audit

All work carried out by Group Internal Audit is influenced by the risk footprint and the Committee reviews the underlying factors to assess the quality of mitigating actions against the Group's principal risks.

The Committee does this by:

- Reviewing and approving the Internal Audit Plan on an annual basis – to ensure that the approach, coverage and allocation of resources are appropriate.
- Monitoring progress against the plan throughout the year – to review control gaps identified.

- Reviewing and approving any remediation plans to be implemented by management – to ensure that they are robust.
- Receiving regular updates on all reports made to the InConfidence whistleblowing service – to ensure the issues raised are being dealt with and considered at the appropriate level.

The Group Audit Director attends every Audit Committee meeting and also meets with the Audit Committee without the presence of management to discuss the findings of the Group Internal Audit team.

External audit

Auditor effectiveness and independence

The Committee reviewed the effectiveness of the external audit during the year by:

- Monitoring the implementation and fulfilment of the audit plan.
- Reviewing and assessing the auditor reports on the significant accounting judgements.
- Reviewing the level of support and service provided by PwC.
- Reviewing the results of the external audit effectiveness survey.

The Committee satisfied itself that PwC remains independent and objective by:

- Reviewing the safeguards operating within PwC.
- Considering PwC's Independence Report presented to the Committee.
- Assessing the level and type of non-audit services provided by PwC.

The Committee is satisfied that PwC is independent, objective and effective. It reached this conclusion by reviewing PwC's internal control procedures, its reports to the Committee and the challenges it made to management's treatment and findings on key accounting issues. The review included consideration of PwC's confirmation that it remained independent and objective within the context of applicable professional standards. The current audit partner has been in place for two years.

The Audit Committee reviews the effectiveness of the external audit process on an annual basis. To assist the Audit Committee, PwC asks management to complete an annual assessment to enable PwC and the Committee to understand performance on the audit and to help improve the quality of PwC's service to the Group.

Significant issues

The following issues were identified by the Committee as being significant in the context of the financial statements or as matters of significance to the Group and were debated by the Committee during the year.

Inventory & Financing (see note 17 on page 127)	<i>The issue and management's view</i> Management presented to the Committee a review of levels of inventory across the Group; the ageing profile; the level of provisioning; and the financing structures in place. The Committee reviewed inventory levels, ageing and provisioning by market. The Committee also reviewed details of the financing provided both by OEMs and third parties with a focus on liquidity and interest rate risk as well as the specific control environment. <i>Conclusion reached by the Committee</i> The Committee concluded that the controls in place supporting inventory ageing and provisioning were appropriate and functioning effectively. Further, the Committee concluded that the inventory financing facilities in use are an effective and efficient way of managing working capital across the Group and that their use is effectively controlled. The Committee agreed with management that despite no history of withdrawal, even through the global financial downturn, ultimately these facilities are uncommitted. As a consequence, the Committee agreed that the Group maintain cash and undrawn committed facilities to cover at least 25% of total inventory financing as a form of protection against the unlikely event that the uncommitted lines are withdrawn with limited notice. <i>Rationale for the Committee's conclusion</i> The Committee reviewed detailed supporting data including a number of scenario models demonstrating the implications of financing stress tests.
Asset Impairment (see notes 11 and 12 on pages 120 to 122)	<i>The issue and management's view</i> Management presented a detailed overview of impairment testing to the Committee covering goodwill; a number of properties; and the capitalised assets associated with iPower. The Committee reviewed and challenged value-in-use calculations, sensitivity analysis and a review of the draft disclosure in the Financial Statements. <i>Conclusion reached by the Committee</i> The Committee concluded that the value-in-use of the properties reviewed exceeded book value and as such no impairment was required. The Committee agreed that the £48.0m non-cash exceptional impairment recommended by management against both the goodwill associated with Lithuania and Estonia and a proportion of the iPower assets was appropriate. <i>Rationale for the Committee's conclusion</i> Although the markets in Lithuania and Estonia are improving, the rate of improvement is not sufficient to support the carrying value of goodwill associated with the businesses in these markets. Given the change in configuration of the iPower Retail solution to better support the Ignite strategy, a number of original iPower components will no longer be utilised.
Minimum Control Framework ("MCF") (see page 51 for description)	<i>The issue and management's view</i> 2016 was the second year of audit against the MCF developed by the Group in 2013/2014. The Committee conducted a detailed review of the progress against MCF in each market including a review of inventory controls in significant markets. The 2015/16 internal audits were based on the MCF as the core and consistent scope for all markets which includes a more objective grading of compliance based on prescriptive and defined controls/evidence. <i>Conclusion reached by the Committee</i> The Committee concluded that engagement with and adherence to the MCF standards had improved with follow-through and implementation of standards in all markets continuing. <i>Rationale for the Committee's conclusion</i> The Committee received updates from the Group Audit Director at each meeting setting out the compliance across the Group, detailed findings from audits and recommended mitigation plans for identified control gaps.
Chile	<i>The issue and management's view</i> As reported last year, certain inconsistencies in the local accounting system arose during the implementation of the global iPower system in Chile. Management initiated rectification activity to reconcile historic balances and established control processes to prevent recurrences until iPower is fully implemented. During the year, the Committee reviewed the control procedures in detail to assess their appropriateness and effectiveness. The Audit Committee agreed a full audit of Chile should be carried out which PwC performed at the year end and reported their findings to the Committee. <i>Conclusion reached by the Committee</i> The Committee concluded that the control procedures implemented are fit for purpose noting that the implementation of iPower would deliver a more robust financial control environment in the future. The Committee noted that the audit highlighted a significant improvement in the control environment and no issues above the Group reporting threshold. <i>Rationale for the Committee's conclusion</i> The Committee received reports from management which covered all aspects of the rectification activity, the control procedure implementation and the ongoing areas of risks and actions to mitigate risks. The Committee also reviewed the results of PwC's local audit.

Auditor effectiveness cont.

PwC obtained the views of the senior finance personnel in each of the Group's principal territories together with Group Finance, Tax and Company Secretariat, through completion of an audit effectiveness survey. The survey consisted of a two page questionnaire in which respondents were asked to answer a number of questions about PwC's performance and give feedback on what could be improved. The results indicated that the external audit was effective with scores similar to previous years and no significant issues were identified.

Audit tender

Recent EU audit reforms require companies to put their audit out to tender at least every 10 years and to change their auditor at least every 20 years. The transitional arrangements for mandatory rotation for relationships longer than 20 years mean that the year ending 31 December 2020 would be the last year that PwC are allowed to audit the Group. The Audit Committee has previously agreed that PwC will continue through to audit the year ending 31 December 2017 and that we will tender the audit the following year.

The Committee recommended to the Board that a resolution to re-appoint PwC be put to shareholders at the 2017 AGM.

During the year, the Committee agreed the audit tendering timetable as set out below. A report on the selection, tendering and evaluation process will be given in next year's Annual Report.



Non-audit services

The policy for non-audit services has been updated to take into account the new EU audit regulations and was approved by the Committee in February 2017. The policy sets out the permitted and non-permitted non-audit services as well as the approval levels required by the Audit Committee. The policy is designed to ensure that the external auditor's objectivity is not compromised by earning a disproportionate level of fees for non-audit services or by performing work that, by its nature, may compromise the auditor's independence. However, using advisors who have an understanding of the Group's business can be a benefit and the Committee will consider non-audit services supplied on an ongoing basis.

The ratio of audit to non-audit fees for 2016 was 1:0.25. A breakdown of the fees paid for audit and non-audit services is given in note 3 on page 109.

During 2016, PwC supplied the following non-audit services:

- Advice on cyber security
- Accounting advice
- Advice on tax compliance
- Advice on pension scheme arrangements

As noted last year, it was agreed that firms other than PwC would be used for tax services from 1 January 2017.

JOHN LANGSTON
Chair of the Audit Committee



KEN HANNA

Chair of the Nomination Committee

Committee members

Alison Cooper – left February 2017

Rachel Empey – joined May 2016

John Langston

Coline McConville

Nigel Northridge

Nigel Stein

Till Vestring

Dear Shareholder

I am pleased to present the report of the Nomination Committee for the year ended 31 December 2016. This report should be read in conjunction with the Compliance Report on pages 82 to 86.

In order to ensure that the Company is headed by an effective Board, now and in the future, the Committee reviews the following on an annual basis:

- Length of time served – to ensure that progressive refreshing of the Board is considered on an ongoing basis.
- Skills and experience – to ensure that the Directors have the appropriate skills to assist with the delivery of the Ignite strategy (see pages 2 to 15 for further details of the Ignite strategy).
- Time commitment – to ensure that the Non-Executive Directors are able to give sufficient time to the Company.
- Other appointments – to ensure that the number of other directorships held do not affect a Director's ability to commit the appropriate time to the Company.

The activities of the Committee are given in the table on page 55.

Board composition

The review of skills and experience is carried out by the Committee annually by way of a skills assessment completed by the Board members. The length of service of the Non-Executive Directors is also considered so

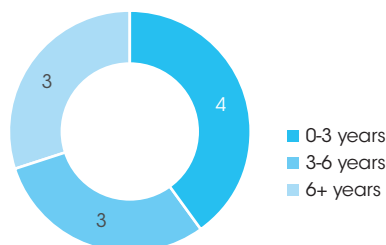
appropriate succession plans can be put in place to assist with the scheduling of the progressive refreshment of the Board over time, and to ensure the Group has the right structure, skills and diversity of experience in place for the effective management of the Ignite strategy and creation of long-term shareholder value.

During the year, the skills review identified the technology sector as an area which could be further strengthened on the Board. Due to the changing nature of the business and the evolution of the Ignite strategy, this is an area which is likely to become increasingly important over time and as such was also a consideration when planning the succession of Board members.

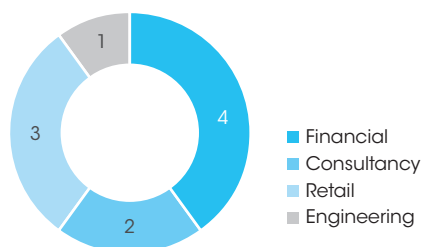
The recruitment process for a new Non-Executive Director began during 2015 and I am delighted to report that Rachel Empey was appointed in May 2016. Rachel is Chief Financial Officer of Telefonica Deutschland and I am pleased to welcome Rachel to her first Non-Executive role. An interview with Rachel is given on page 49.

Alison Cooper left the Board in February 2017 after nearly eight years on the Board. Alison has been an invaluable

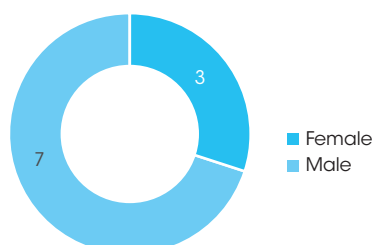
Length of service



Experience by sector



Board balance



colleague and her knowledge and insight have been a great benefit to the Board's discussions. As also announced, Jerry Buhlmann joined the Board in March 2017. Jerry is currently Chief Executive Officer of Dentsu Aegis Network and brings extensive Asia, B2B, digital and marketing experience which will further strengthen the skills and experience on the Board to fully deliver on the Ignite strategy.

Appointment process

Egon Zehnder and Lygon Group were appointed to assist with the search for Non-Executive Directors and senior executives during the year. They have both worked with the Group for several years and are familiar with the current Board's skills set and the potential requirements for the future. During the recruitment process, I meet with the consultants to review our needs and to draw up a long-list of suitable candidates for consideration. When a short-list has been established, potential candidates will meet with other Board members after which the Committee will decide on the most suitable candidate and recommend the appointment of the Non-Executive Director to the Board for its approval. Neither Egon Zehnder nor Lygon Group has any other connection to the Company apart from as recruitment consultants.

The Company continually updates its list of potential candidates, taking into account the Ignite strategy and business needs of the Group, and should the situation arise when a Director departs unexpectedly, the recruitment process can begin immediately.

Multiple board appointments

The Committee understands that Executive Directors can gain valuable business experience as a non-executive

director of another company. The Group's policy is to limit non-executive directorship within a FTSE 100 company to one appointment only.

Stefan Bomhard was invited to become a Non-Executive Director of Compass Group plc during the year. The Committee assessed the role, including the time commitment needed and any potential conflicts of interest, and agreed to the appointment. Details of the fees paid to Stefan by Compass Group plc are given on page 77 of the Directors' Report on Remuneration.

Diversity policy

The Committee recognises the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in delivering the Group's strategic objectives. The Company believes that a truly diverse Board will include and make good use of differences in skills and industry experience as well as background, race and gender. These differences will be considered in determining optimum composition of the Board, which should be balanced appropriately. All Board appointments are made on merit and in the context of the skills and experience needed for the Board to be effective.



KEN HANNA
Chairman

Committee meeting Key activities

March	Approval of the Nomination Committee Report in Annual Report & Accounts, review of skills and experience, time commitment, policy on multiple board appointments, election/re-election at AGM
November	Review of skills and experience, update on Board succession, review of length of service (and review of three year term), independence of Non-Executive Directors, review of terms of reference and committee membership



TILL VESTRING

Chair of the CR Committee

Committee members

Stefan Bomhard

Alison Clarke

Ken Hanna

Coline McConville

Dear Shareholder

I am pleased to present the report of the CR Committee for the year ended 31 December 2016. This report should be read in conjunction with the Compliance Report on pages 82 to 86.

As mentioned in last year's Annual Report, the Committee decided to review the Group's CR strategy in line with the Ignite strategy (see pages 2 to 15 for further details of the Ignite strategy). We asked ourselves: what issues are important to the Group and our employees; what makes us a good corporate citizen, and what do our stakeholders want to know about what we do, beyond normal business operations, that adds value? Above all, how do we build trust with stakeholders through our corporate responsibility activities?

We agreed that our core areas of focus – people, OEM partners, customers, communities and the environment – remain crucial to us as a business. But it is our approach to these areas that we have developed. And, we have added a new pillar, elevating the importance of Health and Safety to the Group.

Building a health and safety culture within the Group is important; our employees and stakeholders place their trust in us to protect their health and safety at all times on our premises. We already have measures in place,

however we are now taking the health and safety ethos forward and implementing a consistent culture of a healthy and safe workplace throughout the Group.

We conducted a global talent review in 2016, looking at how we can strengthen our talent pool to meet the expectations of our customers and our OEM partners and to accelerate growth. Based on this, we are driving several initiatives including targeted succession planning and a new performance and talent framework, DRIVE5.

Listening to our key commercial stakeholders – our customers and OEM partners – has been an area of significant focus over the last year, and we have developed strategies to continue to build long-term relationships that improve the customers' experience, and exceed our OEM partners' expectations.

Many of our country markets, as well as individuals, are involved in charitable activities. The Company encourages community involvement, fund raising and donations both through Company partnerships and by individuals, and we will be encouraging more of this activity in more of our markets throughout the coming year.

We have collected our CO₂ data for several years and are now starting to look at the next step – how to manage and reduce our carbon footprint through science-based targets. We are at an early stage of this process but are confident that we can contribute to global CO₂ reductions in future years and achieve our business objectives.

The Corporate Responsibility Report, on pages 39 to 43, shows the progress made in each of these areas and I do hope that you will find the information useful.

TILL VESTRING

Chair of the CR Committee

Committee meeting Key activities

March	CR Committee Report in Annual Report & Accounts Review of CR strategy
November	Update of CR strategy, agreeing key CR themes, outline of reporting process, review of terms of reference and committee membership.



COLINE MCCONVILLE

Chair of the Remuneration Committee

Committee members

Ken Hanna

Nigel Northridge

Till Vestring

Dear Shareholder

I am pleased to present the Directors' Report on Remuneration for the year ended 31 December 2016, my first year as Chair of the Inchcape Remuneration Committee. This report should be read in conjunction with the Compliance Report on pages 82 to 86.

The aim of the Committee is to set remuneration which motivates executives to make decisions which drive the Ignite strategy and create value for all of our stakeholders.

During the year, the Committee has reviewed the Group's current remuneration arrangements and the remuneration policy, last approved by shareholders in May 2014. Our extensive review covered all aspects of the current arrangements including incentive plan structure, quantum, performance measures and alignment with shareholders, with the aim of ensuring the continued effectiveness of our policy in attracting, motivating and retaining talent. The Committee has also kept pace with evolving best practice corporate governance as well as outcomes from the Investment Association Remuneration Working Group consultation.

Our main conclusion from the review is that, overall, the current arrangements are working well and, as such, we are not proposing any significant changes to remuneration arrangements or to our policy. We have, however, updated a few areas to help ensure our remuneration policy and practice continue to reflect our evolving Ignite strategy and latest best practice corporate governance.

These proposals have been discussed with major shareholders who represent around two-thirds of the issued share capital and key representative bodies. Feedback on the proposals has been positive and we are, therefore, seeking shareholder approval for the remuneration policy at the 2017 AGM.

The Committee spent considerable time debating the merits of retaining two long-term incentive plans, the performance share plan ("PSP") and the co-investment plan ("CIP"). Our review found that the CIP is highly valued by participants, as evidenced by the 65% plus take-up in 2016, promotes share ownership and encourages a focus on long-term performance. We believe that the combination of the PSP and CIP at Inchcape is very effective, supports our long-term strategy and provides us with a competitive edge. Measures and targets for the PSP and CIP are to remain consistent as it aids simplicity and ensures that the senior team are focusing on consistent goals, regardless of whether they participate in the CIP or not.

Proposed changes to remuneration arrangements and policy

- The annual bonus for 2017 will be based 80% on the financial performance matrix of revenue and operating profit and 20% on strategic objectives. Previously the bonus was based on a financial performance matrix and a Net Promoter Score ("NPS") multiplier
- PSP awards will be expressed as a percentage of salary rather than as a number of shares
- The 'enhanced' element of the PSP has been removed and therefore the 2017 PSP opportunity for Executive Directors has been reduced from 200% to 180% of salary
- The EPS measure for PSP and CIP awards made from 2017 will exclude the impact of any share buy backs. Taking this into account as well as external market factors, the EPS target range for the 2017 PSP and CIP awards will be reduced from 5% - 13% to 4% - 12% p.a. The Committee also decided to increase the ROCE range for the 2017 PSP and CIP awards from 21% - 25% to 22% - 26%
- A new mandatory post-vesting holding period of two years will be applicable for any PSP and CIP awards granted to Executive Directors from 2017 onwards
- Clawback and malus provisions will apply to all incentives (PSP, CIP and annual bonus) from 2017 onwards. Previously, malus provisions only applied to the PSP
- Based on feedback from our shareholders during consultation, the Committee also decided to reduce the maximum cash supplement in lieu of pension to 30% of salary from 40% of salary

Further details on these changes, including rationale, can be found in the remuneration policy and Annual Report on Remuneration.

Recap of policy objectives

- Align with and support the Group's business strategy;
- Enable the Company to attract, motivate and retain management;
- Encourage the right behaviours, drive performance and reward results by delivering upper quartile pay for upper quartile performance; and
- Align executive management and shareholders' interests.

The Committee considers performance on environmental, social and governance issues when setting the remuneration policy and believes that the policy does not raise risks in these areas by motivating irresponsible behaviour.

2016 performance outcomes and awards

As set out on page 18 of the Strategic Report, the Group has delivered sales of £7.8bn, operating profit before exceptional items of £359.1m, EPS of 59.6p (adjusted) and ROCE at 30%. As a result of this performance, Stefan Bomhard received an annual bonus of 60.5% of salary and Richard Howes received an annual bonus of 45.4% of salary (pro-rated for time in the role). Based on performance against targets, the normal 2014 PSP and CIP awards vested at 86.5% of maximum.

During 2016, the Committee also made PSP grants to Stefan Bomhard and Richard Howes of 159,705 and 118,577 shares respectively. Each of the Executive Directors also invested in the CIP and were granted awards of 100,603 shares and 58,206 shares respectively.

Further details on the PSP and CIP awards granted during the year are given on page 72.

The Committee is satisfied that the total remuneration received by Executive Directors in 2016 appropriately reflects the Company's financial position over the year and is consistent with the approach taken for other relevant employees.

2016 AGM

The Committee notes that although the majority of shareholders voted for the 2015 Annual Report on Remuneration at the AGM held in May 2016, 36.5% of votes were cast against.

The Committee recognises that the vote against primarily related to the disapplication of time pro-rata for our former Group Finance Director John McConnell's 2014 PSP award upon his departure from the Group.

We engaged with our shareholders to fully understand their concerns prior to, and after, the AGM as part of remuneration policy process.

As a result of those conversations we understand that many of our shareholders prefer for outstanding incentives to be time pro-rated as well as pro-rated for performance. The Committee has taken on board this preference and will appropriately time pro-rate if this situation arises again.

Other key activities in 2016

The Committee has also introduced a number of new disclosures in this year's report including a 'remuneration at a glance' section on page 59 which we hope shareholders find useful.

In addition to the remuneration policy review, the Committee also carried out the activities detailed in the table below during the year.

The Committee is committed to ensuring that the Group's remuneration arrangements continue to reflect the Ignite strategy, reward strong performance and align Executive Directors and senior management's interests with those of shareholders. The Committee will continue to keep up to date with evolving corporate governance updates throughout 2017.

I hope to have your support at the upcoming AGM.



COLINE MCCONVILLE

Chair of the Remuneration Committee

Committee meeting Key activities

March	2015 Directors' Report on Remuneration, approval of: the 2015 annual bonus pay-out, achievement of performance targets for long-term incentives, Executive Directors and Group Executive Committee 2016 remuneration, the recruitment package of Richard Howes, review of remuneration policy
November	Remuneration policy review, update on shareholder consultation process, review long-term incentives, review of trends in remuneration, review of changes to Executive Committee members, review of terms of reference and committee membership

Remuneration at a glance

This section is a snapshot of the performance of the Company over the year and the remuneration received by current Executive Directors.

2016 annual bonus

The 2016 annual bonus is assessed against a financial performance matrix of revenue and operating profit and a NPS multiplier.

Performance measure	Performance targets			Actual performance achieved ¹	% of maximum opportunity achieved	Bonus payout (as % of salary)
	Threshold	Target	Stretch			
Revenue	£6,773.8m	£7,130.3m	£7,486.8m	£7,370.0m		
Operating profit	£303.8m	£337.6m	£371.4m	£325.0m	40.3%	60.5%
NPS targets		Benchmark		Targets met in full		

¹ Actual performance for determining bonus outcomes has been calculated using the same currency rates as used to set the bonus target. This ensures that bonus outcomes are linked to, and reward for, underlying financial performance.

This resulted in bonuses of £423,780 and £183,890 for Stefan Bomhard and Richard Howes respectively.

2014 PSP and CIP

Stefan Bomhard and Richard Howes were not granted a 2014 PSP or CIP award as they joined in 2015 and 2016 respectively.

How much our Executive Directors earned in 2016

	Base salary £'000	Benefits £'000	Pensions £'000	Single-year variable £'000	Multiple-year variable £'000	Other* £'000	2016 Single Figure £'000
Stefan Bomhard	688	84	207	424	–	–	1,403
Richard Howes	294	1	88	184	–	356	923

* relates to awards in lieu of forfeited incentives. Further details are on page 72.

Implementation of policy in 2017 (dependent on shareholder approval)

Element of pay	Implementation for 2017
Base salary	Stefan Bomhard and Richard Howes will receive a 2.5% increase in salary. Total salaries for 2017 are therefore £717,500 for Stefan Bomhard and £415,125 for Richard Howes. These salary increases are in line with the broader workforce
Pension and benefits	Executive Directors will receive cash supplements of 30% of salary in lieu of pensions Benefits include car allowance, medical cover and mileage allowance
Annual bonus	150% of salary 80% of the bonus is based on a financial performance matrix of revenue and operating profit. Remaining 20% is dependent on a basket of strategic measures Any bonus earned above 100% of salary is paid in shares which are invested in the CIP Malus and clawback provisions apply
PSP	180% of salary 60% of an award is dependent on EPS, 40% on ROCE A mandatory post-vesting holding period of two years will apply on any vested PSP awards Malus and clawback provisions apply
CIP	Up to 50% of salary can be invested, up to a 2:1 match 60% of an award is dependent on EPS, 40% on ROCE A mandatory post-vesting holding period of two years will apply on any vested CIP awards Malus and clawback provisions apply

Part 1 – Directors' remuneration policy

This section of the report sets out the policy that the Committee will be putting forward for shareholder approval at the 2017 AGM and will be effective from this date. The principal changes compared to the previously approved policy are as follows:

- Strategic measures have been included within the annual bonus. NPS has now been incorporated within the Ignite strategic measures
- Clawback and malus provisions will apply to all incentives (PSP, CIP and annual bonus) from 2017 onwards. Previously malus provisions only applied to the PSP
- PSP awards as a percentage of salary rather than as a fixed number of shares
- 'Enhanced' PSP share awards have been removed
- There is no longer a limit of 450% of salary under exceptional circumstances for PSP awards. The maximum PSP award level is now 300%
- Investment opportunity under the CIP is capped at 50% of salary (previously in exceptional circumstances, investment opportunity could be increased to 100% of salary)
- A mandatory post-vesting holding period of two years on any PSP and CIP awards from 2017 onwards has been introduced for Executive Directors
- PSP and CIP grants for new recruits will be capped in line with the limits in the main policy
- Reduction in maximum cash supplement in lieu of pension from 40% to 30% of base salary

Remuneration policy for Executive Directors

Element	Objective and link to strategy	Operation and performance metrics	Opportunity
Base salary	To pay a competitive salary which attracts, retains and motivates talent to make decisions which drive the Company's strategy and create value for stakeholders.	Salaries are reviewed annually and any increases typically take effect from 1 April of each year. Adjustments to salary will take account of: – Increases awarded across the Group as a whole, and conditions elsewhere in the Group; – Experience and performance of the individual; – Pay levels at organisations of a similar size, complexity and type; and – Changes in responsibilities or scope of the role.	Increases are not expected to exceed average increase for senior management, unless a change in scope or complexity of role applies.
Annual bonus	To motivate and reward for the achievement of the Company's strategic annual objectives.	Based at least 70% on annual financial performance. Financial measures may include (but are not limited to) revenue and operating profit. Non-financial measures may include strategic measures directly linked to the Company's priorities. Any annual bonus earned above 100% of salary is paid in shares which are automatically invested in the CIP. Bonus payouts from 2017 are subject to malus and clawback provisions.	150% of salary maximum payable for achieving stretch performance against all measures. 60% of salary payable for target performance. 12% of salary payable for entry level performance.
Performance Share Plan (PSP)	To provide a meaningful reward to senior executives linked to the long-term success of the business. The use of performance shares enables the delivery of median pay for median performance and upper quartile pay for upper quartile performance.	Vesting of the performance shares is based on performance measures linked to the Group's strategic priorities and may vary year-on-year. For 2017, PSP awards will be based on three year EPS growth and three year average ROCE performance. For awards granted to the Executive Directors from 2017, vested awards will be subject to an additional two year holding period. Any dividends paid would accrue over the vesting period and would be paid only on those shares that vest. PSP awards granted from 2017 are subject to malus and clawback provisions.	For 2017, PSP opportunities will be 180% of salary. Award levels are subject to an individual limit of 300% of salary. Threshold level performance will result in 25% vesting of the PSP award.

Remuneration policy for Executive Directors continued

Element	Objective and link to strategy	Operation and performance metrics	Opportunity
Co-Investment Plan (CIP)	To encourage executive share ownership and reinforce long-term success. Any bonus over 100% of salary will be paid in shares which will be automatically invested in the plan. Further voluntary investments may be made up to the investment limit.	A voluntary investment opportunity in return for a performance based match. Any bonus over 100% of salary will be paid in shares which will be automatically invested in the plan. Further voluntary investments may be made up to the investment limit. Invested shares can be withdrawn at any time but the entitlement to a match would be lost if the invested shares are withdrawn before the end of the relevant three year vesting period. Vesting of the CIP awards is based on performance measures linked to the Group's strategic priorities and may vary year-on-year. For 2017, CIP awards will be based on three year EPS growth and three year average ROCE performance. For awards granted to the Executive Directors from 2017, vested awards will be subject to an additional two year holding period. Any dividends paid would accrue over the vesting period and would be paid only on those shares that vest. CIP awards granted from 2017 are subject to malus and clawback provisions.	Executive Directors may invest up to an overall maximum of 50% of salary. Maximum match of 2:1, threshold of 0.5:1. Maximum matching award is therefore 100% of salary in any year, and threshold matching award is 25% of salary.
Save As You Earn (SAYE)	To encourage share ownership.	UK employees are able to make monthly savings, over a three year period. At the end of the savings period, the funds are used to purchase shares under option. As this is an all-employee scheme and Executive Directors participate on the same terms as other employees, the acquisition of shares is not subject to the satisfaction of a performance target.	Participation limits are those set by the UK tax authorities from time to time.
Pension	To provide market competitive pension benefits where it is cost-effective and tax-efficient to do so.	The Group's pension scheme, Cash+, is a cash balance retirement scheme which accrues 16% of earnings (capped at £250,000 p.a. paid as a lump sum at the age of 65). Members are required to contribute 7% of pensionable salary. Executive Directors may also receive a salary supplement in lieu of pension contributions.	Eligibility to join the Cash+ scheme at a minimum level to meet regulatory requirements. Cash supplement up to 30% of base salary for Executive Directors.
Other benefits	To provide market competitive benefits where it is cost effective and tax-efficient to do so.	Benefits currently include (but are not limited to): – Company cars; – Medical care; and – Life assurance premiums.	It is not anticipated that the costs of benefits provided will materially exceed 5% of salary for existing Executive Directors. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation).

To encourage share ownership and ensure alignment of executive interests with those of shareholders, Executive Directors are required to hold a number of shares equivalent to 200% of base salary. Executive Directors have five years from the date of appointment to reach this shareholding.

Notes to the policy

Payments from existing awards

Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the remuneration policy detailed in this report. Such awards include vested but unexercised options.

Selection of performance measures and target setting

As part of the remuneration policy review, the Committee reviewed the appropriateness of performance measures used by the Group and determined the following:

- The annual bonus measures have been selected to incentivise sustainable growth in profits. The matrix structure continues to provide a balanced focus between commercial and cash initiatives. A basket of strategic measures will be selected each year to reinforce the Group's strategic objectives. A customer service measure has been included in the basket of measures therefore there is no longer a need for the NPS multiplier.
- The Committee believes that EPS continues to be the best measure of long-term performance for the Group and is currently therefore the primary long-term incentive measure. It provides strong line of sight for executives who are familiar with the existing basis of EPS performance measurement, and is consistent with the Group's long-term strategy focusing on sustainable growth.
- ROCE supports the Group's cash initiatives of controlling working capital and capital expenditure and, when combined with EPS, provides a balance between growth and returns. Performance targets are set to be stretching and achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates.
- The Committee also considered the use of other performance measures to reinforce the Company's long-term objectives, including relative TSR and cash flow. However, given the diversity of the Group's operations, it would have been difficult to set a relevant and robust comparator group for assessing relative TSR performance and there would have been some difficulty in cascading many of the other measures appropriately down the organisation.
- Targets are set taking into account a range of reference points including the Ignite strategy and broker forecasts for the Group. The Committee believes that the performance targets set are very stretching, and that the maximum will only be achievable for truly outstanding performance. Please see page 73 for further details on the target ranges.
- The Committee retains discretion to adjust the annual bonus outcome up or down to ensure that it is a fair reflection of the Group's underlying performance.
- The Committee also has the discretion to adjust the performance conditions for long-term incentive plans in exceptional circumstances, provided the new conditions are no tougher or easier than the original conditions.
- Any discretion exercised by the Committee in the adjustment of performance conditions will be fully explained to shareholders in the relevant Annual Report on Remuneration. If the discretion is material and upwards, the Committee will consult with major shareholders in advance.

Malus and clawback

These provisions allow the Committee in certain circumstances (such as gross misconduct or a material misstatement of the Group financial statements) the discretion to:

- reduce bonus, PSP and/or CIP;
- cancel entitlement of bonus;
- prevent vesting of the PSP and/or CIP; or
- allow the Company within two years of payment/ vesting of award to claim back up to 100% of the award.

Composition of remuneration arrangements

A significant proportion of Executive Directors' pay is variable, long term and remains 'at risk' (i.e. subject to malus and clawback provisions).

Charts are based on maximum payout scenarios for Executive Directors.

Fixed vs. variable (%)



Short-term vs. long-term (%)



Remuneration policy for other employees

Our approach to salary reviews is consistent across the Group with consideration given to the level of responsibility, experience, individual performance, salary levels in comparable companies (using remuneration surveys, where appropriate) and the Company's ability to pay.

Senior managers (c. 300 individuals) participate in an annual bonus scheme which has similar performance targets to those of the Executive Directors. Below this level, local incentive schemes are in place for management and non-management employees. Opportunities and performance conditions vary by organisational level, with business unit-specific metrics incorporated where appropriate. Commission-based arrangements are also operated for certain roles.

Senior managers also receive PSP awards while participation in the CIP is limited to Executive Directors, Group Executive Committee members and the next level of executives (c. 25 individuals). Performance conditions are consistent for all participants while award sizes vary by organisational level. Share ownership guidelines apply to Executive Directors and Group Executive Committee members.

All UK employees are eligible to participate in the SAYE scheme on the same terms.

Pension and benefits arrangements are tailored to local market conditions, and so various arrangements are in place for different populations within the Group.

Remuneration policy for Non-Executive Directors

Objective and link to strategy	Operation and performance metrics	Opportunity
To provide fair remuneration, reflecting the time commitment and responsibilities of the role.	Non-Executive Directors receive a fixed fee and do not participate in any incentive schemes or receive any other benefits, except the Chairman who receives medical cover. Fee levels are reviewed regularly, with any adjustments effective immediately after the review is approved. Additional fees are payable for acting as Senior Independent Director and as Chairman of any of the Board's Committees (excluding the Nomination Committee). The Chairman's fee is determined by the Remuneration Committee and the fees for other Non-Executive Directors are determined by the Executive Directors. Non-Executive Directors may elect to receive up to 20% of their net fees p.a. as Company shares.	Appropriate adjustments may be made to fee levels, taking account of: – increases awarded across the Group as a whole and conditions elsewhere in the Group; – fee levels within organisations of a similar size, complexity and type; and – changes in complexity, responsibility or time commitment required for the role.

Fees paid to Non-Executive Directors are within the limits set by shareholders from time to time. This limit, currently at an aggregate of £1,000,000, was last approved by shareholders at the 2015 AGM.

Consideration of conditions elsewhere in the Group

Prior to the annual salary review, the Committee receives an update from the Chief Human Resources Officer on the average salary increases across the Group. This is considered by the Committee when determining salary increases for the Executive Directors and the Group Executive Committee.

The Company has a diverse international spread of businesses as well as a wide variety of roles from petrol pump attendants and valeters through to Chief Executives of our individual businesses and therefore pay levels and structures vary to reflect local market conditions. Although the Company has not carried out a formal employee consultation regarding executive remuneration, it does comply with local regulations and practices regarding employee consultation more broadly.

Consideration of shareholder views

When determining remuneration, the Committee takes into account the guidelines of representative investor bodies and shareholder views.

The Committee is always open to feedback from shareholders on remuneration policy and arrangements. We are committed to undertaking shareholder consultation in advance of any changes to remuneration policy, as evidenced by our recent consultation with shareholders representing two-thirds of the Company's issued share capital on proposed changes. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate.

Overall, the feedback from shareholders on the new remuneration policy has been positive. Early on in the consultation process, we were asked whether we would consider reducing the maximum cash supplement in lieu of the pension policy. In response, we reduced the maximum from 40% to 30% of salary.

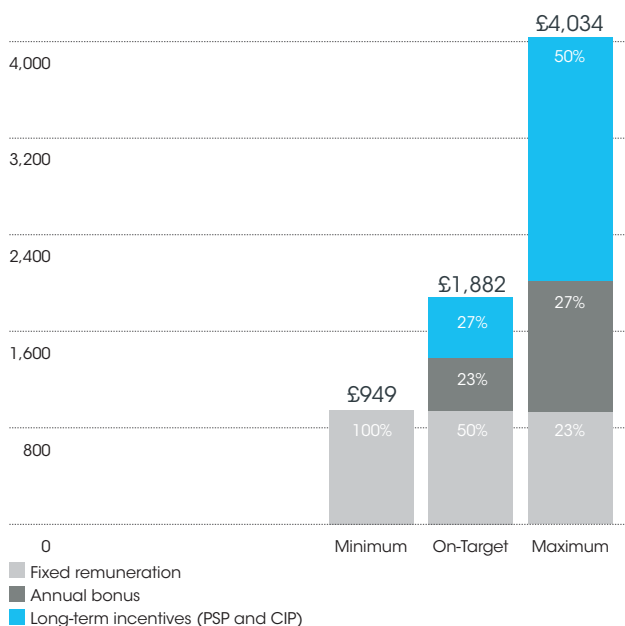
The votes received on the 2015 Directors' Report on Remuneration at the 2016 AGM and the remuneration policy at the 2014 AGM are provided on page 77.

Performance scenarios

The charts below show the remuneration that Executive Directors could expect to obtain based on varying performance scenarios. Illustrations are intended to provide further information to shareholders regarding the pay for performance relationship. However, actual pay delivered will be influenced by changes in share price and the vesting periods of awards. The charts have been updated for 2017 salaries and the proposed 2017 long-term incentive grants.

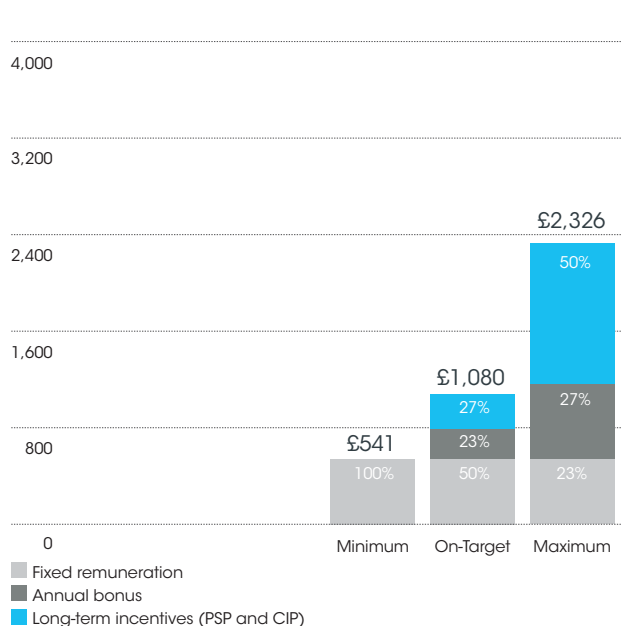
Stefan Bomhard – Group Chief Executive

Total remuneration (£'000s)



Richard Howes – Chief Financial Officer

Total remuneration (£'000s)



Notes on the performance scenarios:

Potential reward opportunities illustrated above are based on the policy which will apply in 2017 (if approved by shareholders).

Element	Assumptions		
Fixed remuneration	Total remuneration comprises base salary, benefits and pensions		
	Base salary – effective from 1 April 2017		
	Benefits – as provided in the single figure table on page 68, excluding one-off relocation allowance		
	Pension – cash in lieu of pension		
Variable pay		Minimum	On-target
	Annual bonus	No payout	Target payout (40% of maximum)
	CIP		Assumes full voluntary investment
		No vesting	Threshold match of 0.5:1
	PSP		Threshold vesting (25% of maximum)
			Maximum payout
			Maximum vesting
			Maximum vesting

Please note that projected values exclude the impact of share price movements and dividend accrual. Awards in lieu of forfeited incentives for Richard Howes have also been excluded. Please see page 72 for further details of these awards.

Approach to recruitment remuneration

External appointments

When appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration, as follows:

Component	Approach	Maximum annual grant value	
Base salary	The base salaries of new appointees will be determined by reference to the scope of the role, experience of the individual, pay levels at organisations of a similar size, complexity and type, pay and conditions elsewhere in the Group, implications for total remuneration, internal relativities and the candidate's current base salary.	n/a	
Pension	New appointees will be eligible to participate in the Group's pension plan (or receive a cash supplement in lieu) on similar terms to existing Executive Directors.	n/a	
Benefits	New appointees will be eligible to receive normal benefits available to senior management, including (but not limited to) company cars, medical care and life assurance.	n/a	
Annual bonus	The annual bonus described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year.	150% of salary	
PSP	New appointees will be granted awards on the same terms as other Executive Directors as described in the policy table.	300% of salary	The combined maximum is not intended to exceed 400% of salary
CIP	New appointees will be granted awards on the same terms as other Executive Directors as described in the policy table.	100% of salary	
Other	The Committee will consider on a case-by-case basis if all or some of the incentives forfeited on leaving a previous employer will be 'bought-out.' If the Committee decides to buy-out forfeited awards, the award will be structured on a comparable basis, taking into account any performance conditions attached, time to vesting and share price at the time of buy-out. The Committee retains the discretion to make use of the relevant Listing Rule to facilitate such a buy-out.	n/a	

Notes to recruitment remuneration policy

In determining the appropriate remuneration for a new Executive Director, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of the Group and its shareholders.

Internal appointments

In cases of internal promotions to the Board, the Committee will determine remuneration in line with the policy for external appointees as detailed above. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements. Incentive opportunities for below Board level employees are typically no higher than for Executive Directors, but measures may vary to provide better line of sight.

Non-Executive Directors

In recruiting a new Non-Executive Director, the Committee will use the policy as set out in the table on page 64. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director or as the Chairman of Audit, Remuneration and CR Committees as appropriate.

Exit payment policy, service contracts and change of control

The Company's policy is to limit severance payments on termination to pre-established contractual arrangements. In addition, the Company retains discretion to settle any other amount reasonably due to the Executive Director, for example, to meet legal fees incurred by the Executive Director in connection with the termination of employment, where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee as well as the rules of any incentive plans. When considering exit payments, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants.

The table below summarises how the awards under the annual bonus, PSP and CIP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion:

Component	Circumstance	Treatment	Payment/vesting date (if relevant)
Annual Bonus	Resignation.	Bonus will lapse unless the date of leaving is after the year end. The bonus will only be paid to the extent the targets set at the beginning of the year have been achieved.	Either the end of the performance period or at the Committee's discretion.
	Death, ill-health, redundancy, retirement or any other reason which the Committee may, in its absolute discretion, permit.	The bonus will only be paid to the extent the targets set at the beginning of the year have been achieved. Any bonus payment will be pro-rated for time served during the year.	Either the end of the performance period or at the Committee's discretion.
	Change of control.	The bonus will only be paid to the extent the targets set at the beginning of the year have been achieved. Any bonus payment will be pro-rated for time served during the year.	Either the end of the performance period or at the Committee's discretion.
PSP and CIP	Resignation.	Unvested awards will lapse on date of leaving. Any vested awards can be exercised.	Either the end of the performance period or at the Committee's discretion.
	Death, ill-health, redundancy, retirement (CIP only) or any other reason which the Committee may, in its absolute discretion, permit.	Any unvested awards will be pro-rated for time and performance.	Either the end of the performance period or at the Committee's discretion.
	Change of control.	Any unvested awards will be pro-rated for time and performance.	Either the end of the performance period or at the Committee's discretion.

Service contracts

The Company's policy is for Executive Directors' service contract notice periods to be no longer than 12 months, except in exceptional circumstances. All current contracts contain notice periods of 12 months.

Name	Date of contract	Notice period	Unexpired term
Stefan Bomhard	1 April 2015	12 months	To retirement age
Richard Howes	11 April 2016	12 months	To retirement age

The Company may terminate an Executive Director's contract by paying a sum equal to base salary and, in certain circumstances, benefits including pension and life assurance, company car and entitlement to holiday pay for the 12 month period. Executive Directors' service contracts are available to view at the Company's registered office.

Part 2 – Annual Report on Remuneration

The names of the Committee members are given on page 57 and their biographies can be found on page 45. The work of the Committee during the year is summarised in the letter to shareholders on page 57 and given in full detail in the following report.

The Committee considers the UK Corporate Governance Code requirements. The Committee is satisfied that the approach to setting the remuneration of the Executive Directors and the Executive Committee

underpins the effective and proper management of risk by rewarding fairly for sustainable profit growth and long-term returns for shareholders. The following section provides details of how the Company's remuneration policy was implemented during the financial year to 31 December 2016 and how it will be implemented in the financial year to 31 December 2017 (dependent on shareholder approval of the new remuneration policy).

Single total figure of remuneration (audited)

The table below sets out the total remuneration received by the Directors for the year ended 31 December 2016:

Name	Base salary / fees £'000		Taxable benefits (a) £'000		Single-year variable (b) £'000		Multi-year variable (c) £'000		Pension(d) £'000		Other (e) £'000		Total £'000	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Current Executive Directors														
Stefan Bomhard	688	488	84	214	424	415	-	-	207	146	-	1,643	1,403	2,906
Richard Howes*	294	-	1	-	184	-	-	-	88	-	356	-	923	-
Previous Executive Directors														
André Lacroix	-	206	-	5	-	-	-	-	-	83	-	-	-	294
John McConnell*	93	441	1	3	44	378	912	644	45	155	-	-	1,095	1,621
Current Non-Executive Directors (f)														
Ken Hanna	320	302	2	3	-	-	-	-	-	-	-	-	322	305
Alison Cooper	60	55	-	-	-	-	-	-	-	-	-	-	60	55
Rachel Empey*	36	-	-	-	-	-	-	-	-	-	-	-	36	-
John Langston	75	66	-	-	-	-	-	-	-	-	-	-	75	66
Coline McConville	75	55	-	-	-	-	-	-	-	-	-	-	75	55
Nigel Northridge	81	72	-	-	-	-	-	-	-	-	-	-	81	72
Nigel Stein	60	13	-	-	-	-	-	-	-	-	-	-	60	13
Till Vestring	70	56	-	-	-	-	-	-	-	-	-	-	70	56
Previous Non-Executive Directors														
Vicky Bindra	-	50	-	-	-	-	-	-	-	-	-	-	-	50
Simon Borrows	-	32	-	-	-	-	-	-	-	-	-	-	-	32
Total	1,852	1,836	88	225	652	793	912	644	340	384	356	1,643	4,200	5,525

* Richard Howes and Rachel Empey joined the Group during the year. John McConnell left during the year.

a. Taxable benefits comprise car allowance, medical cover and mileage allowance. A relocation allowance was paid to Stefan Bomhard to assist with his move to the UK. Payment began in April 2015 and ended in March 2016.

b. Payment for performance during the year under the annual bonus, including amounts paid in shares.

c. The 2016 figure for Stefan Bomhard and Richard Howes is nil as they joined in 2015 and 2016 respectively and therefore did not receive an award in 2014. John McConnell's awards are valued on the average share price from 1 October 2016 to 31 December 2016 of 648.8p. Actual performance against targets is given on page 71. The awards granted in 2013, which vested on performance to 31 December 2015, have been restated from last year's report to reflect the share price on the date of vesting using the market price at date of vesting of 685.5p for PSP and 685p for CIP, and include dividend equivalent shares.

d. During the year the Executive Directors received a cash supplement of 30% of base salary in lieu of pension contributions.

e. The 2015 figure for Stefan Bomhard represents the value of the SAYE based on the embedded value at grant and the value of the award in lieu of forfeited incentives by his previous employer. The 2016 figure for Richard Howes includes the value of the award in lieu of forfeited incentives by his previous employer with no performance conditions attached and the value of the 2016 SAYE based on the embedded value at grant.

f. The fees of the Chairman, Non-Executive Directors and the Senior Independent Director are given on page 69.

Base salary

Salaries are reviewed annually and typically take effect from 1 April each year. The quantum of total executive remuneration was reviewed against four comparator groups: retailers, distributors, companies of a similar market cap, and companies with similar revenues.

Salaries for 2017 were determined taking into account this benchmarking data, as well as the other factors detailed in the policy table.

The salaries for 2015, 2016 and 2017 are set out below, together with the average increases across the Group.

Name	1 April 2015	1 April 2016	1 April 2017
Stefan Bomhard	£650,000	£700,000	£717,500 – 2.5% increase
Richard Howes	n/a	£405,000	£415,125 – 2.5% increase
Average increase across Group	2.1%	3.4%	2.18%

The Committee decided to increase Stefan and Richard's salaries by 2.5% in line with the average increase across the Group

Chairman's and Non-Executive Directors' fees

The Chairman receives a fee of £320,000 p.a. The Senior Independent Director receives a fee of £81,000 p.a. The Non-Executive Directors receive a fee of £60,000 p.a with an additional £15,000 p.a for the chair of the Audit and Remuneration Committees and an additional £10,000 p.a for the chair of the CR Committee.

The Chairman and Non-Executive Directors fees were last reviewed in 2015. There are no changes proposed for 2017.

Annual bonus

In line with the Committee's commitment to disclose bonus targets, the table on page 70 illustrates targets, performance and resulting bonus outcomes for the Executive Directors for the 2016 bonuses.

In 2016, the Executive Directors' annual bonuses were assessed against a financial performance matrix of revenue and operating profit targets and an NPS multiplier. This matrix was designed to reward stretching financial performance, while maintaining exceptional customer service.

NPS was the Group's primary measure of customer satisfaction, used to gauge the strength and loyalty of our customer relationships. The annual bonus can be reduced if NPS falls below benchmark but is not increased for achieving or beating benchmark. The benchmark is established each year based on the Board's assessment of what constitutes excellence in customer service.

2016 bonus

Performance measure	Performance targets			Actual performance achieved ¹	% of maximum opportunity achieved	Bonus payout (as % of salary)
	Threshold	Target	Stretch			
Revenue	£6,773.8m	£7,130.3m	£7,486.8m	£7,370.0m		
Operating profit	£303.8m	£337.6m	£371.4m	£325.0m	40.3%	60.5%
NPS targets	Benchmark		Targets met in full			

¹ Actual performance for determining bonus outcomes has been calculated using the same currency rates as used to set the bonus target. This ensures that bonus outcomes are linked to, and reward for, underlying financial performance.

The bonus for Stefan Bomhard was £423,780 which is 60.5% of salary. The bonus for Richard Howes is £183,890 which is 45.4% of salary pro-rated to reflect the proportion of the year served.

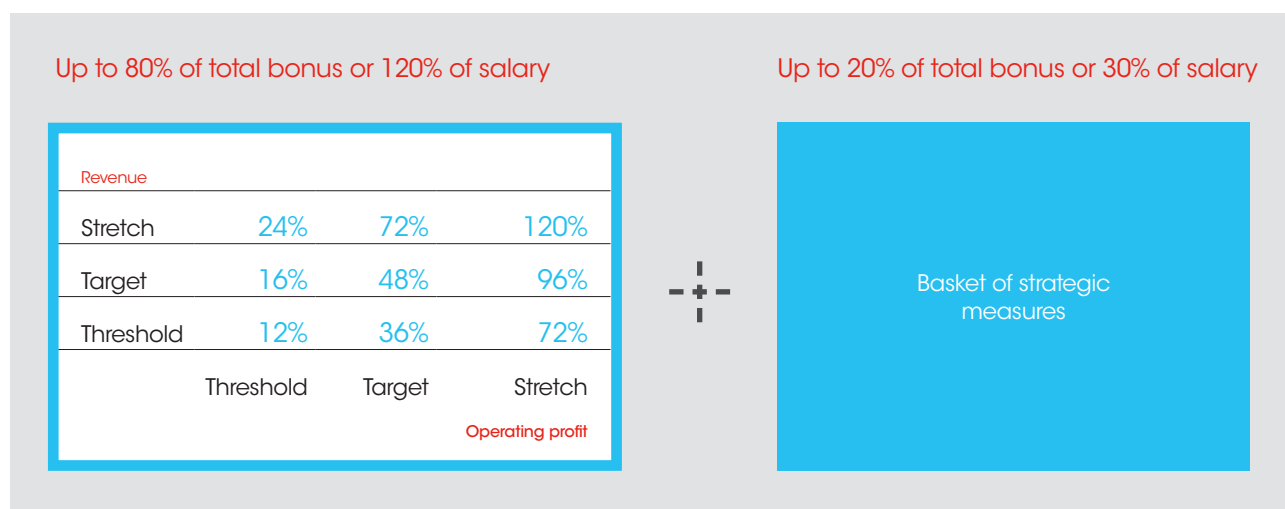
John McConnell, the former Finance Director, received £44,338 (pro-rated) under the bonus plan as part of his termination payment. Further details can be found on page 77.

Annual bonus for 2017

The maximum annual bonus opportunity in 2017 will remain unchanged from previous years and will be 150% of salary. The bonus for the Executive Directors will be based 80% on the same financial performance matrix as 2016 which is linked to revenue and operating profit and 20% on a basket of specific, measurable objectives that relate to the Ignite strategy.

A customer experience measure will be captured in the Ignite strategic objective, Leading in customer experience. Therefore the NPS multiplier that operated in 2016 is no longer required.

Details of the Ignite strategy can be found on pages 2 to 15.



The Committee intends to publish the financial targets for 2017 and provide more detail on the basket of strategic measures, taking into account commercial sensitivity, in next year's Directors' Report on Remuneration.

Awards vesting during the year

In 2014, Inchcape granted awards under the PSP and CIP schemes which vested dependent on certain performance targets over three years to 31 December 2016. Although Stefan Bomhard and Richard Howes were not granted 2014 awards, the following tables detail the performance against the targets and vesting schedules:

2014 Normal PSP/CIP

Three year EPS growth p.a.	Vesting %	Three year average ROCE	Vesting %
Less than 5%	0%	Less than 18%	0%
5%	25%	18%	25%
13%	100%	21%	100%
Between 5% and 13%	Straight line basis	Between 18% and 21%	Straight line basis

2014 Enhanced PSP

Three year EPS growth p.a.	Vesting %
Less than 13%	0%
18%	100%
Between 13% and 18%	Straight line basis

Award	Performance measure	Wtg.	Vesting outcome (% of element)
Normal PSP	EPS	75%	82%
	ROCE	25%	100%
Enhanced PSP	EPS	100%	0%
Total (overall vesting outcome of normal PSP)			86.5%

Award	Performance measure	Wtg.	Vesting outcome (% of element)
CIP	EPS	75%	1.64:1 match
	ROCE	25%	2:1 match
Total (overall vesting outcome of CIP)			1.73:1 match

John McConnell, the former Group Finance Director, was granted a 2014 PSP and 2014 CIP award, therefore he was entitled to the following shares on vesting.

	Interest held	Vesting %	Interest vesting	Vesting date	Assumed market price (p) ²	Estimated value
John McConnell						
Normal PSP	130,760	86.5%	113,107	23 May 2017	648.8p	£733,838
Enhanced PSP	13,075	0.0%	0	23 May 2017	648.8p	£0
CIP	31,708 ¹	86.5%	27,427	17 June 2017	648.8p	£177,946

1 Time pro-rata linked to time spent in employment in performance period has been applied to the original CIP award of 43,903.

2 As the market price on the date of vesting is unknown at the time of reporting, the value is estimated using the average market value of the last three months of 2016.

SB award

As disclosed in last year's report and detailed in the single figure table for 2015, Stefan Bomhard received an award of 205,125 nil-cost options when he joined the Group on 1 April 2015. These options were in lieu of forfeited incentives from his previous employer and have an exercise price of 10p. Vesting is dependent on continued employment. On 1 April 2016, one-third of this award (68,375 options) vested at a share price of 699.5p and he has until 1 April 2025 to exercise. His remaining options will vest on 1 April 2017 and 1 April 2018, dependent on continued employment.

Awards made during the year

Normal and enhanced awards were made to the Executive Directors and other senior executives under the PSP and CIP. The PSP awards were granted as a fixed number of shares.

Under the CIP, Stefan Bomhard and Richard Howes invested 50% of salary and received an award of 100% of salary. Performance conditions for awards made in 2016 are as follows:

2016 Normal PSP/CIP

Three year EPS growth p.a. (75% weighting)	Vesting %	Three year average ROCE (25% weighting)	Vesting %
Less than 5%	0%	Less than 21%	0%
5%	25%	21%	25%
13%	100%	25%	100%
Between 5% and 13%	Straight line basis	Between 21% and 25%	Straight line basis

2016 Enhanced PSP

Three year EPS growth p.a. (100% weighting)	Vesting %
Less than 13%	0%
18%	100%
Between 13% and 18%	Straight line basis

Threshold level performance will result in 25% of the 2016 normal PSP and CIP awards vesting and no vesting of the 2016 enhanced PSP awards.

Award made to Richard Howes (RH award)

Richard Howes received an award in lieu of forfeited incentives from his previous employer when he joined the Group on 11 April 2016. This award consists of 124,909 nil-cost options with an exercise price of 10p and has the following conditions:

- 51,759 nil-cost options; half of this award vests on each of the first and second anniversaries of the grant date (i.e. 11 April 2017 and 2018) dependent on continued employment. This award is in lieu of forfeited incentives from his previous employer which did not have any performance conditions attached to the awards.
- 73,150 nil-cost options; award will vest on 11 April 2018 dependent on 2015 PSP performance conditions being met (please see last year's Directors' Report on Remuneration for more detail on conditions). The option is structured as the PSP with 90% as 'normal' awards and 10% 'enhanced' awards. This award is in lieu of forfeited incentives from his previous employer which had performance conditions attached to the award.

Awards made during the year are:

	Date of grant	Share price (p) ¹	Number of shares/options awarded	Face value at grant ²	Performance period	Exercise period
Stefan Bomhard						
Normal PSP	13 April 2016	716.5p	143,734	£1,029,854	Jan 2016 – Dec 2018	Apr 2019 – Apr 2020
Enhanced PSP	13 April 2016	716.5p	15,971	£114,432	Jan 2016 – Dec 2018	Apr 2019 – Apr 2020
CIP	22 April 2016	685.0p	100,603	£689,131	Jan 2016 – Dec 2018	Apr 2019 – Oct 2019
Richard Howes						
Normal PSP	13 April 2016	716.5p	106,719	£764,642	Jan 2016 – Dec 2018	Apr 2019 – Apr 2020
Enhanced PSP	13 April 2016	716.5p	11,858	£84,963	Jan 2016 – Dec 2018	Apr 2019 – Apr 2020
CIP	22 April 2016	685.0p	58,206	£398,711	Jan 2016 – Dec 2018	Apr 2019 – Oct 2019
SAYE	26 Sept 2016	563.0p	1,598	£8,996	n/a	Nov 2019 – Apr 2020
RH award	11 April 2016	685.5p	51,759	£354,808	n/a	Apr 2017 – Mar 2026
RH award	11 April 2016	685.5p	73,150	£501,443	Jan 2015 – Dec 2017	Apr 2018 – Mar 2026

1 Mid-market share price on date of grant or option price for SAYE.

2 Face value has been calculated using the share price at date of grant.

Long-term incentives for 2017

The Committee intends to continue to use EPS and ROCE as performance measures, however, we are proposing a re-weighting of measures, with 60% of an award based on three year underlying EPS growth (previously 75%) and 40% on ROCE (previously 25%) for grants made in 2017. This reflects the Group's renewed capacity and appetite for strategic acquisitions and the Committee's desire to ensure an appropriate balance between growth and returns.

The EPS range for the 2017 PSP and CIP awards will be 4% to 12% p.a reduced from 5% to 13% p.a. The Committee believes that these targets are very stretching with the management team required to exceed industry growth levels in order to achieve a payout under the EPS element of the 2017 awards. The Committee has also reviewed the ROCE range for the 2017 awards. The Group has always maintained a high focus on returns including ROCE and will continue to do so. Therefore, the target range for 2017 awards will be three year average ROCE of 22% to 26%, increased from 21% to 25%.

In response to shareholder feedback, the underlying EPS measure for PSP and CIP awards made from 2017 will be adjusted to exclude the impact of any share buy backs. The enhanced share element of the PSP awards has also been removed as it was not felt to be motivational; this is reflected in the reduction in the normal annual PSP award size from 200% of salary to 180% of salary in 2017 for the Executive Directors.

The PSP and CIP awards for 2017 will be granted with the following weightings and targets:

2017 PSP/CIP

Three year EPS growth p.a. (60% weighting)	Vesting %	Three year average ROCE (40% weighting)	Vesting %
Less than 4%	0%	Less than 22%	0%
4%	25%	22%	25%
12%	100%	26%	100%
Between 4% and 12%	Straight line basis	Between 22% and 26%	Straight line basis

Pension

During the year, the Executive Directors received a cash supplement of 30% of base salary in lieu of pension contributions, and were eligible to join the Cash+ scheme. For 2017, this arrangement remains unchanged.

On 31 December 2012, the Group closed the UK final salary pension plan to future accrual. Under the scheme, the Group offered defined benefit pensions for the then Executive Directors and other senior executives at the normal retirement age of 65. John McConnell was part of the scheme, Stefan Bomhard and Richard Howes are not. John McConnell's details are disclosed below.

Director's pension entitlements – John McConnell (audited)

	Increase in accrued DB pension during the year £'000	Increase in accrued DB pension during the year (net of inflation) £'000	Accumulated total of accrued DB pension 31 December 2015 £'000	Accumulated total of accrued DB pension at 31 December 2016 £'000	Pension value in year £'000	Cash supplement £'000	Total £'000
Group pension	0.3	0.3	15.5	15.8	7.7	n/a	n/a
	Increase in accrued lump sum during the year £'000	Increase in accrued lump sum during the year (net of inflation) £'000	Accumulated total of accrued lump sum at 31 December 2015 £'000	Accumulated total of accrued lump sum at 31 December 2016 £'000	Pension value in year £'000	Cash supplement £'000	Total £'000
Cash+	29.2	29.2	131.8	161.0	17.5	27.9	45.4

John McConnell made a contribution to his pension of 7% of capped salary via salary sacrifice.

Executive share ownership and Directors' interests (audited)

The table below shows the total number of shares, options and awards held by each Director at 31 December 2016.

	Shares held at 31 December 2016	Share awards held		Options held		Vested but not yet exercised	Guideline met
		Subject to performance conditions	Subject to deferral	Not subject to performance conditions	Subject to deferral		
Stefan Bomhard	60,803	497,421	0	136,750	1,557	70,131	No
Alison Cooper	5,069	n/a	n/a	n/a	n/a	n/a	n/a
Rachel Empey	6,760	n/a	n/a	n/a	n/a	n/a	n/a
Ken Hanna	70,000	n/a	n/a	n/a	n/a	n/a	n/a
Richard Howes	15,889	249,933	0	51,759	1,598	0	No
John Langston	3,314	n/a	n/a	n/a	n/a	n/a	n/a
John McConnell*	191,346	238,439	0	0	0	91,037	Yes
Coline McConville	1,923	n/a	n/a	n/a	n/a	n/a	n/a
Nigel Northridge	28,118	n/a	n/a	n/a	n/a	n/a	n/a
Nigel Stein	9,315	n/a	n/a	n/a	n/a	n/a	n/a
Till Vestring	64,389	n/a	n/a	n/a	n/a	n/a	n/a

* Shares and awards held by John McConnell on his date of leaving.

Vested but not yet exercised includes dividend equivalent shares accrued during performance period.

There have been no changes to the number of shares held by the Directors between 31 December 2016 and 28 February 2017.

Share ownership policy

The Executive Directors are required to hold a fixed number of shares equivalent to 200% of base salary. They have five years from the date of appointment to reach this shareholding.

Stefan Bomhard and Richard Howes held 61% and 28% of salary respectively as at 31 December 2016.

Shares exercised during the year

John McConnell exercised 2,971 CIP awards on 20 September 2016.

The share price on exercise was 674p. He sold enough shares upon exercise to cover tax and costs and kept the remaining shares.

There were no further exercises in 2016.

Percentage change in Group Chief Executive remuneration

The table shows the percentage change in Group Chief Executive remuneration from 2015 compared with the average percentage change in remuneration for senior management. For the purposes of this disclosure, remuneration comprises salary, benefits (excluding pension) and annual bonus only.

	Change in remuneration from 2015 to 2016	
	Group Chief Executive	Senior management
Salary	(0.9)%	3.63%
Taxable benefits ¹	(61.6)%	0.0%
Taxable benefits ²	(23.8)%	-
Single-year variable	(23.4)%	(0.93)%
Total	(18.0)%	2.49%

1 Percentage change in benefits for the CEO including relocation allowance which was paid until March 2016.

2 Percentage change in benefits for the CEO excluding relocation allowance.

Employees representing the most senior executives (c.90) have been selected as this group is large enough to provide a robust comparison, whilst also providing data that is readily available on a matched sample basis. These employees also participate in bonus schemes of a similar nature to Executive Directors and therefore remuneration will be similarly influenced by Company performance.

The changes for the Group Chief Executive have been determined with reference to aggregate numbers in 2015 for Stefan Bomhard and André Lacroix when undertaking their Chief Executive responsibilities.

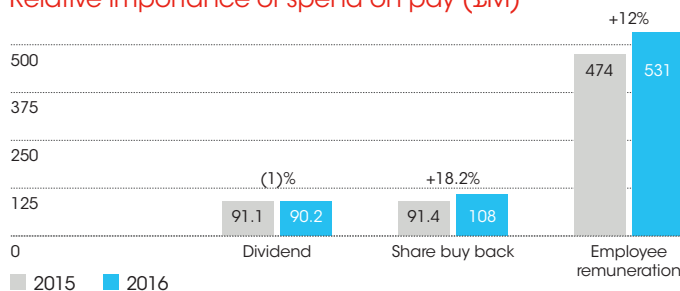
Relative importance of spend on pay

The chart shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and share buy backs) from 2015 to 2016.

As at 31 December 2016, £108m had been returned to shareholders under the share buy back programmes.

The Directors are proposing a final dividend for 2016 of 16.8p per share (2015: 14.1p).

Relative importance of spend on pay (£M)



Dilution limits

During the year, options and awards granted under the Group's incentive plans were satisfied on exercise by market purchase shares. Dilution limits are monitored throughout the year by the Committee and the Company complies with the limits set by the Investment Association.

Issued share capital as at 31 December 2016	421m
All schemes – 10% over 10-year rolling period	42m
Remaining headroom for all schemes	18m
Executive schemes – 5% over a 10-year rolling period	21m
Remaining headroom for executive schemes	4m

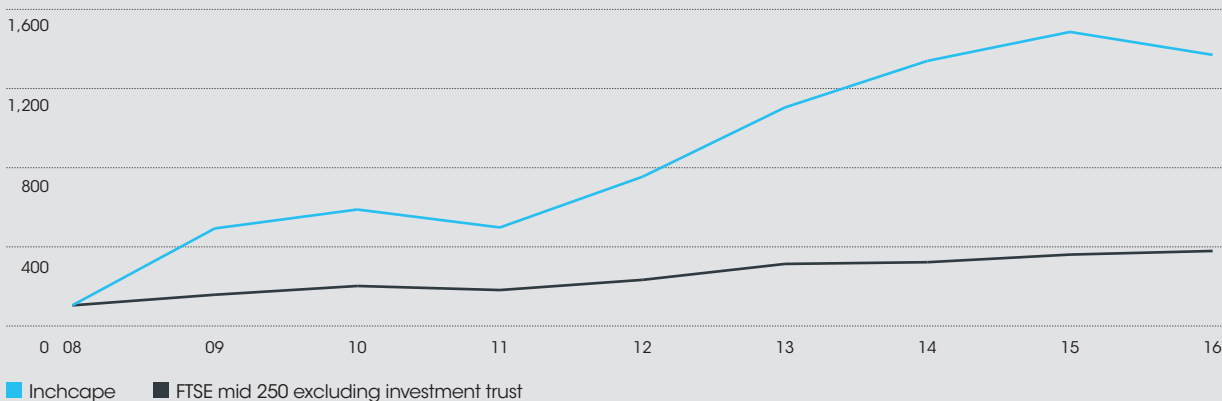
Pay for performance

The graph below shows the Total Shareholder Return (TSR) of the Company over the eight-year period to 31 December 2016. The FTSE mid 250 excluding investment trusts has been chosen as the most suitable comparator group as it is the general market index in which the Company appears. The table below details the Group Chief Executive's single figure remuneration and actual variable pay outcomes over the same period.

Historical TSR performance

Growth in the value of a hypothetical £100 holding over the eight years to 31 December 2016

Value of £100 invested at 1 January 2009



	Group Chief Executive	2009	2010	2011	2012	2013	2014	2015	2016
CEO single figure of remuneration (£'000)	André Lacroix	1,984	1,984	2,993	2,165	4,400	5,265	294 ¹	n/a
	Stefan Bomhard	n/a	n/a	n/a	n/a	n/a	n/a	2,906 ²	1,403
Annual bonus outcome (% of maximum)		100%	100%	52%	68%	48%	100%	56.8%	40.3%
LTI vesting ³ outcome (% of maximum)		0%	0%	100%	100%	66%	68%	n/a ⁴	n/a ⁵

1 The amount for André Lacroix in 2015 reflects remuneration received until he left the Group in March 2015.

2 Stefan Bomhard was appointed as Group Chief Executive on 1 April 2015. The amount reflects his remuneration from that time to 31 December 2015 and includes relocation allowance and his share award in lieu of forfeited awards.

3 LTI includes CIP, 'normal' PSP, 'enhanced' PSP and options prior to 2013.

4 Neither André Lacroix nor Stefan Bomhard received a vested award under the 2013 PSP or CIP. However, for those participants who did receive an award, 65.5% of the 2013 normal PSP vested and there was a 1.31 match for each share invested into the 2013 CIP.

5 Stefan Bomhard did not receive an award under the 2014 PSP or CIP. However, for those participants who did receive an award, 86.5% of the normal PSP vested and there was a 1.73:1 match for each share invested into the CIP.

Shareholder context

The table below shows the advisory vote on the Remuneration Report at the 2016 AGM.

	Total number of votes	% of votes cast
For (including discretionary)	213,903,231	63.5%
Against	122,942,981	36.5%
Total votes cast (excluding votes withheld)	336,846,212	100%
Votes withheld ¹	2,519,357	
Total votes cast (including votes withheld)	339,365,569	

¹ Withheld votes are not included in the final proxy figures as they are not recognised as a vote in law.

The remuneration policy was submitted for a binding vote at the 2014 AGM where it received a 96.45% 'for' vote out of 376,626,838 total votes cast (including votes withheld).

The Committee notes that although the majority of shareholders voted for the 2015 Annual Report of Remuneration at the AGM held in May 2016, 36.5% of votes were cast against. The Committee recognises that the vote against primarily relates to the disapplication of time pro-ration for our former Group Finance Director John McConnell's 2014 PSP award upon his departure from the Group. We engaged with our shareholders to fully understand their concerns prior to, and after, the AGM as part of the remuneration policy process. As a result of those conversations we understand that many of our shareholders prefer for outstanding incentives to be time pro-rated as well as pro-rated for performance. The Committee has taken on board this preference and will appropriately time pro-rate if this situation arises again.

Exit payments during the year

John McConnell left the Group in February 2016. In line with his good leaver status, he received the following payments:

Payment in lieu of notice

John received a payment in lieu of notice of £299,728 which equates to six months' base salary and benefits. Benefits valued in the payment include pension allowance, life assurance, company car, and private medical cover.

2016 annual bonus

John was entitled to receive a 2016 bonus of £44,338, which he received after his departure in February 2016. The bonus payout was calculated assuming target performance and was pro-rated for time spent in employment during 2016.

2014 PSP and CIP awards

As disclosed on page 71, 113,107 and 27,427 of John McConnell's 2014 'normal' PSP and CIP shares will vest in 2017 due to EPS and ROCE performance achieved over three years to 31 December 2016. The CIP awards have been pro-rated for time spent in employment during the relevant performance period. No enhanced PSP shares vested as the EPS target was not met.

John was also entitled to receive awards under the 2015 PSP and CIP awards. Vesting will be pro-rated for time spent in employment during the relevant performance period and will be subject to performance targets.

Payments to past Directors

No payments were made to past Directors in 2016.

Other directorships

The Executive Directors are generally permitted to take one non-executive directorship as long as it does not lead to conflicts of interest or undue time commitment.

Stefan Bomhard is a Non-Executive Director of Compass plc, for which he received a fee of £55,115 during 2016.

Advisors to the Committee

Kepler, a brand of Mercer (and part of the MMC group), acted as the independent remuneration advisor to the Committee during the year. Kepler attends Committee meetings and provides advice on remuneration for executives, analysis of the remuneration policy and regular market and best practice updates. Kepler reports directly to the Committee Chair and is a signatory and adheres to the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Kepler was appointed by the Committee in 2010 after a comprehensive tendering process carried out by the Committee.

Mercer also supplies unrelated services to the Group in relation to IAS 19. The Committee is satisfied that the advice it receives from Kepler is objective and independent and that Kepler does not have any connection with the Company that may impair its independence. Kepler's fees are charged at an hourly rate in accordance with the terms and conditions set out in the Engagement Letter. Kepler was paid fees of £126,310 for its services during the year, excluding expenses and VAT.

The Directors' Report on Remuneration was approved by the Board and has been signed by Coline McConville on its behalf.



COLINE MCCONVILLE

Chairman of the Remuneration Committee

Board of Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Stefan Bomhard
Alison Cooper
Rachel Empey – joined May 2016
Ken Hanna
Richard Howes – joined April 2016
John McConnell – left February 2016
Coline McConville
Nigel Northridge
Nigel Stein
Till Vestring

In accordance with the 2014 UK Corporate Governance Code, the Directors will stand for election or re-election at the Annual General Meeting (AGM) on 25 May 2017, apart from John McConnell who left the Group in February 2016 and Alison Cooper who left the Group in February 2017. Jerry Buhlmann was appointed as a member of the Board in March 2017 and will stand for election at the AGM.

The Directors' Report for the year ended 31 December 2016 comprises pages 78 to 86 of this Report (together with sections incorporated by reference). Some matters normally included in the Directors' Report are included in the Strategic Report on pages 2 to 43 including future business development and risk management. Details on the breakdown of gender for the Directors, senior managers and employees of the Company required to be given in the Strategic Report under the Companies Act 2006 are given on page 81 of this Report.

Corporate governance statement

The statement of compliance with the 2014 UK Corporate Governance Code and the information required under DTR7 is given in the Corporate Governance Report on page 48.

Results and dividends

The Group's audited consolidated financial statements for the year ended 31 December 2016 are shown on pages 88 to 171. The Board recommends a final ordinary dividend of 16.8p per ordinary share. If approved at the 2017 AGM, the final ordinary dividend will be paid on 23 June 2017 to shareholders registered in the books of the Company at the close of business on 19 May 2017. Together with the interim dividend of 7.0p per ordinary share paid on 3 September 2016, this makes a total ordinary dividend for the year of 23.8p per ordinary share (2015 – 20.9p).

Auditor and disclosure of information to the auditor

So far as the Directors are aware there is no relevant audit information of which the Company's auditor is unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' indemnity

A qualifying third party indemnity (QTPI), as permitted by the Company's Articles of Association and sections 232 and 234 of the Companies Act 2006, has been granted by the Company to each of the Directors of the Company. Under the provisions of the QTPI the Company undertakes to indemnify each Director against liability to third parties (excluding criminal and regulatory penalties) and to pay Directors' costs as incurred, provided that they are reimbursed to the Company if the Director is found guilty or, in an action brought by the Company, judgment is given against the Director. The indemnity has been in force for the financial year ended 31 December 2016 and until the date of approval of this Report.

Share capital

As at 31 December 2016, the Company's issued share capital of £42,100,481 comprised 421,004,809 ordinary shares of 10.0p. Holders of ordinary shares are entitled to receive the Company's Report and Accounts, to attend and speak at General Meetings and to appoint proxies and exercise voting rights. The shares do not carry any special rights with regard to control of the Company. The rights are set out in the Articles of Association of the Company.

Restrictions of transfer of securities

There are no restrictions or limitations on the holding of ordinary shares and no requirements for prior approval of any transfers. There are no known arrangements under which financial rights are held by a person other than the holder of the shares. Shares acquired through the Company share schemes rank *pari passu* with the shares in issue and have no special rights.

Authority to purchase shares

At the Company's AGM on 26 May 2016, the Company was authorised to make market purchases of up to 43,212,719 ordinary shares (representing approximately 10.0% of its issued share capital).

In the year ended 31 December 2016, the Company purchased, for cancellation, 15,805,287 ordinary shares of 10.0p each at a cost of £108m, representing 3.75% of the issued share capital at that date, as part of the Board's commitment to return additional surplus cash to shareholders under the share buy back programme.

Interests in voting rights

During the year, the Company had been notified of the following interests pursuant to the Financial Conduct Authority's Disclosure and Transparency Rules. The information below was correct at the date of notification. It should be noted that these holdings are likely to have changed since notified to the Company. However, further notification of any change is not required until the next threshold is crossed.

Shareholder	Number of shares	Percentage notified
Standard Life Investments	51,124,216	12.08%
BlackRock Inc	29,954,388	7.11%
Prudential plc	15,251,091	3.55%
Legal & General	12,952,096	3.07%

Source TR-1 notifications. These are updated on the Company's website.

We have been notified of interests held in the company by Standard Life on 20 and 28 February and by BlackRock on 27 February.

Employee benefit trust

The Executive Directors of the Company, together with other employees of the Group, are potential beneficiaries of the Inchcape Employee Trust (the Trust) and, as such, are deemed to be interested in any ordinary shares held by the Trust. At 31 December 2016, the Trust's shareholding totalled 770,102 ordinary shares.

In respect of LR 9.8.4R(12) and (13), the trustee of the Trust agrees to waive dividends payable on the shares it holds for satisfying awards under the various share plans.

Directors' interests

The table showing the beneficial interests, other than share options, including family interests, in the ordinary shares of the Company of the persons who were Directors at 31 December 2016 is shown in the Directors' Report on Remuneration on page 74.

There have been no changes to the number of shares held by Directors between 31 December 2016 and 28 February 2017.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Report on Remuneration 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 (IFRS) as adopted by the European Union,

and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS, as adopted by the European Union and applicable United Kingdom Accounting Standards, have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively; 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 and the Directors' Report on Remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors who was in office at the date of this Report whose names and responsibilities are listed on pages 44 to 45, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

- the Operating Review contained on pages 18 to 31 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Board has reviewed the content of the Annual Report and Accounts and considers when taken as a whole that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Going concern

Having assessed the principal risks and the other matters discussed in connection with the viability statement on page 38, the Directors consider it appropriate to adopt the going concern basis of accounting in the financial statements.

Articles of Association

The appointment and replacement of Directors is governed by the Company's Articles of Association, the 2014 UK Corporate Governance Code, the Companies Act 2006 and related legislation.

The Directors have authority to issue and allot ordinary shares pursuant to article 9 of the Articles of Association and shareholder authority is requested at each AGM. The Directors have authority to make market purchases for ordinary shares and this authority is also renewed annually at the AGM.

The Articles of Association may be amended by a special resolution of the shareholders. Subject to the Articles, the Companies Act 2006 and any directions given by special resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company.

Conflicts of interest

The Articles of Association permit the Board to authorise any matter which would otherwise involve a Director breaching his duty under the Companies Act 2006 to avoid conflicts of interest. When authorising a conflict of interest the Board must do so without the conflicting Director counting as part of the quorum. In the event that the Board considers it appropriate, the conflicted Director may be permitted to participate in the debate, but will be permitted neither to vote nor count in the quorum when the decision is being agreed. The Directors are aware that it is their responsibility to inform the Board of any potential conflicts as soon as possible and procedures are in place to facilitate disclosure.

Change of control

The Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control of the Company following a takeover bid. However, certain of the Group's third party funding arrangements would terminate upon a change of control of the Company.

The Group's relationships with its OEM partners are managed at Group level, but the relevant contracts are entered into at a local level with day-to-day management being led by each operating business. Certain of the contracts may terminate on a change of control of the local contracting company.

The Company does not have agreements with any Director or employee providing compensation for loss of office or employment that occurs because of a takeover bid, except for provisions in the rules of the Company's share schemes which may result in options or awards granted to employees to vest on a takeover.

Transactions with Directors

No transaction, arrangement or agreement, other than remuneration, required to be disclosed in terms of the Companies Act 2006 and IAS 24, 'Related Parties' was outstanding at 31 December 2016, or was entered into during the year for any Director and/or connected person (2015 – none).

Greenhouse gas emissions

The information required under Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of greenhouse gas emissions is given in the Environment section of the Corporate Responsibility Report on page 43.

Employees

The Company is committed to a policy of treating all its colleagues and job applicants equally. We are committed to the employment of people with disabilities and will interview those candidates who meet the minimum selection criteria.

We provide training and career development for our employees, tailored where appropriate to their specific needs, to ensure they achieve their potential. If an individual becomes disabled while in our employment, we will do our best to ensure continued development in their role, including consulting them about their requirements, making appropriate adjustments and providing suitable alternative positions.

Employee involvement

The information required under Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of employee involvement is given in the People section of the Corporate Responsibility Report on page 40.

Gender diversity

The breakdown of the number of female and male employees who were (i) Directors of the Company (ii) senior managers and (iii) employees of the Company as at 31 December 2016 is as follows:

	Male		Female		Total
Board	7	70%	3	30%	10
Senior management	84	86%	14	14%	98
All employees	11,904	73%	4,309	27%	16,212

Financial instruments

The information required under Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of financial instruments is given in note 23 to the financial statements on pages 131 to 137.

Principal financial risk factors

These risks are shown on pages 32 and 38.

Events after the reporting period

None.

Other information – Listing rules

For the purposes of LR 9.8.4 R, the information required to be disclosed by LR 9.8.4 R can be found on the pages set out below:

Section	Information	Page
1	Interest capitalised	Not material to the Group
2	Publication of unaudited financial information	76 (TSR Graph)
4	Details of long-term incentive schemes	71-73
5	Waiver of emoluments by a director	Not applicable
6	Waiver of future emoluments by a director	Not applicable
7	Non pre-emptive issues of equity for cash	Not applicable
8	Non pre-emptive issue by a major subsidiary undertaking	Not applicable
9	Parent participation in a placing by a listed subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Provision of services by a controlling shareholder	Not applicable
12	Shareholder waivers of dividends	79
13	Shareholder waiver of future dividends	79
14	Agreements with controlling shareholders	Not applicable

Annual General Meeting

The AGM will be held at 11.00 a.m. on Thursday, 25 May 2017 at Deutsche Bank AG, Winchester House, 1 Great Winchester Street, London EC2N 2DB. The notice convening the meeting and the resolutions to be put to the meeting, together with the explanatory notes, are given in the Circular to all shareholders.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution to reappoint them as auditor will be proposed at the AGM.

The Directors' Report and the Strategic Report were approved by the Board and have been signed by the secretary of the Company.



TAMSIN WATERHOUSE

Group Company Secretary

Compliance with the UK Corporate Governance Code

This section sets out the Company's compliance with the 2014 UK Corporate Governance Code (the "Code"). This section should be read in conjunction with the Corporate Governance Report as a whole, which is set out on pages 46 to 78.

A. Leadership

A.1. The Role of the Board

The Board is collectively responsible for the long-term success of the Company and achieves this by setting its strategic aims whilst ensuring that the necessary financial and human resources are available. The Board also ensures that the correct controls are in place to ensure the right culture exists throughout the organisation to achieve the objectives in a sustainable manner. The Board also reviews the performance of management to monitor the progress of implementing the strategy. Details of the Directors are given on page 45.

There is a schedule of formal matters reserved for the Board which can be found at www.inchcape.com/governance

The table below shows the Board and Committee meetings held during the year. There were additional Board calls and Committee meetings throughout the year to discuss specific issues as they arose.

	Board	Audit Committee	Remuneration Committee	Nomination Committee	CR Committee
Name	Scheduled/attended	Scheduled/attended	Scheduled/attended	Scheduled/attended	Scheduled/attended
Stefan Bomhard	6/6	–	–	–	2/2
Alison Cooper	6/5	4/4	–	2/2	–
Rachel Empey*	3/3	2/2	–	1/1	–
Ken Hanna	6/6	–	2/2	2/2	2/2
Richard Howes*	4/4	–	–	–	–
John Langston	6/6	4/4	–	2/2	–
John McConnell*	1/1	–	–	–	–
Coline McConville	6/6	–	2/2	2/2	2/2
Nigel Northridge	6/6	4/4	2/2	2/2	–
Nigel Stein	6/6	4/4	–	2/2	–
Till Vestring	6/6	–	2/2	2/2	2/2

* Richard Howes and Rachel Empey joined during the year. John McConnell left during the year.

A.2. Division of responsibilities

The Chairman and Group Chief Executive have separate roles and responsibilities.

Ken Hanna is responsible for leading an effective Board, ensuring timely, accurate and relevant information is received, the composition of the Board and is Chair of the Nomination Committee.

Stefan Bomhard is responsible for developing the Group's strategy, running the day-to-day operations, reporting to the Board on performance, implementation of strategy and any significant developments, leading the Group Executive Committee including managing risk and internal control and engaging with shareholders.

Their responsibilities are set out at appointment and are agreed by the Board.

A.3. The Chairman

The Chairman sets the Board's agenda and a description of the changes to the Board's planning process, to take into account strategic discussions, is given on page 47 and details of the Board's strategy day are given on page 49.

Ken Hanna was considered independent upon appointment as Chairman.

A.4. Non-Executive Directors

The Non-Executive Directors are appointed to offer a wide range of skills and experience in order to challenge management and help develop strategy. The Non-Executive Directors make up the Committees which have responsibilities for various aspects and details of their work can be found on pages 50 to 77.

Nigel Northridge is the Senior Independent Director and is available to shareholders if they do not want to speak to the Chairman or the Group Chief Executive Officer.

The Non-Executive Directors meet without the Executive Directors on an annual basis and also meet without the Chairman to discuss his performance.

If a Director has a concern about the running of the Company which cannot be resolved it would be recorded in the Board minutes. No such concerns arose in 2016.

B. Effectiveness

B.1. The composition of the Board

The skills, experience and independence of the Directors are reviewed by the Nomination Committee and further details can be found on pages 54. The Board is satisfied that all Non-Executive Directors are considered independent in accordance with the Code. The Board consists of the Chairman, seven Non-Executive Directors and two Executive Directors.

B.2. Appointments to the Board

The Nomination Committee consists of seven members all of whom are independent Non-Executive Directors and is chaired by Ken Hanna. Its terms of reference can be found at www.inchcape.com/governance.

Non-Executive Directors are appointed for a period of three years. After each three year period the performance of the Director is reviewed by the Chairman, and the Committee will approve any further terms. All appointments are subject to annual re-election at the AGM.

Nigel Northridge has been a member of the Board for over six years and his tenure has been taken into account when reviewing the composition of the Board and is subject to rigorous review.

B.3. Commitment

The Directors are required to allocate sufficient time to the Company to discharge their responsibilities and the Board dates are agreed two years in advance to ensure that Directors are able to plan accordingly and for other commitments to be taken into account. Non-Executive Directors are informed of the time commitment expected from them upon appointment and this is reviewed annually to ensure that the time expected is still relevant in light of the Company's strategic agenda.

Other directorships held by Directors are given in their biographies on page 45. The Company has a policy of one non-executive directorship for the Executive Directors. Stefan Bomhard was appointed as a Non-Executive Director of Compass Group plc. Details of the fees paid to him are given on page 77 of the Directors' Report on Remuneration.

The letters of appointment for Non-Executive Directors are available at the AGM and upon request.

B.4. Development

All Directors receive a tailored induction programme upon appointment designed to ensure that they have sufficient knowledge of the business and the context in which it operates. The induction consists of one-to-one meetings with Executive Committee members and other key management and a site visit designed to give the Director an in-depth understanding of the Retail and Distribution businesses.

The Non-Executive Directors are expected to update their knowledge and skills regularly and training is provided for the Board and individual Directors as required. During the year, external experts are invited to Board meetings to speak on relevant topics to give additional insight and context to the business. During the year, the Board received professional advice and training on the Market Abuse Regulations which came into force on 3 July 2016.

The Chairman discussed any training or development needs of each Director during the evaluation process.

B.5 Information and support

The Group Company Secretary is responsible for ensuring the Board has access to relevant and accurate information. The Board agendas are agreed in advance by the Chairman and the Group Chief Executive and include regular items such as reports from the Group Chief Executive, the Chief Financial Officer and Investor Relations. The reports include information on operational matters, financial performance and strategic developments. Regional updates, designed to give a deeper view of the markets, are given throughout the year by the relevant market Chief Executive Officers.

The Group Company Secretary also supports the Board by providing advice and services, including access to independent advice, and ensures that an accurate record of the meeting is taken. If a Director has any concerns about the Company or any of the decisions being taken, this would be recorded in the minutes. No such concerns arose during 2016.

B.6 Evaluation

The Company undertakes an evaluation of the Board every year with every third year being an externally facilitated evaluation by an independent consultant. The internal evaluations take the form of a Company Secretary-led questionnaire or a Chairman-led interview-based evaluation. Internal evaluations typically look at oversight responsibilities which include strategy, finance, performance, the market, investor relations, talent and succession planning, reputation, risk and governance. Board effectiveness and the performance of the Committees are also evaluated.

B.7 Re-election

All Directors will stand for election or re-election at the AGM apart from Alison Cooper who left the Board in February 2017. The biographies of the Directors can be found on page 45 and the Board has set out its views on why the Directors should be elected or re-elected in the Notice of Meeting.

C Accountability

C.1 Financial and business reporting

During the year the Board reviewed the Annual Report and Accounts, the interim results and any other trading updates which are released to the public. During each review the Board challenged management on the assumptions and judgements used taking into account the strategy, business model, resources and future trends affecting the business.

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. The Board is satisfied that appropriate processes are in place to enable it to make this statement and to provide the necessary information on position and performance, business model and strategy to allow users to make a fair assessment of the business. A statement of the Directors' responsibilities is set out on pages 79 to 80. The going concern statement is set out on page 80

The Board is responsible for establishing and maintaining adequate internal controls of regular financial reporting for the Group, including the consolidation process. Internal controls over the financial reporting framework are designed to provide reasonable assurance regarding the reliability of financial reporting as well as the preparation of the financial statements in accordance with IFRS. The Internal Audit team regularly assess the effectiveness of internal controls over financial reporting as well as the preparation of financial statements based on the framework contained in the FRC guidance on risk management, internal control and related financial and business reporting and the UK Corporate Governance Code. There have been no significant changes to the control environment and the Board has concluded that the Group's internal system of controls over financial reporting was effective during the year. Further information on the significant issues considered by the Audit Committee during the year are given on page 52.

Preparation of consolidated accounts

All data to be consolidated into the Group's financial statements is reviewed thoroughly by management to ensure that it gives a true and fair reflection of the financial position of the Group. The Group has established the following internal controls in relation to the process for preparing consolidated financial statements:

- The Group Finance department, which is responsible for producing the consolidated financial statements, consists of appropriately qualified individuals. Management regularly monitors developments in accounting regulations and considers the impact on the consolidated financial statements.
- For each external reporting period, a set of group reporting instructions are distributed to each market. The local finance teams are required to confirm that they have read and understood all instructions.
- The financial statements of each local market are subject to a review by a local finance manager prior to being submitted to Group Finance.
- The Group Finance department will review the submissions of each market to look for unusual or unexpected items. Any unexplained items are queried with local management.

The Group's consolidation, which takes the results of the local markets and makes appropriate adjustments, is reviewed as appropriate by members of the Group Finance team.

- The draft consolidated financial statements are reviewed by a qualified individual independent of the team who prepared them.
- The Audit Committee and the Board review the draft consolidated financial statements. The Audit Committee receives reports from management and the external auditor on significant judgements and other matters of relevance to the financial statements.
- The financial statements of all material local markets are subject to external audit.
- The business model and strategy can be found on pages 2 to 15.
- The going concern statement is given on page 80.

C.2 Risk management and internal control

The Board is responsible for determining the nature and extent of the risks it is willing to take to achieve its strategic objectives. The Board carries out a robust review of the principal risks facing the Company on an annual basis and the Audit Committee reviews certain risks on an ongoing basis as part of their delegated responsibilities.

The risk management and internal control system is designed to ensure:

- risks are identified, evaluated and mitigated;
- information is reliable, accurate and timely;
- we comply with plans, procedures, laws, regulations and contracts;
- assets (including people) are safeguarded;
- resources are used effectively and efficiently; and
- objectives and goals are met.

The principal risks are built from a bottom-up review overlaid with a top-down view from the Executive and iPOM Committees. The Group Executive Committee identifies the key risks and develops mitigation plans for managing those risks. The Audit Committee monitors and challenges the outputs.

In order to ensure that we are addressing each of the principal risks in the most effective manner, the risks are analysed according to those underlying factors which may contribute to the primary risk. Breaking down the risks into such 'causal factors' facilitates the creation of a robust, comprehensive assurance map.

This assurance map is then monitored at the Group iPOM Committee and by the Board to determine the level of risk against our risk appetite and whether further actions are required either in certain business units or Group-wide to manage the risk to within acceptable parameters. Where further actions are identified, these are monitored and tracked to completion.

The Group uses an online risk management and reporting solution to monitor its risks (and associated action plans) at Group level and at market level. This, along with the iPOM risk management dashboard (reviewed at both Group and market level), ensures the correct focus on risk management and mitigation at all management levels of the business.

A description of risks, an explanation of how they are being managed and mitigated and the Board's viability statement can be found in the Risk management report on pages 32 to 38.

The key control processes, described below, enable the Directors to review the effectiveness of the risk management and internal control systems on an ongoing basis:

- The Annual Operating Plan (AOP) is reviewed and approved by the Board.
- Monthly actual results are reviewed by management against the AOP and, where appropriate, revised forecasts are presented to the Board.
- Financial information is reported to the Board on a monthly basis including cash flow, balance sheet and key performance indicators.
- Key operational and compliance processes and controls are reviewed regularly by Group Internal Audit and the findings are reported to the Audit Committee at each meeting.
- The Audit Committee reviewed the effectiveness of the Minimum Control Framework ("MCF") throughout the year. The Audit Committee did not identify any significant control failings.
- Clearly defined authority limits including capital expenditure approval procedures.

- Bank balances are reviewed daily and cash flows compared with budgets weekly.
- Each business unit is required to implement a rigorous set of internal controls covering operations, financial and compliance. The Chief Executive and Finance Director of each business unit will provide annual written confirmation that the effectiveness of the internal control systems has been reviewed, adhered to and remains appropriate.
- Appropriate regulatory training including anti-bribery is in place in all business units and is monitored by the Head of Corporate Assurance.

Further information on the Group's internal control system, MCF, can be found in the Audit Committee Report on pages 50 to 53.

The process is designed to manage rather than eliminate the risk of failure to achieve business objectives. In establishing and reviewing the system of internal control, the Directors have regard to the nature and extent of the relevant risks, the likelihood of loss being incurred and the costs of control. The system can only provide a reasonable but not absolute assurance against any material mis-statement or loss and cannot eliminate business risk.

The Board has determined that there were no significant failings or weaknesses identified during the review of the risk management and internal control processes during the year and further confirm that these systems were in place during 2016 and up to the date of this Report.

C.3 Audit Committee and the auditors

It is the role of the Audit Committee to ensure the integrity of the financial reporting and audit processes, to ensure sound internal control and risk management systems are in place, to review the Group's whistleblowing procedures and to ensure there is an appropriate relationship with the external auditor.

The Audit Committee Terms of Reference can be found at www.inchcape.com/governance.

The Audit Committee consists of five independent Non-Executive Directors. John Langston, Alison Cooper, Rachel Empey and Nigel Stein are qualified chartered accountants and are considered to have recent and relevant financial experience. In addition, the Committee as a whole has competence in Retail which is the sector in which the Company operates.

The Committee met four times during the year to coincide with the financial calendar. Only members of the Committee are entitled to attend Committee meetings. However, the Chairman, Group Chief Executive, Chief Financial Officer, Group Financial Controller and Group Audit Director attend the Committee meetings along with the external auditor. Other senior executives, such as the

Group Tax Director and General Counsel, attend during the year to present to the Committee.

The Group has an externally hosted whistleblowing line in place. InConfidence is a compliance and ethics reporting solution which allows both hotline and web reporting capabilities in multiple languages, integrated with case management software to support efficient and effective investigation, remediation and reporting.

Further details of the work of the Audit Committee can be found on pages 50 to 53.

D. Remuneration

D.1 Level and components of remuneration

Details of the remuneration paid to the Directors of the Group are given in the Directors' Report on Remuneration on pages 57 to 77.

D.2 Procedure

It is the role of the Remuneration Committee to ensure that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of senior executives while also complying with the requirements of regulation.

Its terms of reference can be found at www.inchcape.com/governance and details of the remuneration consultants can be found on page 77 of the Directors' Report on Remuneration.

The Remuneration Committee consists of three independent Non-Executive Directors and the Chairman. The Committee invites other individuals such as the Group Chief Executive, Chief Human Resources Officer and external consultants to attend its meetings. No Director takes any part in any decision affecting his or her own remuneration.

The limit to Non-Executive Director fees is set out in the Company's Articles of Association, a copy of which is available at www.inchcape.com.

Further details can be found in the Directors' Report on Remuneration given on pages 57 to 77.

E. Relations with shareholders

E.1 Dialogue with shareholders

As the Company is putting a new remuneration policy to shareholders at the 2017 AGM, a consultation took place with major shareholders during the year. Further details are given in the Directors' Report on Remuneration on pages 57 to 77.

In addition, Ken Hanna met with several major shareholders to discuss various strategic and governance issues and to ensure that the Company is fully aware of shareholders views and expectations of the Group.

The views of shareholders are communicated to the Board after each meeting and through regular Investor Relations reports, and analysts and brokers briefings.

2016 AGM

Last year, the 2015 Annual Report of Remuneration was passed by the majority of shareholders, however 36.5% of votes were cast against. The Chairman and Remuneration Committee Chair engaged with our shareholders to fully understand their concerns prior to, and after, the AGM as part of the remuneration policy process.

Shareholders confirmed that the vote against primarily related to the disapplication of time pro-rata for former Group Finance Director John McConnell's 2014 PSP award upon his departure from the Group.

As a result of those conversations we understand that many of our shareholders prefer for outstanding incentives to be time pro-rated as well as pro-rated for performance. The Remuneration Committee has taken on board this preference and will appropriately pro-rate if this situation arises again.

E2. Constructive use of General Meetings

The AGM gives 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. Shareholders are encouraged to contact the Company with any questions they wish to raise with the Board of Directors.

The Company complies with the Code as it relates to voting, the proposal of separate resolutions on each substantially separate issue and the attendance of the Committee Chairs at the AGM. Details of the voting at the AGM are available on the Company's website.

The Group is committed to reducing its impact on the environment and encourages shareholders to receive communications electronically to reduce paper usage. Shareholders can also register for news alerts via email. Please visit the website www.inchcape.com/investors for more information. It is important for shareholders to receive communications in the form most appropriate to their needs and they can change the way they receive information at any time.

The Company's registrars, Computershare, act as scrutineers at the AGM and ensure that the votes are correctly counted and recorded.

All Directors are required to attend the AGM.

Financial Statements

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Consolidated income statement

For the year ended 31 December 2016

	Notes	Before exceptional items 2016 £m	Exceptional items (note 2) 2016 £m	Total 2016 £m	Before exceptional items 2015 £m	Exceptional items (note 2) 2015 £m	Total 2015 £m
Revenue	1, 3	7,838.4	-	7,838.4	6,836.3	-	6,836.3
Cost of sales		(6,759.3)	-	(6,759.3)	(5,847.5)	-	(5,847.5)
Gross profit		1,079.1	-	1,079.1	988.8	-	988.8
Net operating expenses	3	(720.0)	(81.6)	(801.6)	(664.1)	(49.5)	(713.6)
Operating profit		359.1	(81.6)	277.5	324.7	(49.5)	275.2
Share of (loss) / profit after tax of joint ventures and associates	13	(0.1)	-	(0.1)	0.7	-	0.7
Profit before finance and tax		359.0	(81.6)	277.4	325.4	(49.5)	275.9
Finance income	6	17.0	-	17.0	14.4	-	14.4
Finance costs	7	(26.6)	-	(26.6)	(27.7)	-	(27.7)
Profit before tax		349.4	(81.6)	267.8	312.1	(49.5)	262.6
Tax	8	(88.0)	11.5	(76.5)	(74.9)	(4.8)	(79.7)
Profit for the year		261.4	(70.1)	191.3	237.2	(54.3)	182.9
Profit attributable to:							
- Owners of the parent				184.4			175.8
- Non-controlling interests				6.9			7.1
				191.3			182.9
Basic earnings per share (pence)	9			43.2p			39.8p
Diluted earnings per share (pence)	9			42.6p			39.4p

The notes on pages 100 to 144 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Profit for the year		191.3	182.9
Other comprehensive income:			
<i>Items that will not be reclassified to the consolidated income statement</i>			
Defined benefit pension scheme remeasurements	5	(60.3)	(26.8)
Current tax recognised in consolidated statement of comprehensive income		0.1	-
Deferred tax recognised in consolidated statement of comprehensive income	16	10.8	1.2
		(49.4)	(25.6)
<i>Items that may be or have been reclassified subsequently to the consolidated income statement</i>			
Cash flow hedges		(35.3)	25.9
Effect of foreign exchange rate changes		215.3	(49.9)
Deferred tax recognised in consolidated statement of comprehensive income	16	10.5	(7.7)
		190.5	(31.7)
Other comprehensive income / (loss) for the year, net of tax		141.1	(57.3)
Total comprehensive income for the year		332.4	125.6
Total comprehensive income attributable to:			
- Owners of the parent		324.5	117.7
- Non-controlling interests		7.9	7.9
		332.4	125.6

The notes on pages 100 to 144 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Intangible assets	11	614.5	418.4
Property, plant and equipment	12	778.6	644.0
Investments in joint ventures and associates	13	4.1	5.3
Available for sale financial assets	14	3.6	1.2
Trade and other receivables	15	50.9	47.2
Deferred tax assets	16	31.7	18.7
Retirement benefit asset	5	80.0	124.3
		1,563.4	1,259.1
Current assets			
Inventories	17	1,549.4	1,224.4
Trade and other receivables	15	446.0	327.8
Available for sale financial assets	14	0.2	0.2
Derivative financial instruments	23	160.1	134.5
Current tax assets		13.6	4.0
Cash and cash equivalents	18	645.2	473.8
		2,814.5	2,164.7
Assets held for sale	19	3.2	4.5
		2,817.7	2,169.2
Total assets		4,381.1	3,428.3
Current liabilities			
Trade and other payables	20	(1,911.6)	(1,566.1)
Derivative financial instruments	23	(53.6)	(3.6)
Current tax liabilities		(68.5)	(70.7)
Provisions	21	(37.0)	(22.7)
Borrowings	22	(481.7)	(103.3)
		(2,552.4)	(1,766.4)
Non-current liabilities			
Trade and other payables	20	(18.0)	(12.8)
Provisions	21	(32.7)	(26.5)
Deferred tax liabilities	16	(80.8)	(43.8)
Borrowings	22	(292.0)	(311.5)
Retirement benefit liability	5	(42.7)	(25.4)
		(466.2)	(420.0)
Total liabilities		(3,018.6)	(2,186.4)
Net assets		1,362.5	1,241.9
Equity			
Share capital	24	42.2	43.8
Share premium		146.7	146.7
Capital redemption reserve		138.4	136.8
Other reserves	25	(25.6)	(215.1)
Retained earnings	26	1,042.2	1,106.8
Equity attributable to owners of the parent		1,343.9	1,219.0
Non-controlling interests		18.6	22.9
Total equity		1,362.5	1,241.9

The notes on pages 100 to 144 are an integral part of these consolidated financial statements. The consolidated financial statements on pages 88 to 144 were approved by the Board of Directors on 28 February 2017 and were signed on its behalf by:

STEFAN BOMHARD,
Group Chief Executive

RICHARD HOWES,
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves (note 25) £m	Retained earnings (note 26) £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total shareholders' equity £m
At 1 January 2015		45.0	146.7	135.6	(182.6)	1,148.2	1,292.9	25.2	1,318.1
Profit for the year		-	-	-	-	175.8	175.8	7.1	182.9
Other comprehensive (loss) / income for the year		-	-	-	(32.5)	(25.6)	(58.1)	0.8	(57.3)
Total comprehensive income / (loss) for the year		-	-	-	(32.5)	150.2	117.7	7.9	125.6
Share-based payments, net of tax	4,16	-	-	-	-	9.8	9.8	-	9.8
Share buy back programme	24	(1.2)	-	1.2	-	(91.4)	(91.4)	-	(91.4)
Net purchase of own shares by the Inchcape Employee Trust		-	-	-	-	(18.9)	(18.9)	-	(18.9)
Dividends:									
- Owners of the parent	10	-	-	-	-	(91.1)	(91.1)	-	(91.1)
- Non-controlling interests		-	-	-	-	-	-	(10.2)	(10.2)
At 1 January 2016		43.8	146.7	136.8	(215.1)	1,106.8	1,219.0	22.9	1,241.9
Profit for the year		-	-	-	-	184.4	184.4	6.9	191.3
Other comprehensive income / (loss) for the year		-	-	-	189.5	(49.4)	140.1	1.0	141.1
Total comprehensive income for the year		-	-	-	189.5	135.0	324.5	7.9	332.4
Share-based payments, net of tax	4,16	-	-	-	-	11.3	11.3	-	11.3
Share buy back programme	24	(1.6)	-	1.6	-	(109.8)	(109.8)	-	(109.8)
Net purchase of own shares by the Inchcape Employee Trust		-	-	-	-	(10.9)	(10.9)	-	(10.9)
Dividends:									
- Owners of the parent	10	-	-	-	-	(90.2)	(90.2)	-	(90.2)
- Non-controlling interests		-	-	-	-	-	-	(12.2)	(12.2)
At 31 December 2016		42.2	146.7	138.4	(25.6)	1,042.2	1,343.9	18.6	1,362.5

The notes on pages 100 to 144 are an integral part of these consolidated financial statements.

Share-based payments include a net tax charge of £0.8m (current tax credit of £0.2m and a deferred tax charge of £1.0m) (2015 – net tax credit of £0.2m (current tax credit of £2.0m and a deferred tax charge of £1.8m)).

Consolidated statement of cash flows

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from operations	27a	382.8	328.4
Tax paid		(99.5)	(69.6)
Interest received		12.4	10.1
Interest paid		(24.1)	(27.5)
Net cash generated from operating activities		271.6	241.4
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired	28	(201.1)	(5.1)
Net cash inflow from sale of businesses	28	2.8	5.4
Purchase of property, plant and equipment		(71.1)	(50.2)
Purchase of intangible assets		(22.7)	(19.0)
Proceeds from disposal of property, plant and equipment		21.7	15.6
Net cash used in investing activities		(270.4)	(53.3)
Cash flows from financing activities			
Share buy back programme		(109.8)	(91.4)
Net purchase of own shares by the Inchcape Employee Trust		(10.9)	(18.9)
Net cash inflow from borrowings		133.3	3.7
Payment of capital element of finance leases		(1.2)	(0.5)
Equity dividends paid	10	(90.2)	(91.1)
Dividends paid to non-controlling interests		(12.2)	(10.2)
Net cash used in financing activities		(91.0)	(208.4)
Net decrease in cash and cash equivalents	27b	(89.8)	(20.3)
Cash and cash equivalents at the beginning of the year		375.3	416.8
Effect of foreign exchange rate changes		130.5	(21.2)
Cash and cash equivalents at the end of the year		416.0	375.3

	Notes	2016 £m	2015 £m
Cash and cash equivalents consist of:			
– Cash at bank and cash equivalents	18	473.7	335.3
– Short-term deposits	18	171.5	138.5
– Bank overdrafts	22	(229.2)	(98.5)
		416.0	375.3

The notes on pages 100 to 144 are an integral part of these consolidated financial statements.

Accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRS Interpretations Committee (IFRS IC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention, except for available for sale financial assets, and those financial assets and financial liabilities (including derivative instruments) held at fair value through profit or loss, which are measured at fair value.

Going concern

Having assessed the principal risks and the other matters discussed in connection with the viability statement, the Directors have considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Changes in accounting policy and disclosures

The accounting policies have been applied consistently throughout the reporting period, other than where new policies have been adopted as presented below.

The following standards were in issue but were not effective at the balance sheet date. These standards have not yet been early adopted by the Group, and will be applied for the Group's financial years commencing on or after 1 January 2017 subject to EU endorsement.

- IAS 7, 'Amendment to IAS 7, Cash flow statements'.
- IAS 12, 'Amendment to IAS 12, Income taxes'.
- IFRIC 22, 'Foreign currency transactions and advance consideration'.
- IAS 40, 'Investment property'.
- IFRS 2, 'Amendment to IFRS 2, Share based payments'.
- IFRS 4, 'Amendment to IFRS 4, Insurance contracts'.
- IFRS 9, 'Financial instruments'.
- IFRS 9, 'Amendment to IFRS 9, Financial instruments'.
- IFRS 15, 'Revenue from contracts with customers'.
- IFRS 15, 'Amendment to IFRS 15, Revenue from contracts with customers'.
- IFRS 16, 'Leases'.
- Annual improvements (2014 – 2016).

Management are currently reviewing the new standards to assess the impact that they may have on the Group's reported position and performance.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent Company (Inchcape plc) and all of its subsidiary undertakings (defined as those where the Group has control), together with the Group's share of the results of its joint ventures (defined as those where the Group has joint control) and associates (defined as those where the Group has significant influence but not control). The results of subsidiaries are consolidated and the Group's share of results of its joint ventures and associates is equity accounted for as of the same reporting date as the parent Company, using consistent accounting policies.

The results of newly acquired subsidiaries are consolidated using the acquisition method of accounting from the date on which control of the net assets and operations of the acquired company are effectively transferred to the Group. Similarly, the results of subsidiaries disposed of cease to be consolidated from the date on which control of the net assets and operations are transferred out of the Group.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Investments in joint ventures and associates are accounted for using the equity method, whereby the Group's share of post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in shareholders' equity is recognised in shareholders' equity. If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has contractual obligations or made payments on behalf of the joint venture or associate.

Intercompany balances and transactions and any unrealised profits arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

Accounting policies continued

Foreign currency translation

Transactions included in the results of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the functional currency of the parent Company, Inchcape plc, and the presentation currency of the Group.

In the individual entities, transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the individual transactions. Monetary assets and liabilities denominated in foreign currencies are subsequently retranslated at the rate of exchange ruling at the end of the reporting period. All differences are taken to the consolidated income statement, except those arising on long-term foreign currency borrowings used to finance or hedge foreign currency investments which on consolidation are taken directly to other comprehensive income.

The assets and liabilities of foreign operations are translated into Sterling at the rate of exchange ruling at the end of the reporting period. The income statements of foreign operations are translated into Sterling at the average rates of exchange for the period. Exchange differences arising from 1 January 2004 are recognised as a separate component of shareholders' equity. On disposal of a foreign operation, any cumulative exchange differences held in shareholders' equity are transferred to the consolidated income statement.

Revenue, other income and cost of sales

Revenue is measured at the fair value of consideration receivable, net of any discounts, rebates, trade allowances or amounts collected on behalf of third parties. It is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue excludes sales related taxes and intra-group transactions. In practice this means that:

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the customer and the revenue can reliably be measured. Risk and rewards are considered to have passed to the customer when the vehicles or parts are invoiced and physically dispatched or collected.

Revenue from the rendering of services is recognised when the service has been undertaken.

Where the Group acts as an agent on behalf of a principal in relation to finance, insurance and similar products, the associated commission income is recognised within revenue in the period in which the related finance or insurance product is sold and receipt of payment can be assured.

Finance income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. It is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income is recognised when the right to receive payment is established.

Where a vehicle is sold to a leasing company and the Group undertakes to repurchase the vehicle for a specified value at a predetermined date, the sale is not recognised on the basis that the significant risks and rewards of ownership are not deemed to have been recognised outside of the Group. Consequently, such vehicles are retained within 'property, plant and equipment' in the consolidated statement of financial position at cost and are depreciated to their residual value over the life of the lease. The difference between the initial amounts received from the leasing company and the repurchase commitment is recognised as deferred income in the consolidated statement of financial position and is released to the consolidated income statement on a straight line basis over the life of the lease. The repurchase commitment, which reflects the price at which the vehicle will be bought back, is held within 'trade and other payables', according to the date of the commitment.

Cost of sales includes the expense relating to the estimated cost of self-insured warranties offered to customers. These warranties form part of the package of goods and services provided to the customer when purchasing a vehicle and are not a separable product.

Share-based payments

The Group operates various share-based award schemes. The fair value at the date at which the share-based awards are granted is recognised in the consolidated income statement (together with a corresponding increase in shareholders' equity) on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At the end of each reporting period, the Group revises its estimates of the number of awards that are expected to vest. The impact of any revision is recognised in the consolidated income statement with a corresponding adjustment to equity.

For equity-settled share-based awards, the services received from employees are measured by reference to the fair value of the awards granted. With the exception of the Group Save As You Earn scheme, the vesting of all share-based awards under all schemes is solely reliant upon non-market conditions, therefore no expense is recognised for awards that do not ultimately vest. Where an employee or the Company cancels an award, the charge for that award is recognised as an expense immediately, even though the award does not vest.

Finance costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset from the first date on which the expenditure is incurred for the asset and until such time as the asset is ready for its intended use. A Group capitalisation rate is used to determine the magnitude of borrowing costs capitalised on each qualifying asset. This rate is the weighted average of Group borrowing costs, excluding those borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Income tax

The charge for current income tax is based on the results for the period as adjusted for items which are not taxed or are disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is accounted for using the liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference is due to goodwill arising on a business combination, or to an asset or liability, the initial recognition of which does not affect either taxable or accounting income.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled using rates enacted or substantively enacted at the end of the reporting period. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items credited or charged directly to shareholders' equity, in which case the deferred tax is also dealt with in shareholders' equity.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle balances net.

Exceptional items

Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide additional useful information regarding the Group's underlying business performance. Examples of events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, restructuring of businesses, litigation, asset impairments and exceptional tax related matters.

Goodwill

Goodwill represents the excess of the cost of acquisition of a business combination over the Group's share of the fair value of identifiable net assets of the business acquired at the date of acquisition. Goodwill is initially recognised at cost and is held in the functional currency of the acquired entity and revalued at the closing exchange rate at the end of each reporting period.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At the date of acquisition, the goodwill is allocated to cash generating units for the purpose of impairment testing and is tested at least annually for impairment.

Gains and losses on disposal of a business include the carrying amount of goodwill relating to the business sold except for goodwill arising on business combinations on or before 31 December 1997 which has been deducted from shareholders' equity and remains indefinitely in shareholders' equity.

Other intangible assets

Intangible assets, when acquired separately from a business (including computer software), are carried at cost less accumulated amortisation and impairment losses. Costs comprise purchase price from third parties as well as internally generated development costs where relevant. Amortisation is provided on a straight line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer software is three to five years. Amortisation is recognised in the consolidated income statement within 'net operating expenses'.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the benefit of the intangible asset is obtained through contractual or other legal rights and the fair value can be measured reliably on initial recognition. The principal intangible assets are agreements with manufacturers for the distribution of new vehicles and parts, which represent the estimated value of distribution rights acquired in business combinations. Such agreements have varying terms and periods of renewal and have historically been renewed indefinitely without substantial cost. The Group therefore expects these agreements to be renewed indefinitely and accordingly no amortisation is charged on these assets. The Group assesses these distribution rights for impairment on an annual basis.

Other intangible assets acquired in a business combination may include order books and customer contracts. These intangible assets are amortised on a straight line basis over their estimated useful life, which is generally less than a year.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and directly attributable costs of the asset and includes, where relevant, capitalised borrowing costs. Depreciation is based on cost less estimated residual value and is included within 'net operating expenses' in the consolidated income statement, with the exception of depreciation on 'interest in leased vehicles' which is charged to 'cost of sales'. It is provided on a straight line basis over the estimated useful life of the asset, except for freehold land which is not depreciated. For the following categories, the annual rates used are:

Freehold buildings and long leasehold buildings	2.0%
Short leasehold buildings	shorter of lease term or useful life
Plant, machinery and equipment	5.0% – 33.3%
Interest in leased vehicles	over the lease term

The residual values and useful lives of all assets are reviewed at least at the end of each reporting period and adjusted if necessary.

Accounting policies continued

Impairment

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment losses are included within 'net operating expenses' in the consolidated income statement.

In addition, goodwill is not subject to amortisation but is tested at least annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money.

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. 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 'net 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 'net operating expenses' in the consolidated income statement.

Non-financial assets, other than goodwill, which have previously been impaired, are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure incurred in bringing inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Used vehicles are carried at the lower of cost or fair value less costs to sell, generally based on external market data available for used vehicles.

Vehicles held on consignment are included within inventories as the Group is considered to have the risks and rewards of ownership. The corresponding liability is included within 'trade and other payables'.

Inventory can be held on deferred payment terms. All costs associated with this deferral are expensed in the period in which they are incurred.

An inventory provision is recognised in situations where net realisable value is likely to be less than cost (such as obsolescence, deterioration, fall in selling price). When calculating the provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability, determined on conditions that exist at the end of the reporting period. With the exception of parts, generally net realisable value adjustments are applied on an item-by-item basis.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. These are recognised as current assets if collection is due in one year or less. If collection is due in over a year, they are presented as non-current assets.

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 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. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. These are classified as current liabilities if payment is due in one year or less. If payment is due at a later date, they are presented as non-current liabilities.

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

Trade payables include the liability for vehicles held on consignment, with the corresponding asset included within inventories.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings, using the effective interest method.

Pensions and other post-retirement benefits

The Group operates a number of retirement benefit schemes.

The major schemes are defined benefit pension funds with assets held separately from the Group. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in 'cost of sales' or 'net operating expenses' in the consolidated income statement. Past service costs are similarly recognised in the consolidated income statement. Administrative scheme expenses associated with the plans are recorded within 'net operating expenses' when incurred, in line with IAS 19 (revised). Net interest income or interest cost relating to the funded defined benefit pension plans is included within 'finance income' or 'finance costs', as relevant, in the consolidated income statement.

Changes in the retirement benefit obligation or asset due to experience and changes in actuarial assumptions are included in the consolidated statement of comprehensive income, as actuarial gains and losses, in full in the period in which they arise.

Where scheme assets exceed the defined benefit obligation, a net asset is only recognised to the extent that an economic benefit is available to the Group, in accordance with the terms of the scheme and, where relevant, statutory requirements.

The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which the contributions relate.

The Group also has a liability in respect of past employees under post-retirement healthcare schemes which have been closed to new entrants. These schemes are accounted for on a similar basis to that for defined benefit pension plans in accordance with the advice of independent qualified actuaries.

Provisions

Provisions are recognised when the Group has a present obligation in respect of a past event, when it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered to be material, using an appropriate risk free rate on government bonds.

Product warranty provision

A product warranty provision corresponds to self-insured extended warranties beyond those provided by the manufacturer, as part of the sale of a vehicle. Provision is made for the expected cost of labour and parts based on historical claims experience and expected future trends.

Vacant leasehold provision

A vacant leasehold provision is recognised when the Group is committed to certain leasehold premises for which it no longer has a commercial use. It is made to the extent of the estimated future net cost, including existing subtenant arrangements if any.

Litigation provision

A litigation provision is recognised when a litigation case is outstanding at the end of the reporting period and there is a likelihood that the legal claim will be settled.

Disposal group and assets held for sale

Where the Group is actively marketing a business and disposal is expected within one year of the end of the reporting period, the assets and liabilities of the associated businesses are separately disclosed in the consolidated statement of financial position as a disposal group. Assets are classified as assets held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Both disposal groups and assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

Segmental reporting

Segment information is reported in accordance with IFRS 8, 'Operating segments', which requires segmental reporting to be presented on the same basis as the internal management reporting. The Group's operating segments are countries or groups of countries and the market channels, distribution and retail. These operating segments are then aggregated into reporting segments to combine those with similar characteristics.

Financial instruments

The Group classifies its financial instruments in the following categories: loans and receivables; held at fair value through profit and loss; financial liabilities measured at amortised cost; and available for sale. The classification is determined at initial recognition and depends on the purpose for which the financial instruments are required.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except where the maturity date is more than 12 months after the end of the reporting period. They are initially recorded at fair value and subsequently recorded at amortised cost.

Held at fair value through profit and loss includes derivative financial assets and liabilities, which are further explained below. They are classified according to maturity date, within current and non-current assets and liabilities respectively.

Financial liabilities measured at amortised cost include non-derivative financial liabilities which are held at original cost, less amortisation or provisions raised.

Available for sale financial assets include non-derivative financial assets, such as bonds and equity investments. They are classified as non-current assets unless management intends to dispose of them within 12 months of the end of the reporting period and are held at fair value.

Accounting policies continued

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand, short-term bank deposits and money market funds.

In the consolidated statement of cash flows, cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

Leases

Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated income statement. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the Group does not hold substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rental payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

Offsetting

Netting in the consolidated statement of financial position only occurs to the extent that there is the legal ability and intention to settle net. As such, bank overdrafts are presented in current liabilities to the extent that there is no intention to offset with the cash balance.

Derivative financial instruments

An outline of the objectives, policies and strategies pursued by the Group in relation to its financial instruments is set out in note 23 to the consolidated financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings and future fixed amount currency liabilities (on its cross currency interest rate swaps). The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings and changes in the fair value of those borrowings are recognised in the consolidated income statement within 'finance costs'. The gain or loss relating to the ineffective portion is also recognised in the consolidated income statement within 'finance costs'.

Cash flow hedge

For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion is recognised within 'net operating expenses' in the consolidated income statement. When the hedged forecast transaction results in the recognition of a non-financial asset or liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in other comprehensive income are transferred to the consolidated income statement in the same period in which the hedged forecast transaction affects the consolidated income statement.

Available for sale financial assets

Gains and losses on available for sale financial assets are recognised in other comprehensive income, until the investment is sold or is considered to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated income statement. Cumulative gains and losses on investments held for operational reasons are included within 'net operating expenses'. Cumulative gains and losses on investments held for financing purposes are included within 'finance income' and 'finance costs' respectively.

Share capital

Ordinary shares are classified as equity. Where the Group purchases the Group's equity share capital (treasury shares), the consideration paid is deducted from shareholders' equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Dividends

Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the consolidated financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

Significant accounting judgements and estimates

The Directors have made a number of estimates and assumptions regarding the future, and made some significant judgements in applying the Group's accounting policies. These are discussed below:

Goodwill and other indefinite life intangible assets

Goodwill and other indefinite life intangible assets are tested at least annually for impairment in accordance with the accounting policy set out above. The recoverable amount of cash generating units is determined based on value in use calculations. These impairment calculations require the use of estimates including projected future cash flows (see note 11).

Incentives and other rebates from brand partners

The Group receives income in the form of various incentives which are determined by our brand partners. The amount we receive is generally based on achieving specific objectives, such as a specified sales volume, as well as other objectives including maintaining brand partner standards which may include, but are not limited to, retail centre image and design requirements, customer satisfaction survey results and training standards. Objectives are generally set and measured on either a quarterly or annual basis.

Where incentives are based on a specific sales volume or number of registrations, the related income is recognised as a reduction in cost of sales when it is reasonably certain that the income has been earned. This is generally the later of the date the related vehicles are sold or registered or when it is reasonably certain that the related target will be met. Where incentives are linked to retail centre image and design requirements, customer satisfaction survey results or training standards, they are recognised as a reduction in cost of sales when it is reasonably certain that the incentive will be received for the relevant period.

The Group may also receive contributions towards advertising and promotional expenditure. Where such contributions are received, they are recognised as a reduction in the related expenditure in the period to which they relate.

Pensions and other post-retirement benefits

Pension and other post-retirement benefit liabilities are determined based on the actuarial assumptions detailed in note 5. A number of these assumptions require a considerable degree of judgement, including the rate of inflation, discount rate and expected mortality rates. These assumptions are subject to a review on an annual basis and are determined in conjunction with an external actuary. The use of different assumptions could have a material effect on the value of the relevant liabilities and could result in a material change to amounts recognised in the income statement over time.

In November 2015, the TKM Group Pension Scheme completed a buy-in transaction whereby the assets of the scheme were invested in a bulk purchase annuity contract that matches the benefits payable to the members of the scheme. The contract has been structured to enable the scheme, in time, to move to a full buy-out, following which the insurance company will become directly responsible for the pension payments under the scheme. As at 31 December 2016, the bulk purchase annuity contract continues to be accounted for as an asset of the scheme and valued on the same basis as the liabilities that it matches.

Tax

The Group is subject to income taxes in a number of jurisdictions. Some degree of estimation is required in determining the worldwide provision for income taxes (see note 8). There are a number of transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on best estimates of whether additional taxes will be due without taking into account whether tax authorities would detect any particular issue. The estimate is made separately for each jurisdiction and takes into account management's view of the relevant tax laws and environment applicable to the operations of the Group in those jurisdictions. No single item is expected to give rise to a material adjustment in the following or subsequent years.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

In addition, the recognition of deferred tax assets is dependent upon an estimation of future taxable profits that will be available against which deductible temporary differences can be utilised (see notes 8 and 16). In the event that actual taxable profits are different, such differences may impact the carrying value of such deferred tax assets in future periods.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are reviewed for impairment if events or circumstances indicate that the carrying value may not be recoverable. When an impairment review is carried out, the recoverable value is determined based on value in use calculations which require estimates to be made of future cash flows (see notes 11 and 12).

Repurchase commitments

The Group has entered into commitments in relation to certain leased vehicles to repurchase the vehicle for a specified value at a predetermined date. These commitments are an estimate of future market value at a specified point in time. The actual market value of vehicles bought back may vary from the committed purchase value. To the extent that the actual market value of such vehicles is expected to be less than the repurchase commitment, a provision is recognised and is included with Other Provisions in note 21.

Where the repurchase commitment is in respect of a vehicle sold by the Group to a leasing company, the repurchase commitment is held within 'trade and other payables'. Where the Group has entered into a repurchase commitment in respect of vehicles that have not been sourced from within the Group, then the repurchase commitment is included as a purchase commitment (see note 30).

Product warranty provision

The product warranty provision requires an estimation of the number of expected warranty claims, and the expected cost of labour and parts necessary to satisfy these warranty claims (see note 21).

Notes to the financial statements

1 Segmental analysis

The Group has eight reportable segments which have been identified based on the operating segments of the Group that are regularly reviewed by the chief operating decision maker, which has been determined to be the Executive Committee, in order to assess performance and allocate resources. Operating segments are then aggregated into reporting segments to combine those with similar economic characteristics. The management and reporting of the previous North Asia and South Asia regions has changed to encompass the combination of these to form an Asia region, as well as moving China from the Emerging Markets region to Asia. In addition, and reflecting the percentage of the European region as a proportion of the Group across revenue, profit and assets, UK and Europe has been formed as a new reporting region. The new region encompasses the UK, Belgium, Luxembourg, Greece, Finland, Poland, Romania, Bulgaria, Macedonia, Latvia, Lithuania and Estonia. The following summary describes the operations of each of the Group's reportable segments:

Distribution	Australasia	Distribution of new vehicles and parts in Australia and New Zealand together with associated marketing and logistics operations.
	UK and Europe	Distribution of new vehicles and parts, together with associated marketing activities, in mature European markets.
	Asia	Exclusive distribution and sale of new vehicles and parts, in Asian markets, together with associated aftersales activities of service and bodyshop repairs.
	Emerging Markets	Distribution of new vehicles and parts, in growing markets, together with associated aftersales activities of service and bodyshop repairs.
Retail	Australasia	Sale of new and used vehicles in Australia together with associated aftersales activities of service, bodyshop repairs and parts sales.
	UK & Europe	Sale of primarily new and used premium vehicles in mature markets, together with associated aftersales activities of service, bodyshop repairs and parts sales.
	Emerging Markets	Sale of new and used vehicles in growing markets together with associated aftersales activities of service, bodyshop repairs and parts sales.
Central		Comprises the Group's head office function and includes all central activities including the Board, finance, human resources, marketing, governance and global information services.

					Distribution
	Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Total Distribution £m
2016					
Revenue					
Total revenue	953.0	921.5	1,591.6	333.4	3,799.5
Inter-segment revenue	(225.2)	(176.7)	-	-	(401.9)
Revenue from third parties	727.8	744.8	1,591.6	333.4	3,397.6
Results					
Trading profit / (loss)	67.8	26.5	136.7	52.0	283.0
Operating exceptional items	(0.5)	(32.1)	(11.6)	(0.5)	(44.7)
Operating profit / (loss) after exceptional items	67.3	(5.6)	125.1	51.5	238.3
Share of loss after tax of joint ventures and associates					
Profit before finance and tax					
Finance income					
Finance costs					
Profit before tax					
Tax					
Profit for the year					

1 Segmental analysis continued

				Retail			
2016	Australasia £m	UK and Europe £m	Emerging Markets £m	Total Retail £m	Total pre Central £m	Central £m	Total £m
Revenue							
Total revenue	701.3	3,318.1	421.4	4,440.8	8,240.3	–	8,240.3
Inter-segment revenue	–	–	–	–	(401.9)	–	(401.9)
Revenue from third parties	701.3	3,318.1	421.4	4,440.8	7,838.4	–	7,838.4
Results							
Trading profit / (loss)	34.6	70.6	0.4	105.6	388.6	(29.5)	359.1
Operating exceptional items	(4.7)	(4.6)	(0.4)	(9.7)	(54.4)	(27.2)	(81.6)
Operating profit / (loss) after exceptional items	29.9	66.0	–	95.9	334.2	(56.7)	277.5
Share of loss after tax of joint ventures and associates							(0.1)
Profit before finance and tax							277.4
Finance income							17.0
Finance costs							(26.6)
Profit before tax							267.8
Tax							(76.5)
Profit for the year							191.3

Net finance costs of £9.6m are not allocated to individual segments.

The Group's reported segments are based on the location of the Group's assets. Revenue earned from sales is disclosed by origin and is not materially different from revenue by destination. Revenue is further analysed as follows:

2016	£m
UK	3,030.7
Rest of the world	4,807.7
Group	7,838.4

Gross profit for Distribution and Retail activities is analysed as follows:

2016	Vehicles £m	Aftersales £m	Total £m
Distribution	339.7	242.1	581.8
Retail	339.0	158.3	497.3
Group	678.7	400.4	1,079.1

1 Segmental analysis continued

					Distribution
2016	Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Total Distribution £m
Segment assets and liabilities					
Segment assets	129.8	215.2	372.2	276.0	993.2
Other current assets					
Non-current assets					
Segment liabilities	(354.4)	(168.4)	(329.4)	(184.4)	(1,036.6)
Other liabilities					
Net assets					

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

					Distribution
2016	Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Total Distribution £m
Other segment items					
Capital expenditure:					
– Property, plant and equipment	12.7	1.6	21.9	5.3	41.5
– Interest in leased vehicles	-	7.4	10.7	1.1	19.2
– Intangible assets	2.6	1.3	0.3	1.0	5.2
Depreciation:					
– Property, plant and equipment	2.3	1.4	8.6	4.0	16.3
– Interest in leased vehicles	-	0.9	4.7	0.9	6.5
Amortisation of intangible assets	0.3	0.9	4.1	0.1	5.4
Impairment of goodwill	-	24.9	-	-	24.9
Impairment of other intangible assets	-	0.3	1.9	-	2.2
Net provisions charged / (credited) to the consolidated income statement	4.0	10.3	21.9	(1.4)	34.8

Net provisions include inventory, trade receivables impairment and other liability provisions.

1 Segmental analysis continued

				Retail	
2016	Australasia £m	UK and Europe £m	Emerging Markets £m	Total Retail £m	Total £m
Segment assets and liabilities					
Segment assets	179.2	756.7	116.7	1,052.6	2,045.8
Other current assets					822.8
Non-current assets					1,512.5
Segment liabilities	(160.5)	(745.3)	(74.5)	(980.3)	(2,016.9)
Other liabilities					(1,001.7)
Net assets					1,362.5

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

				Retail			
2016	Australasia £m	UK and Europe £m	Emerging Markets £m	Total Retail £m	Total pre Central £m	Central £m	Total £m
Other segment items							
Capital expenditure:							
– Property, plant and equipment	1.1	26.2	2.1	29.4	70.9	0.1	71.0
– Interest in leased vehicles	–	8.1	–	8.1	27.3	–	27.3
– Intangible assets	4.3	2.4	1.2	7.9	13.1	9.3	22.4
Depreciation:							
– Property, plant and equipment	2.2	15.2	3.9	21.3	37.6	0.4	38.0
– Interest in leased vehicles	–	4.1	–	4.1	10.6	–	10.6
Amortisation of intangible assets	–	5.6	3.2	8.8	14.2	0.7	14.9
Impairment of goodwill	–	–	–	–	24.9	–	24.9
Impairment of other intangible assets	4.0	–	–	4.0	6.2	16.6	22.8
Net provisions charged / (credited) to the consolidated income statement	3.2	28.2	0.6	32.0	66.8	(0.9)	65.9

Net provisions include inventory, trade receivables impairment and other liability provisions.

1 Segmental analysis continued

					Distribution
2015	Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Total Distribution £m
Revenue					
Total revenue	761.4	740.4	1,431.9	303.8	3,237.5
Inter-segment revenue	(183.7)	(156.5)	–	–	(340.2)
Revenue from third parties	577.7	583.9	1,431.9	303.8	2,897.3
Results					
Trading profit / (loss)	67.0	22.8	133.4	43.8	267.0
Operating exceptional items	–	–	–	–	–
Operating profit / (loss) after exceptional items	67.0	22.8	133.4	43.8	267.0
Share of profit after tax of joint ventures and associates					
Profit before finance and tax					
Finance income					
Finance costs					
Profit before tax					
Tax					
Profit for the year					

1 Segmental analysis continued

2015	Australasia £m	UK and Europe £m	Emerging Markets £m	Retail Total Retail £m	Total pre Central £m	Central £m	Total £m
Revenue							
Total revenue	642.2	2,951.0	345.8	3,939.0	7,176.5	–	7,176.5
Inter-segment revenue	–	–	–	–	(340.2)	–	(340.2)
Revenue from third parties	642.2	2,951.0	345.8	3,939.0	6,836.3	–	6,836.3
Results							
Trading profit / (loss)	23.6	66.1	(2.0)	87.7	354.7	(30.0)	324.7
Operating exceptional items	–	–	(49.5)	(49.5)	(49.5)	–	(49.5)
Operating profit / (loss) after exceptional items	23.6	66.1	(51.5)	38.2	305.2	(30.0)	275.2
Share of profit after tax of joint ventures and associates							0.7
Profit before finance and tax							275.9
Finance income							14.4
Finance costs							(27.7)
Profit before tax							262.6
Tax							(79.7)
Profit for the year							182.9

Net finance costs of £13.3m are not allocated to individual segments.

The Group's reported segments are based on the location of the Group's assets. Revenue earned from sales is disclosed by origin and is not materially different from revenue by destination. Revenue is further analysed as follows:

2015	£m
UK	2,725.2
Rest of the world	4,111.1
Group	6,836.3

Gross profit for Distribution and Retail activities is analysed as follows:

2015	Vehicles £m	Aftersales £m	Total £m
Distribution	326.5	203.8	530.3
Retail	305.0	153.5	458.5
Group	631.5	357.3	988.8

1 Segmental analysis continued

	Distribution			
2015	Australasia £m	UK and Europe £m	Asia £m	Total Distribution £m
Segment assets and liabilities				
Segment assets	90.9	164.2	318.1	710.8
Other current assets				
Non-current assets				
Segment liabilities	(218.6)	(120.5)	(248.7)	(710.1)
Other liabilities				
Net assets				

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

	Distribution			
2015	Australasia £m	UK and Europe £m	Asia £m	Total Distribution £m
Other segment items				
Capital expenditure:				
– Property, plant and equipment	1.9	0.9	13.3	22.2
– Interest in leased vehicles	–	0.5	13.7	22.6
– Intangible assets	2.4	0.5	2.3	5.4
Depreciation:				
– Property, plant and equipment	2.6	1.3	7.1	14.8
– Interest in leased vehicles	–	0.6	3.7	5.1
Amortisation of intangible assets	0.4	0.8	3.4	4.7
Impairment of goodwill	–	–	–	–
Net provisions charged / (credited) to the consolidated income statement	6.3	4.8	6.7	19.4

Net provisions include inventory, trade receivables impairment and other liability provisions.

1 Segmental analysis continued

				Retail	
2015	Australasia £m	UK and Europe £m	Emerging Markets £m	Total Retail £m	Total £m
Segment assets and liabilities					
Segment assets	115.5	725.8	63.6	904.9	1,615.7
Other current assets					600.5
Non-current assets					1,212.1
Segment liabilities	(115.4)	(720.9)	(49.5)	(885.8)	(1,595.9)
Other liabilities					(590.5)
Net assets					1,241.9

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

				Retail			
2015	Australasia £m	UK and Europe £m	Emerging Markets £m	Total Retail £m	Total pre Central £m	Central £m	Total £m
Other segment items							
Capital expenditure:							
– Property, plant and equipment	0.7	14.3	2.5	17.5	39.7	0.1	39.8
– Interest in leased vehicles	–	11.9	–	11.9	34.5	–	34.5
– Intangible assets	0.1	3.0	1.9	5.0	10.4	8.8	19.2
Depreciation:							
– Property, plant and equipment	1.7	13.8	3.9	19.4	34.2	0.3	34.5
– Interest in leased vehicles	–	4.7	–	4.7	9.8	–	9.8
Amortisation of intangible assets	–	5.2	3.1	8.3	13.0	1.0	14.0
Impairment of goodwill	–	–	49.5	49.5	49.5	–	49.5
Net provisions charged / (credited) to the consolidated income statement	10.3	23.7	0.5	34.5	53.9	(1.3)	52.6

Net provisions include inventory, trade receivables impairment and other liability provisions.

2 Exceptional items

	2016 £m	2015 £m
Goodwill impairment (see note 11)	(24.9)	(49.5)
Impairment of software and associated assets (see notes 11 and 12)	(23.1)	–
Restructuring costs	(24.8)	–
Acquisition of businesses	(8.8)	–
Total exceptional items before tax	(81.6)	(49.5)
Exceptional tax (see note 8)	11.5	(4.8)
Total exceptional items	(70.1)	(54.3)

During the year, the Group has made configuration changes to the iPower system to better reflect the Ignite strategy. This has resulted in a number of areas of functionality being superseded and as such, we have recorded an exceptional, non-cash impairment charge of £23.1m.

The restructuring costs of £24.8m represent the cost of a Group-wide programme to better align the organisation with the Ignite strategy and comprise headcount reduction; the associated costs of exiting surplus properties; and costs associated with the redevelopment of the third party Retail network in certain markets.

Exceptional costs of £8.8m related to the acquisition of businesses are the costs incurred in acquiring the Subaru, Hino and associated Distribution businesses from Empresas Indumotora S.A. in South America.

3 Revenue and expenses

a. Revenue

An analysis of the Group's revenue for the year is as follows:

	2016 £m	2015 £m
Sale of goods	7,232.1	6,300.3
Provision of services	606.3	536.0
	7,838.4	6,836.3

b. Analysis of net operating expenses

	Net operating expenses before exceptional items 2016 £m	Exceptional items 2016 £m	Net operating expenses 2016 £m	Net operating expenses before exceptional items 2015 £m	Exceptional items 2015 £m	Net operating expenses 2015 £m
Distribution costs	431.7	2.4	434.1	364.6	–	364.6
Administrative expenses	314.6	31.2	345.8	302.5	–	302.5
Other operating (income) / expense	(26.3)	48.0	21.7	(3.0)	49.5	46.5
	720.0	81.6	801.6	664.1	49.5	713.6

c. Profit before tax is stated after the following charges / (credits):

	2016 £m	2015 £m
Depreciation of tangible fixed assets:		
– Property, plant and equipment	38.0	34.5
– Interest in leased vehicles	10.6	9.8
Amortisation of intangible assets	14.9	14.0
Impairment of goodwill	24.9	49.5
Impairment of other intangible assets	22.8	–
Impairment of property, plant and equipment	1.3	–
Impairment of trade receivables	1.1	2.3
Profit on sale of property, plant and equipment	(12.7)	(2.1)
Operating lease rentals	62.8	53.3

Profit on the sale of property, plant and equipment in 2016 relates to the sale of a surplus site in Australia; rationalisation of service facilities in Hong Kong; sale of surplus land in Russia; and ongoing rationalisation of the Retail portfolio in the UK. In 2015, the Group disposed of surplus assets in Australia and the UK.

3 Revenue and expenses continued

d. Auditors' remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

	2016 £m	2015 £m
Audit services:		
Fees payable to the Company's auditors and its associates for the audit of the parent Company and the consolidated financial statements	0.5	0.5
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries	2.3	1.6
– Audit related assurance services	0.2	0.1
– Tax advisory services	0.1	0.2
– Tax compliance services	0.1	0.2
– All other services	0.3	0.1
Total fees payable to PricewaterhouseCoopers	3.5	2.7
Audit fees – firms other than PricewaterhouseCoopers	0.2	0.1

e. Staff costs

	2016 £m	2015 £m
Wages and salaries	458.2	409.1
Social security costs	42.1	38.9
Other pension costs	18.6	16.4
Share-based payment charge	12.1	9.6
	531.0	474.0

Other pension costs correspond to the current service charge and contributions to the defined contribution schemes (see note 5).

Information on Directors' emoluments and interests which forms part of these audited consolidated financial statements is given in the Directors' Report on Remuneration which can be found on pages 57 to 77 of this document. Information on compensation of key management personnel is set out in note 31b.

f. Average monthly number of employees

	Distribution		Retail		Total	
	2016 Number	2015 Number	2016 Number	2015 Number	2016 Number	2015 Number
Australasia	490	423	1,065	1,064	1,555	1,487
UK and Europe	787	770	6,416	6,116	7,203	6,886
Asia	3,104	2,992	–	–	3,104	2,992
Emerging Markets	1,314	1,350	1,587	1,679	2,901	3,029
Total operational	5,695	5,535	9,068	8,859	14,763	14,394
Central					132	129
					14,895	14,523

Notes to the financial statements continued

4 Share-based payments

The terms and conditions of the Group's share-based payment plans are detailed in the Directors' Report on Remuneration.

The charge arising from awards granted under share-based payment plans was £12.1m (2015 – £9.6m), all of which was equity-settled.

The Other Share Plans disclosures below include other share-based incentive plans for senior executives and employees.

The following table sets out the movements in the number of share options and awards during the year:

2016	Weighted average exercise price*	Performance Share Plan	Executive Share Option Plan	Save As You Earn Plan	Other Share Plans
Outstanding at 1 January	£4.51	4,908,991	390,177	2,148,491	1,190,277
Granted	£4.87	1,627,939	–	806,099	509,333
Exercised	£4.51	(885,350)	(35,018)	(493,270)	(295,759)
Lapsed	£5.54	(1,021,084)	–	(409,325)	(117,105)
Outstanding at 31 December	£4.48	4,630,496	355,159	2,051,995	1,286,746
Exercisable at 31 December	£1.89	294,139	355,159	7,431	100,825

2015	Weighted average exercise price*	Performance Share Plan	Executive Share Option Plan	Save As You Earn Plan	Other Share Plans
Outstanding at 1 January	£3.81	6,894,702	886,411	2,159,578	1,269,799
Granted	£4.82	1,626,284	–	1,014,035	605,212
Exercised	£2.98	(1,614,721)	(496,234)	(730,746)	(576,386)
Lapsed	£4.84	(1,997,274)	–	(294,376)	(108,348)
Outstanding at 31 December	£4.51	4,908,991	390,177	2,148,491	1,190,277
Exercisable at 31 December	£2.27	259,213	390,177	41,229	27,833

* The weighted average exercise price excludes nil cost awards made under the Performance Share Plan and Other Share Plans.

The weighted average remaining contractual life for the awards outstanding at 31 December 2016 is 3.2 years (2015 – 2.4 years).

The range of exercise prices for options outstanding at the end of the year was £0.10 to £5.78 (2015 – £0.10 to £5.78). See note 24 for further details.

The fair value of options granted under the Save As You Earn Plan and Other Share Plans is estimated as at the date of grant using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of nil cost awards granted under the Performance Share Plan and Other Share Plans is the market value of the related shares at the time of grant. The following table lists the main inputs to the model for awards granted during the years ended 31 December 2016 and 31 December 2015:

	Performance Share Plan		Save As You Earn Plan		Other Share Plans	
	2016	2015	2016	2015	2016	2015
Weighted average share price at grant date	£6.85	£8.28	£6.57	£7.06	£6.89	£8.07
Weighted average share price at date of exercise	£6.98	£8.31	£6.51	£7.94	£7.22	£8.17
Weighted average exercise price*	n/a	n/a	£5.63	£5.78	£0.10	£0.10
Vesting period	3.0 years	3.0 years	3.0 years	3.0 years	2.7 years	2.6 years
Expected volatility	n/a	n/a	23.9%	23.3%	30.8%	42.8%
Expected life of award	3.0 years	3.0 years	3.2 years	3.2 years	3.7 years	3.9 years
Weighted average risk free rate	n/a	n/a	0.1%	0.8%	0.9%	1.2%
Expected dividend yield	n/a	n/a	3.2%	2.9%	n/a	n/a
Weighted average fair value per option	£6.85	£8.28	£1.14	£1.44	£6.86	£8.04

* The weighted average exercise price excludes nil cost awards made under the Performance Share Plan and Other Share Plans.

No options were granted under the Executive Share Option Plan in 2016 or 2015.

The expected life and volatility of the options are based upon historical data.

5 Pensions and other post-retirement benefits

The Group operates a number of pension and post-retirement benefit schemes for its employees in a number of its businesses, primarily in the UK.

a. UK schemes: benefits, governance, cash flow obligations and investments

The Group operates three main defined benefit final salary pension schemes in the UK which are all closed to new employees and largely closed to future benefit accrual. The schemes are the Inchcape Motors Pension Scheme (comprising the Group, Motors, Normand and Cash+ sections), the Inchcape Overseas Pension Scheme and the TKM Group Pension Scheme. Cash+ is a defined benefit cash balance scheme, open to accrual for current and new employees, which is designed to meet regulatory requirements for auto-enrolment legislation.

Benefit structure

Final salary schemes provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on final salary at retirement (or leaving date, if earlier) and length of service. The Group underwrites investment, mortality and inflation risks necessary to meet the obligations under the schemes. In the event of poor returns, increased life expectancy or higher than expected inflation, the Group is required to address any shortfall through a combination of an increase in contributions or by making appropriate adjustments to the schemes.

Cash balance schemes like Cash+ allow members to accrue a percentage of their earnings each year, which then grows to provide a lump sum payment on retirement. Members have accrued benefits under this scheme with effect from 1 January 2013. The Group underwrites the investment risk to normal retirement age (65), but all inflation and mortality risks associated with benefits are borne solely by the members.

Governance

Our UK schemes are registered with HMRC and comply fully with the regulatory framework published by the UK Pensions Regulator.

Benefits are paid to members from separate funds administered by an independent trustee company (the Trustee) appointed by the Group. The Trustee is required to act in the best interest of the members, and is responsible for making funding and investment decisions in conjunction with the Group.

The Group also has some minor unfunded arrangements relating to post-retirement health and medical plans in respect of past employees. There are no material defined contribution schemes in the UK.

Scheme specific cash obligation / investment detail

Inchcape Motors Pension Scheme

Group, Motors and Normand Sections (closed sections)

The latest actuarial valuations for these sections were carried out at 5 April 2016 on a market related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit credit method. The actuarial valuation determined that the duration of the liabilities was approximately 18 years and that a small surplus existed. The Group contributes £0.6m p.a. towards the administrative costs of running these sections and no further review is scheduled until April 2019. For the Normand Section, the Group also pays deficit reduction contributions of £1.0m p.a., rising by 3.05% p.a. up until 5 April 2026 (at which point the funding shortfall is expected to be eliminated).

Each section's investment strategy sees it holding a proportion of its assets in matching assets (75% for the Group section and 40% for the Motors and Normand sections) with the remainder in growth assets. The matching assets are invested in a liability driven investment solution complemented with absolute return bonds. They are designed to hedge inflation and interest rate risk in a capitally efficient manner. The growth assets are invested in assets that are expected to grow at rates significantly faster than each sections' liabilities and include diversified growth funds and property.

Cash+ Section

This scheme is a defined benefit scheme under which members accrue benefits with effect from 1 January 2013, or date of joining if later. The latest actuarial valuation was carried out at 5 April 2016 on a market related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit credit method. The valuation showed the funding level to be 98%, with the Trustee expecting the small shortfall to be removed by the ongoing pension contributions and returns on the assets held. The Group contributes £0.2m p.a. towards the administrative costs of running the scheme and the next review is in April 2019.

The investment strategy is to be 60% invested in diversified growth funds which are designed to grow at a rate significantly faster than the liabilities, whilst spreading investment risk across a broad spectrum of asset classes. The remaining 40% is allocated to absolute return bonds.

5 Pensions and other post-retirement benefits continued

Inchcape Overseas Pension Scheme

This scheme is managed from Guernsey and is subject to regulations similar to the UK. It is therefore reported under the United Kingdom in this note. The latest triennial actuarial valuation for this scheme was carried out at 31 March 2015 and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit credit method. The actuarial valuation determined that the duration of the liabilities was approximately 12 years and that the scheme was approximately 86% funded on a prudent funding basis. The Group contributes £0.8m p.a. towards scheme administrative costs and improving the funding ratio. The investments are managed under a Fiduciary Management arrangement with the level of investment risk inherent in the investment arrangements reducing as and when the funding level improves.

TKM Group Pension Scheme (closed scheme)

The latest triennial actuarial valuation for this closed scheme was carried out at 5 April 2013 on a market related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit credit method. The actuarial valuation determined that the duration of the liabilities was approximately 12 years and that the scheme was considered fully funded on a prudent basis. No cash contributions were required by the Group.

In November 2015, the trustees of the TKM Group Pension Scheme completed a buy-in transaction whereby the assets of the scheme were used to acquire a bulk purchase annuity policy with Aviva under which the benefits payable to the members of the scheme are now fully insured. The insurance policy was purchased using the existing assets of the scheme with no additional funding required from the Group. The insurance policy has been structured to enable the scheme, in time, to move to full buy-out, following which Aviva will become directly responsible for the pension payments under the scheme. As at 31 December 2016, the bulk purchase annuity policy has been accounted for as an asset of the scheme and valued on the same basis as the liabilities that it matches.

b. Overseas schemes

There are a number of smaller defined benefit schemes overseas, the most significant being the Inchcape Motors Limited Retirement Scheme in Hong Kong. In general these schemes offer a lump sum on retirement with no further obligation to the employee and assets are held in trust in separately administered funds. These schemes are typically subject to triennial valuations. The overseas defined contribution schemes are principally linked to local statutory arrangements.

c. Defined contribution plans

The total expense recognised in the consolidated income statement is £5.4m (2015 – £4.6m). There are outstanding contributions of £0.1m at the year end (2015 – £0.1m).

d. Defined benefit plans

As the Group's principal defined benefit schemes are in the UK, these have been reported separately from the overseas schemes. For the purposes of reporting, actuarial updates have been obtained for the Group's material schemes and these updates are reflected in the amounts reported in the following tables.

5 Pensions and other post-retirement benefits continued

The principal weighted average assumptions used by the actuaries were:

	United Kingdom		Overseas	
	2016 %	2015 %	2016 %	2015 %
Rate of increase in salaries	3.8	3.6	3.8	3.8
Rate of increase in pensions	3.2	3.1	1.8	2.3
Discount rate	2.6	3.9	2.0	1.7
Rate of inflation:				
– Retail price index	3.3	3.1	2.4	2.5
– Consumer price index	2.3	2.1	n/a	n/a

The rate of increase in healthcare costs is 5.4% (2015 – 5.4%) per annum.

Assumptions regarding future mortality experience are set based on published statistics and experience. For the UK schemes, the average life expectancy of a pensioner retiring at age 65 is 23.8 years (2015 – 23.9 years) for current pensioners and 25.6 years (2015 – 25.7 years) for current non pensioners. Most of the overseas schemes only offer a lump sum on retirement and therefore mortality assumptions are not applicable.

The asset / (liability) recognised in the consolidated statement of financial position is determined as follows:

	United Kingdom		Overseas		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Present value of funded obligations	(1,081.2)	(887.1)	(55.1)	(48.9)	(1,136.3)	(936.0)
Fair value of plan assets	1,129.3	996.2	46.6	40.5	1,175.9	1,036.7
Net surplus / (deficit) in funded obligations	48.1	109.1	(8.5)	(8.4)	39.6	100.7
Present value of unfunded obligations	(0.8)	(0.7)	(1.5)	(1.1)	(2.3)	(1.8)
	47.3	108.4	(10.0)	(9.5)	37.3	98.9

The net pension asset is analysed as follows:

Schemes in surplus	79.5	123.9	0.5	0.4	80.0	124.3
Schemes in deficit	(32.2)	(15.5)	(10.5)	(9.9)	(42.7)	(25.4)
	47.3	108.4	(10.0)	(9.5)	37.3	98.9

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

	United Kingdom		Overseas		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Current service cost	(10.0)	(9.1)	(3.2)	(2.7)	(13.2)	(11.8)
Scheme expenses	(1.9)	(1.9)	(0.1)	(0.1)	(2.0)	(2.0)
Interest expense on plan liabilities	(33.6)	(32.5)	(0.8)	(0.8)	(34.4)	(33.3)
Interest income on plan assets	37.9	36.8	0.7	0.7	38.6	37.5
	(7.6)	(6.7)	(3.4)	(2.9)	(11.0)	(9.6)

5 Pensions and other post-retirement benefits continued

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	United Kingdom		Overseas		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Actuarial gains / (losses) on liabilities:						
– Experience gains and (losses)	18.5	8.0	1.3	(1.5)	19.8	6.5
– Changes in demographic assumptions	(9.8)	–	–	–	(9.8)	–
– Changes in financial assumptions	(217.3)	56.3	0.9	(1.6)	(216.4)	54.7
Actuarial gains / (losses) on assets:						
– Experience gains and (losses)	145.5	(80.0)	0.6	(1.0)	146.1	(81.0)
	(63.1)	(15.7)	2.8	(4.1)	(60.3)	(19.8)

In 2016, investment management expenses of £nil (2015 – £7.0m) were borne by the Group on behalf of UK schemes and have been recognised in the consolidated statement of other comprehensive income.

Analysis of the movement in the net asset / (liability):

	United Kingdom		Overseas		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
At 1 January	108.4	123.3	(9.5)	(4.0)	98.9	119.3
Amount recognised in the consolidated income statement	(7.6)	(6.7)	(3.4)	(2.9)	(11.0)	(9.6)
Contributions by employer	9.6	7.5	1.7	1.6	11.3	9.1
Actuarial (losses) / gains recognised in the year	(63.1)	(15.7)	2.8	(4.1)	(60.3)	(19.8)
Effect of foreign exchange rates	–	–	(1.6)	(0.1)	(1.6)	(0.1)
At 31 December	47.3	108.4	(10.0)	(9.5)	37.3	98.9

Changes in the present value of the defined benefit obligation are as follows:

	United Kingdom		Overseas		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
At 1 January	(887.8)	(954.0)	(50.0)	(44.5)	(937.8)	(998.5)
Current service cost	(10.0)	(9.1)	(3.2)	(2.7)	(13.2)	(11.8)
Interest expense on plan liabilities	(33.6)	(32.5)	(0.8)	(0.8)	(34.4)	(33.3)
Actuarial gains / (losses):						
– Experience gains and (losses)	18.5	8.0	1.3	(1.5)	19.8	6.5
– Changes in demographic assumptions	(9.8)	–	–	–	(9.8)	–
– Changes in financial assumptions	(217.3)	56.3	0.9	(1.6)	(216.4)	54.7
Contributions by employees	(0.1)	(0.1)	–	–	(0.1)	(0.1)
Benefits paid	58.1	43.6	4.4	3.0	62.5	46.6
Effect of foreign exchange rate changes	–	–	(9.2)	(1.9)	(9.2)	(1.9)
At 31 December	(1,082.0)	(887.8)	(56.6)	(50.0)	(1,138.6)	(937.8)

5 Pensions and other post-retirement benefits continued

Changes in the fair value of the defined benefit asset are as follows:

	United Kingdom		Overseas		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
At 1 January	996.2	1,077.3	40.5	40.5	1,036.7	1,117.8
Interest income on plan assets	37.9	36.8	0.7	0.7	38.6	37.5
Scheme expenses	(1.9)	(1.9)	(0.1)	(0.1)	(2.0)	(2.0)
Actuarial gains / (losses):						
– Experience gains and (losses)	145.5	(80.0)	0.6	(1.0)	146.1	(81.0)
Contributions by employer	9.6	7.5	1.7	1.6	11.3	9.1
Contributions by employees	0.1	0.1	–	–	0.1	0.1
Benefits paid	(58.1)	(43.6)	(4.4)	(3.0)	(62.5)	(46.6)
Effect of foreign exchange rate changes	–	–	7.6	1.8	7.6	1.8
At 31 December	1,129.3	996.2	46.6	40.5	1,175.9	1,036.7

At the end of the reporting period, the percentage of the plan assets by category had been invested as follows:

	United Kingdom		Overseas		Total	
	2016	2015	2016	2015	2016	2015
Equities (quoted)	7.6%	4.8%	70.8%	75.6%	10.1%	7.6%
Corporate bonds (quoted)	2.6%	24.1%	17.9%	22.2%	3.2%	24.1%
Government bonds (quoted)	0.1%	0.1%	1.4%	–	0.1%	0.1%
Diversified growth funds (quoted)	24.1%	18.1%	–	–	23.2%	17.4%
Diversified growth funds (unquoted)	18.5%	–	–	–	17.7%	–
Bulk purchase annuity	24.4%	24.4%	–	–	23.4%	23.5%
Other (quoted)	–	3.0%	–	0.1%	–	2.8%
Other (unquoted)	22.7%	25.5%	9.9%	2.1%	22.3%	24.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The fair value of the Group's own equity held within plan assets is £nil (2015 – £nil).

5 Pensions and other post-retirement benefits continued

The following disclosures relate to the Group's defined benefit plans only.

e. Risk management

Asset volatility

Scheme liabilities are calculated on a discounted basis using a discount rate which is set with reference to corporate bond yields. If scheme assets underperform this yield, then this will create a deficit. The combined schemes hold approximately 75% of assets as defensive assets (liability driven investment solutions, absolute return bonds and annuity policies) which mitigate significant changes in yields, and active monitoring plans are in place to identify opportunities to increase the proportion of such assets further when economically possible.

As the schemes mature, the Trustees reduce investment risk by increasing the allocation to defensive assets, which are designed to better match scheme liabilities. However, the Trustees believe that due to the long-term nature of the scheme liabilities, a level of continuing equity investment is an appropriate element of the long-term investment strategy.

Inflation risk

The majority of the Group's defined benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities, although in the majority of cases there are caps on the level of inflationary increases to be applied to pension obligations. The Group's investment strategy across the schemes is to mitigate inflation risk through holding inflation-linked assets.

Life expectancy

The plans' obligations are to provide a pension for the life of the member, so realised increases in life expectancy will result in an increase in the plans' benefit payments. Future mortality rates cannot be predicted with certainty. All of the schemes conduct scheme-specific mortality investigations annually, to ensure the Group has a clear understanding of any potential increase in liability due to pensioners living for longer than assumed. The Trustees of the scheme hedge this risk by adopting a prudent approach in their assumption for future improvements.

f. Sensitivity analysis

The disclosures above are dependent on the assumptions used. The table below demonstrates the sensitivity of the defined benefit obligation to changes in the assumptions used for the UK schemes. Changes in assumptions have an immaterial effect on the overseas schemes.

Impact on the defined benefit obligation

	United Kingdom	
	2016 £m	2015 £m
Discount rate -0.25%	+43.5	+34.9
Discount rate +0.25%	-49.7	-32.9
Inflation -0.25%	-37.8	-29.2
Inflation +0.25%	+33.9	+30.8
Life expectancy + 1 year	+37.4	+30.6

The above analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The above variances have been used as they are believed to be reasonably possible fluctuations.

g. Expected future cash flows

The Group has agreed to pay approximately £2.7m to its defined benefit plans in 2017 on top of the ongoing employer contributions for the open Cash+ section. The Group does not expect any material changes to the annual cash contributions over the next three years given the funding position of the largest schemes, which account for 90% of the Group's total pension liabilities.

The defined benefit obligations are based on the current value of expected benefit payment cash flows to members over the next several decades. The average duration of the liabilities is approximately 18 years for the UK schemes.

6 Finance income

	2016 £m	2015 £m
Bank and other interest receivable	5.0	3.1
Net interest income on post-retirement plan assets and liabilities	4.2	4.2
Other finance income	7.8	7.1
Total finance income	17.0	14.4

7 Finance costs

	2016 £m	2015 £m
Interest payable on bank borrowings	2.6	1.7
Interest payable on Private Placement	3.3	3.1
Interest payable on other borrowings	0.3	0.3
Fair value adjustment on Private Placement	46.6	6.4
Fair value gain on cross currency interest rate swaps	(47.6)	(7.3)
Stock holding interest (see note 20)	20.1	18.4
Other finance costs	1.3	5.1
Total finance costs	26.6	27.7

The Group capitalisation rate used for general borrowing costs in accordance with IAS 23 was a weighted average rate for the year of 2.0% (2015 – 2.0%).

8 Tax

	2016 £m	2015 £m
Current tax:		
– UK corporation tax	6.0	6.2
– Overseas tax	79.2	73.1
	85.2	79.3
Adjustments to prior year liabilities:		
– UK	(1.5)	–
– Overseas	(1.2)	(0.6)
Current tax	82.5	78.7
Deferred tax (note 16)	(6.0)	1.0
Total tax charge	76.5	79.7

The total tax charge is analysed as follows:

– Tax charge on profit before exceptional items	88.0	74.9
– Tax credit on exceptional items	(11.5)	–
– Exceptional deferred tax charge	–	4.8
Total tax charge	76.5	79.7

Details of the exceptional items for the year can be found in note 2. Not all of the exceptional items will be allowable for tax purposes. Therefore the tax credit on exceptional items represents the total of the current and deferred tax on only those elements that are assessed as allowable. The exceptional deferred tax charge in the prior year related to the decision not to recognise the deferred tax asset on tax losses in Russia.

Factors affecting the tax expense for the year

The effective tax rate for the year after exceptional items is 28.6% (2015 – 30.4%). The underlying effective tax rate before the impact of exceptional items is 25.2% (2015 – 24.0%). The weighted average tax rate is 24.1% (2015 – 24.3%). The weighted average tax rate comprises the average statutory rates across the Group, weighted in proportion to accounting profits and losses.

The table below explains the differences between the expected tax expense at the weighted average tax rate and the Group's total tax expense.

	2016 £m	2015 £m
Profit before tax	267.8	262.6
Profit before tax multiplied by the weighted average tax rate of 24.1% (2015 – 24.3%)	64.6	63.8
Non-exceptional items		
– Permanent differences	9.9	6.9
– Non-taxable income	(4.9)	(2.4)
– Prior year items	(2.2)	(1.7)
– Unrecognised deferred tax movement	(2.2)	(1.3)
– Overseas tax audits and settlements	1.5	–
– Taxes on undistributed earnings	3.2	2.5
– Impact of the FID Claim receipt taxed at 45% (note 29)	1.6	–
– Other items (including tax rate differentials)	(1.7)	(2.8)
Exceptional items		
– Goodwill impairment	3.9	9.9
– Restructuring costs	1.0	–
– Acquisition of businesses	1.8	–
– Impact of derecognition of deferred tax assets (Russia)	–	4.8
Total tax charge	76.5	79.7

8 Tax continued

Factors affecting the tax expense of future years

Factors that could affect the Group's future tax expense include the resolution of audits and disputes, changes in tax laws or tax rates, the ability to utilise brought forward losses and business acquisitions and disposals. In addition, a change in profit mix between low and high taxed jurisdictions will impact the Group's future tax expense and this could happen as a result of acquisitions, for example the acquisition of certain businesses from Empresas Indumotora S.A. (see note 28).

The utilisation of brought forward tax losses or the recognition of deferred tax assets associated with such losses may also give rise to tax charges or credits. The recognition of deferred tax assets, particularly in respect of tax losses, is based upon an assessment of whether it is probable that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group against which to utilise the assets in the future. Judgement is required when determining probable future taxable profits. More detail of the Group's tax losses and deferred tax assets can be found in note 16.

During the period, the Finance Act 2016 was passed reducing the UK Corporation tax rate to 17% from 1 April 2020. This rate was enacted at the balance sheet date and hence this rate is now relevant for measuring deferred tax balances in the UK.

9 Earnings per share

	2016 £m	2015 £m
Profit for the year	191.3	182.9
Non-controlling interests	(6.9)	(7.1)
Basic earnings	184.4	175.8
Exceptional items	70.1	54.3
Adjusted earnings	254.5	230.1
Basic earnings per share	43.2p	39.8p
Diluted earnings per share	42.6p	39.4p
Basic Adjusted earnings per share	59.6p	52.1p
Diluted Adjusted earnings per share	58.9p	51.6p

	2016 number	2015 number
Weighted average number of fully paid ordinary shares in issue during the year	428,090,784	442,230,291
Weighted average number of fully paid ordinary shares in issue during the year:		
– Held by the Inchcape Employee Trust	(1,182,428)	(753,647)
Weighted average number of fully paid ordinary shares for the purposes of basic EPS	426,908,356	441,476,644
Dilutive effect of potential ordinary shares	5,534,805	4,468,252
Adjusted weighted average number of fully paid ordinary shares in issue during the year for the purposes of diluted EPS	432,443,161	445,944,896

Basic earnings per share is calculated by dividing the Basic earnings for the year by the weighted average number of fully paid ordinary shares in issue during the year, less those shares held by the Inchcape Employee Trust and repurchased as part of the share buy back programme.

Diluted earnings per share is calculated on the same basis as the Basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise share options and other share-based awards.

Basic Adjusted earnings (which excludes exceptional items) is adopted to assist the reader in understanding the underlying performance of the Group. Adjusted earnings per share is calculated by dividing the Adjusted earnings for the year by the weighted average number of fully paid ordinary shares in issue during the year, less those shares held by the Inchcape Employee Trust and repurchased as part of the share buy back programme.

Diluted Adjusted earnings per share is calculated on the same basis as the Basic Adjusted earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise share options and other share-based awards.

Notes to the financial statements continued

10 Dividends

The following dividends were paid by the Group:

	2016 £m	2015 £m
Interim dividend for the six months ended 30 June 2016 of 7.0p per share (30 June 2015 – 6.8p per share)	29.9	30.0
Final dividend for the year ended 31 December 2015 of 14.1p per share (31 December 2014 – 13.8p per share)	60.3	61.1
	90.2	91.1

A final proposed dividend for the year ended 31 December 2016 of 16.8p per share amounting to £70.6m is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2016.

11 Intangible assets

	Goodwill £m	Distribution agreements £m	Computer software £m	Other intangible assets £m	Total £m
Cost					
At 1 January 2015	506.8	-	118.0	-	624.8
Businesses acquired (see note 28)	4.0	-	-	-	4.0
Businesses sold	(0.3)	-	-	-	(0.3)
Additions	-	-	19.2	-	19.2
Retirement of fully amortised assets not in use	-	-	(2.9)	-	(2.9)
Effect of foreign exchange rate changes	(20.3)	-	(2.7)	-	(23.0)
At 1 January 2016	490.2	-	131.6	-	621.8
Businesses acquired (see note 28)	51.4	162.4	2.7	0.9	217.4
Businesses sold	(0.6)	-	-	-	(0.6)
Additions	-	-	22.4	-	22.4
Disposals	-	-	(1.9)	-	(1.9)
Retirement of fully amortised assets not in use	-	-	(5.9)	-	(5.9)
Effect of foreign exchange rate changes	58.0	-	14.2	-	72.2
At 31 December 2016	599.0	162.4	163.1	0.9	925.4
Accumulated amortisation and impairment					
At 1 January 2015	(104.2)	-	(49.0)	-	(153.2)
Amortisation charge for the year	-	-	(14.0)	-	(14.0)
Impairment of goodwill	(49.5)	-	-	-	(49.5)
Retirement of fully amortised assets not in use	-	-	2.9	-	2.9
Effect of foreign exchange rate changes	8.8	-	1.6	-	10.4
At 1 January 2016	(144.9)	-	(58.5)	-	(203.4)
Amortisation charge for the year	-	-	(14.9)	-	(14.9)
Impairment charge for the year	(24.9)	-	(22.8)	-	(47.7)
Disposals	-	-	1.3	-	1.3
Retirement of fully amortised assets not in use	-	-	5.9	-	5.9
Effect of foreign exchange rate changes	(44.2)	-	(7.9)	-	(52.1)
At 31 December 2016	(214.0)	-	(96.9)	-	(310.9)
Net book value at 31 December 2016	385.0	162.4	66.2	0.9	614.5
Net book value at 31 December 2015	345.3	-	73.1	-	418.4

As at 31 December 2016, capitalised borrowing costs of £nil (2015 – £1.5m) were included within 'computer software'. No borrowing costs were capitalised during the year (2015 – £nil).

During the year, the Group acquired a multi-country scale Distribution business in South America, focused on Subaru and Hino and operating in the growth markets of Chile, Colombia, Peru and Argentina. The principal intangible assets acquired were agreements with manufacturers for the distribution of new vehicles and parts with an estimated value of £162.4m. Such agreements have varying terms and periods of renewal and have historically been renewed indefinitely without substantial cost. The Group therefore expects these agreements to be renewed indefinitely.

11 Intangible assets continued

Goodwill

Goodwill acquired in a business combination is allocated to the cash generating units (CGUs) or group of CGUs (hereafter collectively referred to as 'CGU groups') that are expected to benefit from the synergies associated with that business combination. These CGU groups represent the lowest level within the Group at which the associated goodwill is monitored for management purposes.

The carrying amount of goodwill has been allocated to CGU groups within the following reporting segments:

Reporting Segment	CGU Group	2016 £m	2015 £m
UK and Europe Retail	UK Retail	265.6	266.1
Emerging Markets Distribution	South America	51.2	-
UK and Europe Distribution	Lithuania	-	19.0
UK and Europe Distribution	Other	-	2.2
Asia	Singapore	22.8	19.4
Australasia Retail	Australia Retail	45.4	38.6
		385.0	345.3

Goodwill is subject to impairment testing annually, or more frequently where there are indications that the goodwill may be impaired. Impairment tests were performed for all CGU groups during the year ended 31 December 2016.

The recoverable amounts of all CGU groups were determined based on value in use calculations. These calculations use cash flow projections based on five-year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to revenue growth, operating margins, the level of working capital required to support trading and capital expenditure, which have been based on past experience, recent trading and expectations of future changes in the relevant markets. They also reflect expectations about continuing relationships with key brand partners.

Cash flows after the five-year period are extrapolated for each market using declining growth rates of between 4.5% and 2.0% for a further five years. A terminal value calculation is used to estimate the cash flows after year ten using a long-term growth rate of 2%.

Cash flows are discounted back to present value using a risk adjusted discount rate. The discount rates used are calculated as the Group's weighted average cost of capital adjusted for a risk premium attributable to the relevant country. The pre-tax discount rates used vary between 10% and 13% and reflect long-term country risk.

Impairment

The Directors have reviewed the carrying value of the goodwill in Lithuania and Estonia and have concluded that although these markets continue to provide profitable growth opportunities, it is prudent to reduce operational forecasts. Based on this, the Directors have determined that an impairment charge of £24.9m should be recognised, representing the full carrying value of goodwill in these businesses.

During the year, the Group has made configuration changes to the iPower system to better reflect the Ignite strategy. This has resulted in a number of areas of functionality being superseded and as such, we have recorded an exceptional, non-cash impairment charge of £22.8m.

Sensitivities

The Group's value in use calculations are sensitive to a change in the key assumptions used. A reasonably possible change in a key assumption will not cause a material impairment of goodwill in any of the CGU groups.

Notes to the financial statements continued

12 Property, plant and equipment

	Land and buildings £m	Plant, machinery and equipment £m	Subtotal £m	Interest in leased vehicles £m	Total £m
Cost					
At 1 January 2015	659.7	199.2	858.9	56.9	915.8
Businesses acquired	-	0.1	0.1	-	0.1
Businesses sold	-	(1.4)	(1.4)	-	(1.4)
Additions	19.5	20.3	39.8	34.5	74.3
Disposals	(6.4)	(4.4)	(10.8)	-	(10.8)
Transferred to inventory	-	(0.6)	(0.6)	(25.1)	(25.7)
Retirement of fully depreciated assets not in use	(0.5)	(0.5)	(1.0)	-	(1.0)
Reclassified to assets held for sale (note 19)	(6.7)	-	(6.7)	-	(6.7)
Reclassifications	13.9	(13.9)	-	-	-
Effect of foreign exchange rate changes	(20.3)	(5.0)	(25.3)	0.2	(25.1)
At 1 January 2016	659.2	193.8	853.0	66.5	919.5
Businesses acquired	26.2	7.3	33.5	-	33.5
Businesses sold	-	(0.1)	(0.1)	-	(0.1)
Additions	45.2	25.8	71.0	27.3	98.3
Disposals	(6.8)	(15.7)	(22.5)	-	(22.5)
Transferred to inventory	-	(1.0)	(1.0)	(25.4)	(26.4)
Retirement of fully depreciated assets not in use	-	(1.5)	(1.5)	-	(1.5)
Reclassified to assets held for sale (note 19)	(4.2)	-	(4.2)	-	(4.2)
Effect of foreign exchange rate changes	79.7	28.1	107.8	8.0	115.8
At 31 December 2016	799.3	236.7	1,036.0	76.4	1,112.4
Accumulated depreciation and impairment					
At 1 January 2015	(117.1)	(121.2)	(238.3)	(19.9)	(258.2)
Businesses sold	-	0.9	0.9	-	0.9
Depreciation charge for the year	(14.3)	(20.2)	(34.5)	(9.8)	(44.3)
Disposals	2.3	3.9	6.2	-	6.2
Transferred to inventory	-	0.2	0.2	10.9	11.1
Retirement of fully depreciated assets not in use	0.5	0.5	1.0	-	1.0
Reclassified to assets held for sale (note 19)	2.2	-	2.2	-	2.2
Reclassifications	(7.3)	7.3	-	-	-
Effect of foreign exchange rate changes	2.8	2.9	5.7	(0.1)	5.6
At 1 January 2016	(130.9)	(125.7)	(256.6)	(18.9)	(275.5)
Businesses sold	-	0.1	0.1	-	0.1
Depreciation charge for the year	(14.7)	(23.3)	(38.0)	(10.6)	(48.6)
Disposals	1.2	14.9	16.1	-	16.1
Impairment losses recognised during the year	(1.0)	(0.3)	(1.3)	-	(1.3)
Transferred to inventory	-	0.6	0.6	9.9	10.5
Retirement of fully depreciated assets not in use	-	1.5	1.5	-	1.5
Reclassified to assets held for sale (note 19)	1.0	-	1.0	-	1.0
Effect of foreign exchange rate changes	(16.5)	(19.2)	(35.7)	(1.9)	(37.6)
At 31 December 2016	(160.9)	(151.4)	(312.3)	(21.5)	(333.8)
Net book value at 31 December 2016	638.4	85.3	723.7	54.9	778.6
Net book value at 31 December 2015	528.3	68.1	596.4	47.6	644.0

Certain subsidiaries have an obligation to repurchase, at a guaranteed residual value, vehicles which have been legally sold for leasing contracts. These assets are included in 'interest in leased vehicles' in the table above.

12 Property, plant and equipment continued

Assets held under finance leases have the following net book values:

	2016 £m	2015 £m
Leasehold buildings	1.8	2.2

The book value of land and buildings is analysed between:

	2016 £m	2015 £m
Freehold	432.1	362.1
Leasehold with over 50 years unexpired	34.1	45.4
Short leasehold	172.2	120.8
	638.4	528.3

Land and buildings includes properties with a net book value of £10.6m that are let to third parties on a short-term basis.

As at 31 December 2016, £5.0m (2015 – £5.0m) of capitalised borrowing costs were included within 'land and buildings', £nil of which was capitalised in 2016 (2015 – £nil).

13 Investments in joint ventures and associates

	2016 £m	2015 £m
At 1 January	5.3	9.0
Disposals	(1.6)	(4.0)
Share of (loss) / profit after tax of joint ventures and associates	(0.1)	0.7
Effect of foreign exchange rate changes	0.5	(0.4)
At 31 December	4.1	5.3

Group's share of net assets of joint ventures and associates

	2016 £m	2015 £m
Non-current assets	–	–
Current assets	4.5	5.6
Group's share of gross assets	4.5	5.6
Current liabilities	(0.4)	(0.3)
Non-current liabilities	–	–
Group's share of gross liabilities	(0.4)	(0.3)
Group's share of net assets	4.1	5.3

Group's share of results of joint ventures and associates

Revenue	–	1.0
Expenses	(0.1)	(0.3)
(Loss) / profit before tax	(0.1)	0.7
Tax	–	–
Share of (loss) / profit after tax of joint ventures and associates	(0.1)	0.7

As at 31 December 2016, no guarantees were provided in respect of joint ventures and associates borrowings (2015 – £nil).

14 Available for sale financial assets

	2016 £m	2015 £m
At 1 January	1.4	1.4
Businesses acquired	2.2	–
Effect of foreign exchange rate changes	0.2	–
At 31 December	3.8	1.4

Analysed as:

	2016 £m	2015 £m
Current	0.2	0.2
Non-current	3.6	1.2
	3.8	1.4

Assets held are analysed as follows:

	2016 £m	2015 £m
Equity securities	2.2	0.4
Bonds	0.7	–
Other	0.9	1.0
	3.8	1.4

Equity securities includes a 15% equity interest in Hino Motors Manufacturing Company SAS.

'Other' includes debentures that are not subject to interest rates and do not have fixed maturity dates. They are valued by reference to traded market values.

Available for sale financial assets, which are valued based on active markets' prices, are reported under Level 1 in note 23 on financial instruments.

15 Trade and other receivables

	Current		Non-current	
	2016 £m	2015 £m	2016 £m	2015 £m
Trade receivables	295.7	196.8	-	-
Less: provision for impairment of trade receivables	(8.6)	(6.7)	-	-
Net trade receivables	287.1	190.1	-	-
Prepayments and accrued income	115.6	97.5	41.2	41.2
Other receivables	43.3	40.2	9.7	6.0
	446.0	327.8	50.9	47.2

Movements in the provision for impairment of receivables were as follows:

	2016 £m	2015 £m
At 1 January	(6.7)	(6.7)
Businesses acquired	(1.0)	-
Charge for the year	(1.1)	(2.3)
Amounts written off	0.8	0.8
Unused amounts reversed	0.7	1.1
Effect of foreign exchange rate changes	(1.3)	0.4
At 31 December	(8.6)	(6.7)

At 31 December, the analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	Past due but not impaired			Impaired £m
			0 < 30 days £m	30 - 90 days £m	> 90 days £m	
2016	295.7	220.7	39.2	19.8	7.4	8.6
2015	196.8	136.5	32.6	14.3	6.7	6.7

Trade receivables are non-interest bearing and are generally on credit terms of 30 to 60 days.

Management considers the carrying amount of trade and other receivables to approximate to their fair value. Long-term receivables have been discounted where the time value of money is considered to be material.

Concentration of credit risk with respect to trade receivables is very limited due to the Group's broad customer base across a number of geographic regions.

16 Deferred tax

Net deferred tax (liability) / asset	Pension and other post-retirement benefits £m	Cash flow hedges £m	Share-based payments £m	Tax losses £m	Accelerated tax depreciation £m	Provisions and other timing differences £m	Distribution agreements £m	Total £m
At 1 January 2016	(22.3)	(2.9)	3.0	3.5	(2.0)	(4.4)	–	(25.1)
(Charged) / credited to the consolidated income statement	(0.1)	(0.2)	0.5	0.6	(2.9)	8.1	–	6.0
Credited / (charged) to equity and other comprehensive income	10.8	10.5	(1.0)	–	–	–	–	20.3
Businesses acquired	–	–	–	0.3	(5.5)	4.3	–	(0.9)
Intangible assets recognised on acquisition	–	–	–	–	–	–	(50.2)	(50.2)
Effect of foreign exchange rate changes	0.2	–	–	0.3	(1.8)	2.1	–	0.8
At 31 December 2016	(11.4)	7.4	2.5	4.7	(12.2)	10.1	(50.2)	(49.1)

Analysed as:

	2016 £m	2015 £m
Deferred tax assets	31.7	18.7
Deferred tax liabilities	(80.8)	(43.8)
	(49.1)	(25.1)

Measured at relevant local statutory rates, the Group has an unrecognised deferred tax asset of £38m (2015 – £21m) relating to tax relief on trading losses. The unrecognised asset represents £167m (2015 – £107m) of losses which exist within legal entities where forecast taxable profits are not probable in the foreseeable future. The increase principally relates to business acquisitions during the year (see note 28).

The Group has unrecognised deferred tax assets of £23m (2015 – £25m) relating to capital losses. The asset represents £138m (2015 – £139m) of losses at the UK standard rate of 17.0% (2015 – 18.0%). The key territory holding the losses is the UK.

No deferred tax is recognised on unremitted earnings of overseas subsidiaries on the basis that the Group can control the timing of dividends. In addition, the majority of overseas reserves can now be repatriated to the UK with no tax cost. There are a small number of territories that do not qualify for this treatment. This principally relates to Ethiopia where dividend tax of £3.2m (2015 – £2.5m) is accrued based on current year after tax earnings.

The net deferred tax asset on provisions and other timing differences is principally made up of a deferred tax liability on non-qualifying property £17.0m (2015 – £17.2m) offset by deferred tax assets on trade related accounting provisions in the Group's operating companies £27.1m (2015 – £12.8m).

The deferred tax liability on distribution agreements of £50.2m (2015 – £nil) has been recorded as a result of the business acquisitions during the year (see notes 11 and 28).

The deferred tax asset on tax trading losses of £4.7m (2015 – £3.5m) relates to territories and entities where future taxable profits are considered probable.

17 Inventories

	2016 £m	2015 £m
Raw materials and work in progress	19.5	16.2
Finished goods and merchandise	1,529.9	1,208.2
	1,549.4	1,224.4

Vehicles held on consignment which are in substance assets of the Group amount to £205.1m (2015 – £172.2m (restated)). These have been included in 'finished goods and merchandise' with the corresponding liability included within 'trade and other payables'. Payment becomes due when title passes to the Group, which is generally the earlier of six months from delivery or the date of sale.

An amount of £51.5m (2015 – £34.4m) has been provided against the gross cost of inventory at the year end. The cost of inventories recognised as an expense in the year is £6,316.3m (2015 – £5,507.8m). The write down of inventory to net realisable value recognised as an expense during the year was £36.3m (2015 – £36.3m). All of these items have been included within 'cost of sales' in the consolidated income statement.

18 Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank and cash equivalents	473.7	335.3
Short-term deposits	171.5	138.5
	645.2	473.8

Cash and cash equivalents are generally subject to floating interest rates determined by reference to short-term benchmark rates applicable in the relevant currency or market (primarily LIBOR or the local equivalent). At 31 December 2016, the weighted average floating rate was 0.4% (2015 – 0.3%).

£78.0m (2015 – £53.0m) of cash and cash equivalents are held in countries where prior approval is required to transfer funds abroad. If the Group complies with the required procedures, such liquid funds are at its disposition within a reasonable period of time.

At 31 December 2016, short-term deposits have a weighted average period to maturity of 16 days (2015 – 17 days).

19 Assets held for sale

	2016 £m	2015 £m
Assets held for sale	3.2	4.5

Assets held for sale relate to surplus properties within the UK, which are actively marketed with a view to sale.

20 Trade and other payables

	Current		Non-current	
	2016 £m	2015 £m	2016 £m	2015 £m
Trade payables: payments received on account	67.4	56.6	0.6	0.4
vehicle funding agreements	378.2	260.0	-	-
other trade payables	1,128.1	1,005.5	7.2	5.1
Other taxation and social security payable	43.9	25.4	-	-
Accruals and deferred income	274.9	204.6	10.2	7.3
Amounts payable to related parties	0.1	0.1	-	-
Other payables	19.0	13.9	-	-
	1,911.6	1,566.1	18.0	12.8

In certain markets, the Group finances the purchase of new vehicles for sale and a portion of used vehicle inventories using vehicle funding facilities provided by various lenders including the captive finance companies associated with brand partners. Such arrangements generally have a maturity of 90 days or less and the Group is normally required to repay amounts outstanding on the earlier of the sale of the vehicles that have been funded under the facilities or the stated maturity date.

Amounts due to brand partners (including their captive finance companies) are included within other trade payables together with amounts due to other suppliers. Amounts due to facility providers unrelated to the brand partners are disclosed under vehicle funding arrangements. Related cash flows are reported within cash flows from operating activities within the consolidated statement of cash flows.

Vehicle funding facilities are subject to LIBOR-based (or similar) interest rates. The interest incurred under these arrangements is included within finance costs and classified as stock holding interest. At 31 December 2016, trade payables includes £927.7m (2015 – £759.3m) of liabilities where payment is made on deferred terms and which were subject to a weighted average interest rate of 2.6% (2015 – 2.7%).

Management considers the carrying amount of trade and other payables to approximate to their fair value. Long-term payables have been discounted where the time value of money is considered to be material.

21 Provisions

	Product warranty £m	Vacant leasehold £m	Litigation £m	Other £m	Total £m
At 1 January 2016	33.5	1.8	5.4	8.5	49.2
Businesses acquired	3.0	-	0.6	0.8	4.4
Charged to the consolidated income statement	18.2	6.5	0.1	15.6	40.4
Released to the consolidated income statement	(5.6)	-	(2.8)	(2.8)	(11.2)
Effect of unwinding of discount factor	0.3	-	-	-	0.3
Utilised during the year	(18.9)	(0.5)	-	(1.3)	(20.7)
Effect of foreign exchange rate changes	5.5	0.6	0.1	1.1	7.3
At 31 December 2016	36.0	8.4	3.4	21.9	69.7

Analysed as:

	2016 £m	2015 £m
Current	37.0	22.7
Non-current	32.7	26.5
	69.7	49.2

Product warranty

Certain Group companies provide self-insured extended warranties beyond those provided by the manufacturer, as part of the sale of a vehicle. These are not separable products. The warranty periods covered are up to six years and / or specific mileage limits. Provision is made for the expected cost of labour and parts based on historical claims experience and expected future trends. These assumptions are reviewed regularly.

Vacant leasehold

The Group is committed to certain leasehold premises for which it no longer has a commercial use. These are principally located in the UK, Australia, Hong Kong and Singapore. Provision has been made to the extent of the estimated future net cost. This includes taking into account existing subtenant arrangements. The expected utilisation period of these provisions is generally over the next 10 years.

Litigation

This includes a number of litigation provisions in respect of claims that have been brought against various group companies. The claims are generally expected to be concluded within the next three years.

Other

This category principally includes provisions relating to residual values on leased vehicles and provisions relating to restructuring activities. These provisions are expected to be utilised within three years.

22 Borrowings

2016	Floating rate		Fixed rate		Total interest bearing £m	On which no interest is paid £m	2016 Total £m
	£m	Weighted average effective interest rate %	£m	Weighted average effective interest rate %			
Current							
Bank overdrafts	229.2	0.3	-	-	229.2	-	229.2
Bank loans	20.0	1.7	4.7	1.6	24.7	-	24.7
Private Placement	226.5	1.5	-	-	226.5	-	226.5
Finance leases	-	-	1.3	6.2	1.3	-	1.3
	475.7	0.9	6.0	2.6	481.7	-	481.7
Non-current							
Bank loans	148.2	0.8	11.4	1.6	159.6	-	159.6
Private Placement	129.0	1.5	-	-	129.0	-	129.0
Finance leases	-	-	3.4	4.2	3.4	-	3.4
	277.2	1.1	14.8	2.2	292.0	-	292.0
Total borrowings	752.9	1.0	20.8	2.3	773.7	-	773.7

Bank overdrafts include £180.2m (2015 – £97.9m) held in cash pooling arrangements which have not been offset in the consolidated statement of financial position (see note 23b).

2015	Floating rate		Fixed rate		Total interest bearing £m	On which no interest is paid £m	2015 Total £m
	£m	Weighted average effective interest rate %	£m	Weighted average effective interest rate %			
Current							
Bank overdrafts	98.5	-	-	-	98.5	-	98.5
Bank loans	-	-	3.7	5.8	3.7	-	3.7
Finance leases	-	-	1.1	6.6	1.1	-	1.1
	98.5	-	4.8	6.0	103.3	-	103.3
Non-current							
Private Placement	308.9	1.5	-	-	308.9	-	308.9
Finance leases	-	-	2.6	6.8	2.6	-	2.6
	308.9	1.5	2.6	6.8	311.5	-	311.5
Total borrowings	407.4	1.1	7.4	6.3	414.8	-	414.8

The above analysis is presented after taking account of the cross currency fixed to floating interest rate swap on the Private Placement of US\$436m (2015 – US\$436m).

Interest payments on floating rate financial liabilities are determined by reference to short-term benchmark rates applicable in the relevant currency or market (primarily LIBOR or the local equivalent).

The fair values of the Group's borrowings are not considered to be materially different from their book value, with the exception of the Private Placement which includes a fair value basis adjustment of £1.2m (2015 – £12.5m).

The Group's borrowings are unsecured.

At 31 December 2016, the committed funding facilities of the Group comprised a syndicated bank facility of £400m (2015 – £400m) and Private Placement loan notes totalling US\$436m (2015 – US\$436m).

At 31 December 2016, £135m of the £400m syndicated credit facility was drawn down (2015 – none). The £400m facility was entered into in January 2015 with an initial expiry date of January 2020 and with a further two one-year extension options available. In January 2016 the first extension option was exercised and on 21 January 2017 the second option was exercised, extending the expiry date to January 2022.

All US\$436m of the Group's Private Placement loan notes are swapped into Sterling. US\$275m is repayable in 2017, and US\$161m in 2019.

22 Borrowings continued

Primarily to refinance the Group's existing US\$275m Private Placement loan notes that are due to mature in May 2017, the Group entered into agreements in December 2016 to issue the following £210m series of Private Placement loan notes:

	7 Year	10 Year	10 Year	12 Year
Fixed rate coupon	2.85%	3.02%	3.12%	3.10%
Funding date	May 2017	January 2017	May 2017	January 2017
Maturity date	May 2024	May 2027	May 2027	May 2029
Tranche amount	£70.0m	£30.0m	£70.0m	£40.0m

The table below sets out the maturity profile of the Group's borrowings that are exposed to interest rate risk. This analysis is presented after taking account of the cross currency fixed to floating interest rate swap on the Private Placement of US\$436m (2015 – US\$436m).

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Greater than 5 years £m	Total interest bearing £m
2016							
Fixed rate							
Bank loans	4.7	-	-	11.4	-	-	16.1
Finance leases	1.3	0.2	-	-	-	3.2	4.7
Floating rate							
Bank overdrafts	229.2	-	-	-	-	-	229.2
Bank loans	20.0	2.7	2.7	7.8	-	135.0	168.2
Private Placement	226.5	-	129.0	-	-	-	355.5

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Greater than 5 years £m	Total interest bearing £m
2015							
Fixed rate							
Bank loans	3.7	-	-	-	-	-	3.7
Finance leases	1.1	1.1	-	0.1	-	1.4	3.7
Floating rate							
Bank overdrafts	98.5	-	-	-	-	-	98.5
Private Placement	-	197.2	-	111.7	-	-	308.9

23 Financial instruments

The Group's financial liabilities, other than derivatives, comprise overdrafts, loan notes, finance leases and trade and other payables. The main purpose of these instruments is to raise finance for the Group's operations. The Group also has various financial assets such as trade and other receivables, cash and short-term deposits which arise from its trading operations.

The Group's primary derivative transactions are forward and swap currency contracts, and cross currency interest rate swaps. The purpose is to manage the currency and interest rate risks arising from the Group's trading operations and its sources of finance. Group policy is that there is no trading or speculation in derivatives.

The main risks arising from the Group's financial instruments are interest rate risk, currency risk, credit risk and liquidity risk.

a. Classes of financial instruments

	Loans and receivables £m	Available for sale £m	Held at fair value £m	Amortised cost £m	Cash and cash equivalents £m	Total £m
2016						
Financial assets						
Available for sale financial assets	-	3.8	-	-	-	3.8
Trade and other receivables	401.0	-	-	-	-	401.0
Derivative financial instruments	-	-	160.1	-	-	160.1
Cash and cash equivalents	-	-	-	-	645.2	645.2
Total financial assets	401.0	3.8	160.1	-	645.2	1,210.1
Financial liabilities						
Trade and other payables	-	-	-	(1,786.9)	-	(1,786.9)
Derivative financial instruments	-	-	(53.6)	-	-	(53.6)
Borrowings	-	-	-	(773.7)	-	(773.7)
Total financial liabilities	-	-	(53.6)	(2,560.6)	-	(2,614.2)
	401.0	3.8	106.5	(2,560.6)	645.2	(1,404.1)

Notes to the financial statements continued

23 Financial instruments continued

2015	Loans and receivables £m	Available for sale £m	Held at fair value £m	Amortised cost £m	Cash and cash equivalents £m	Total £m
Financial assets						
Available for sale financial assets	-	1.4	-	-	-	1.4
Trade and other receivables	271.6	-	-	-	-	271.6
Derivative financial instruments	-	-	134.5	-	-	134.5
Cash and cash equivalents	-	-	-	-	473.8	473.8
Total financial assets	271.6	1.4	134.5	-	473.8	881.3
Financial liabilities						
Trade and other payables	-	-	-	(1,467.7)	-	(1,467.7)
Derivative financial instruments	-	-	(3.6)	-	-	(3.6)
Borrowings	-	-	-	(414.8)	-	(414.8)
Total financial liabilities	-	-	(3.6)	(1,882.5)	-	(1,886.1)
	271.6	1.4	130.9	(1,882.5)	473.8	(1,004.8)

b. Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting, enforceable netting arrangements and similar agreements:

	Gross amounts of financial assets £m	Gross amounts of financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m	Related amounts not set off in the statement of financial position		Net amount £m
				Financial instruments £m	Cash collateral received £m	
As at 31 December 2016						
Derivative financial assets	168.4	(8.3)	160.1	(21.9)	-	138.2
Cash and cash equivalents	645.2	-	645.2	(180.2)	-	465.0
Other receivables	2.5	(0.6)	1.9	-	-	1.9
Total	816.1	(8.9)	807.2	(202.1)	-	605.1
As at 31 December 2015						
Derivative financial assets	137.9	(3.4)	134.5	(3.5)	-	131.0
Cash and cash equivalents	473.8	-	473.8	(97.9)	-	375.9
Other receivables	2.1	(0.6)	1.5	-	-	1.5
Total	613.8	(4.0)	609.8	(101.4)	-	508.4

The following financial liabilities are subject to offsetting, enforceable netting arrangements and similar agreements:

	Gross amounts of financial liabilities £m	Gross amounts of financial assets set off in the statement of financial position £m	Net amounts of financial liabilities presented in the statement of financial position £m	Related amounts not set off in the statement of financial position		Net amount £m
				Financial instruments £m	Cash collateral paid £m	
As at 31 December 2016						
Derivative liabilities	(61.9)	8.3	(53.6)	21.9	-	(31.7)
Bank overdrafts	(229.2)	-	(229.2)	180.2	-	(49.0)
Other payables	(0.6)	0.6	-	-	-	-
Total	(291.7)	8.9	(282.8)	202.1	-	(80.7)
As at 31 December 2015						
Derivative liabilities	(7.0)	3.4	(3.6)	3.5	-	(0.1)
Bank overdrafts	(98.5)	-	(98.5)	97.9	-	(0.6)
Other payables	(0.6)	0.6	-	-	-	-
Total	(106.1)	4.0	(102.1)	101.4	-	(0.7)

23 Financial instruments continued

For the financial assets and liabilities subject to enforceable netting arrangements or similar agreements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities if the amounts relate to the same transaction and are in the same currency. If the parties subject to the agreement do not elect to settle on a net basis, financial assets and liabilities will be settled on a gross basis. However, each party to the netting agreement will have the option to settle all such amounts on a net basis in the event of a default of the other party.

c. Market risk and sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The Group is not exposed to commodity price risk. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity to changes in market variables, being primarily UK interest rates and the Australian Dollar to Japanese Yen exchange rate.

The following assumptions were made in calculating the sensitivity analysis:

- changes in the carrying value of derivative financial instruments designated as cash flow hedges from movements in interest rates are assumed to be recorded fully in equity;
- changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates have an immaterial effect on the consolidated income statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of financial instruments not in hedging relationships only affect the consolidated income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the consolidated income statement.

d. Interest rate risk and sensitivity analysis

The Group's interest rate policy has the objective of minimising net interest expense, and protecting the Group from material adverse movements in interest rates. Throughout 2016, the Group has borrowed at floating rates only (after taking into account existing interest rate hedging activities). This approach maximises the Group's exposure to the current low interest rate environment. If hedging is deemed appropriate by management in the future, the Board has approved the fixing of up to 30% of gross borrowings. Instruments approved for this purpose include interest rate swaps, forward rate agreements and options. The Group's exposure to the risk of changes in market interest rates arises primarily from the floating rate interest payable on the Group's Private Placement loan notes, bank borrowings, supplier related finance and the returns available on surplus cash.

In December 2016, the Group entered into agreements to issue £210m in new private placement loan notes (see note 22) primarily to refinance the existing loan notes due to mature in 2017 and 2019. The new loan rates will be issued at a fixed interest rate.

Interest rate risk table

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates on bank borrowings, supplier related finance and cash balances as at 31 December 2016 with all other variables held constant.

	Increase in basis points	Effect on profit before tax £m
2016		
Sterling	75	(6.8)
Euro	50	0.1
Russian Rouble	500	(1.7)
Australian Dollar	100	(3.1)
2015		
Sterling	75	(3.9)
Euro	50	(0.9)
Russian Rouble	500	(1.0)
Australian Dollar	100	(2.1)

23 Financial instruments continued

e. Foreign currency risk

The Group publishes its consolidated financial statements in Sterling and faces currency risk on the translation of its earnings and net assets, a significant proportion of which are in currencies other than Sterling.

Transaction exposure hedging

The Group has transactional currency exposures, where sales or purchases by an operating unit are in currencies other than that unit's functional currency. For a significant proportion of the Group, these exposures are removed as trading is denominated in the relevant local currency. In particular, local billing arrangements are in place for many of our businesses with our brand partners. The principal exception is for our business in Australasia, which purchases vehicles and parts in Japanese Yen.

In this instance, the Group seeks to hedge forecast transactional foreign exchange rate risk using forward foreign currency exchange contracts. The effective portion of the gain or loss on the hedge is recognised in the consolidated statement of comprehensive income to the extent it is effective and recycled into the consolidated income statement at the same time as the underlying hedged transaction affects the consolidated income statement. Under IAS 39, hedges are documented and tested for hedge effectiveness on an ongoing basis.

Hedge of foreign currency debt

The Group uses cross currency interest rate swaps to hedge the forward foreign currency risk associated with the US\$436m Private Placement. The effective portion of the gain or loss on the hedge is recognised in the consolidated income statement at the same time as the underlying hedged transaction affects the consolidated income statement.

Foreign currency risk table

The following table shows the Group sensitivity to a reasonably possible change in foreign exchange rates on its Japanese Yen financial instruments. In this table, financial instruments are only considered sensitive to foreign exchange rates when they are not in the functional currency of the entity that holds them.

	Increase / (decrease) in exchange rate	Effect on equity £m
2016		
Yen	+10%	0.1
Yen	-10%	(0.1)
2015		
Yen	+10%	0.1
Yen	-10%	(0.1)

f. Credit risk

The amount due from counterparties arising from cash deposits and the use of financial instruments creates credit risk. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy of limiting its exposure to any one party to ensure that they are within Board approved limits and that there are no significant concentrations of credit risk.

Group policy is to deposit cash and use financial instruments with counterparties with a long-term credit rating of A or better, where available. The notional amounts of financial instruments used in interest rate and foreign exchange management do not represent the credit risk arising through the use of these instruments. The immediate credit risk of these instruments is generally estimated by the fair value of contracts with a positive value. Credit limits are reviewed regularly.

The table below analyses the Group's short-term deposits and derivative assets by credit exposure excluding bank balances and cash in hand:

Credit rating of counterparty	2016		2015	
	Derivative assets £m	Short-term deposits £m	Derivative assets £m	Short-term deposits £m
AA-	86.6	-	72.7	8.6
A+	-	6.1	5.9	31.2
A	73.3	93.6	52.9	47.5
A-	-	-	-	1.0
BBB+	0.2	16.8	2.0	5.2
BBB	-	-	1.0	-
No rating ¹	-	55.0	-	45.0
	160.1	171.5	134.5	138.5

¹ Counterparties in certain markets in which the Group operates do not have a credit rating.

23 Financial instruments continued

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties.

The maximum exposure to credit risk for cash at bank, cash equivalents, receivables and other financial assets is represented by their carrying amount.

Total cash at bank of £473.7m (2015 – £335.3m) includes cash in the Group's regional pooling arrangements which are offset against borrowings for interest purposes. Netting of cash and overdraft balances in the consolidated statement of financial position only occurs to the extent that there is the legal ability and intention to settle net. As such, overdrafts are presented in current liabilities to the extent that there is no intention to offset with the cash balance.

Trade receivables include amounts due from a number of finance houses in respect of vehicles sold to customers on finance arranged through the Group. An independent credit rating agency is used to assess the credit standing of each finance house. Limits for the maximum outstanding with each finance house are set accordingly.

g. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial assets and liabilities at 31 December 2016 and 2015 based on expected contractual undiscounted cash flows:

	Less than 3 months £m	Between 3 to 12 months £m	Between 1 to 5 years £m	Greater than 5 years £m	Total £m
2016					
Financial assets					
Cash and cash equivalents	634.8	10.4	–	–	645.2
Trade and other receivables	342.0	44.5	10.0	4.5	401.0
Available for sale financial assets	0.1	0.1	0.2	3.4	3.8
Derivative financial instruments	2.2	243.6	203.7	–	449.5
	979.1	298.6	213.9	7.9	1,499.5
Financial liabilities					
Interest bearing loans and borrowings	(231.1)	(265.2)	(162.8)	(138.2)	(797.3)
Trade and other payables	(1,681.6)	(95.1)	(10.2)	–	(1,786.9)
Derivative financial instruments	(23.4)	(173.1)	(137.7)	–	(334.2)
	(1,936.1)	(533.4)	(310.7)	(138.2)	(2,918.4)
Net outflows	(957.0)	(234.8)	(96.8)	(130.3)	(1,418.9)
	Less than 3 months £m	Between 3 to 12 months £m	Between 1 to 5 years £m	Greater than 5 years £m	Total £m
2015					
Financial assets					
Cash and cash equivalents	459.6	14.2	–	–	473.8
Trade and other receivables	249.8	14.4	6.8	0.6	271.6
Available for sale financial assets	0.1	0.1	0.8	0.4	1.4
Derivative financial instruments	13.9	33.3	376.3	–	423.5
	723.4	62.0	383.9	1.0	1,170.3
Financial liabilities					
Interest bearing loans and borrowings	(99.2)	(18.2)	(332.2)	(1.4)	(451.0)
Trade and other payables	(1,371.6)	(88.3)	(7.8)	–	(1,467.7)
Derivative financial instruments	(3.3)	(5.5)	(274.8)	–	(283.6)
	(1,474.1)	(112.0)	(614.8)	(1.4)	(2,202.3)
Net outflows	(750.7)	(50.0)	(230.9)	(0.4)	(1,032.0)

23 Financial instruments continued**h. Fair value measurement**

In accordance with IFRS 13, disclosure is required for financial instruments that are measured in the consolidated statement of financial position at fair value. This requires disclosure of fair value measurements by level for the following fair value measurement hierarchy:

- quoted prices in active markets (level 1);
- inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (level 2); or
- inputs for the asset or liability that are not based on observable market data (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value:

	2016				2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivatives used for hedging	-	160.1	-	160.1	-	134.5	-	134.5
Available for sale financial assets	1.6	-	2.2	3.8	1.4	-	-	1.4
	1.6	160.1	2.2	163.9	1.4	134.5	-	135.9
Liabilities								
Derivatives used for hedging	-	(53.6)	-	(53.6)	-	(3.6)	-	(3.6)

Level 1 represents the fair value of financial instruments that are traded in active markets and is based on quoted market prices at the end of the reporting period.

The fair value of financial instruments that are not traded in an active market (level 2) is determined by using valuation techniques which include the present value of estimated future cash flows. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Derivative financial instruments are carried at their fair values. The fair value of forward foreign exchange contracts and foreign exchange swaps represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the spot rates of exchange and prevailing forward interest rates at 31 December 2016.

The Group's derivative financial instruments comprise the following:

	Assets		Liabilities	
	2016 £m	2015 £m	2016 £m	2015 £m
Cross currency interest rate swaps	155.0	107.4	-	-
Forward foreign exchange contracts	5.1	27.1	(53.6)	(3.6)
	160.1	134.5	(53.6)	(3.6)

The ineffective portion recognised in the consolidated income statement that arises from fair value hedges amounted to a gain of £1.0m (2015 – gain of £0.9m). The ineffective portion recognised in the consolidated income statement that arises from cash flow hedges amounted to a gain of £nil (2015 – £nil).

23 Financial instruments continued

Cash flow hedges

The Group principally uses forward foreign exchange contracts to hedge purchases in a non-functional currency against movements in exchange rates. The cash flows relating to these contracts are generally expected to occur within 12 months of the end of the reporting period (2015 – 12 months).

The nominal principal amount of the outstanding forward foreign exchange contracts relating to transactional exposures at 31 December 2016 was £1,078.7m (2015 – £535.3m).

Net fair value gains and losses recognised in the hedging reserve in shareholders' equity (see note 25) on forward foreign exchange contracts as at 31 December 2016 are expected to be released to the consolidated income statement within 12 months of the end of the reporting period (2015 – 12 months).

Fair value hedge

At 31 December 2016, the Group had in place five cross currency interest rate swaps. Four of these total US\$475m, which hedge changes in the fair value of the Group's 10 and 12 year Private Placement loan notes. Under these swaps, the Group receives fixed rate US Dollar interest of 5.94% on US\$275m and 6.04% on US\$200m and pays GBP LIBOR +85bps and GBP LIBOR +90bps for the 10 and 12 year notes respectively.

An additional US\$39.2m cross currency interest rate swap was put in place after the debt reduction in 2009 to offset the non-required portion of the original US\$475m swaps. Under this swap, the Group pays US Dollar interest of 6.04% on US\$39.2m and receives GBP LIBOR +214bps for the 12 year notes only. The loan notes and cross currency interest rate swaps have the same critical terms.

i. Capital management

The Group's capital structure consists of equity and debt. Equity represents funds raised from shareholders and debt represents funds raised from banks and other financial institutions. The primary objective of the Group's management of debt and equity is to ensure that it maintains a strong credit rating and healthy capital ratios in order to finance the Group's activities, both now and in the future, and to maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Directors consider the Group's capital structure and dividend policy at least twice a year prior to the announcement of results, taking into account the Group's ability to continue as a going concern and the requirements of its business plan.

The Group uses Return on Capital Employed (ROCE) as a measure of its ability to drive better returns on the capital invested in the Group's operations.

	2016	2015
Return on Capital Employed	29.8%	29.8%

The committed bank facilities and Private Placement borrowings are subject to the same interest cover covenant based on an adjusted EBITA measure to interest on consolidated borrowings. The Group is required to maintain a ratio of not less than three to one and was compliant with this covenant throughout the year.

The Group monitors group leverage by reference to three tests: Adjusted EBITA interest cover, the ratio of net debt to EBITDA and the ratio of net debt to market capitalisation.

	2016	2015
Adjusted EBITA interest cover (times) *	300.9	111.8
Net debt to EBITDA (times) **	n/a	n/a
Net debt / market capitalisation (percentage) ***	n/a	n/a

* Calculated as Adjusted EBITA / interest on consolidated borrowings.

** Calculated as net debt / earnings before exceptional items, interest, tax, depreciation and amortisation.

***Calculated as net debt / market capitalisation as at 31 December.

24 Share capital**a. Allotted, called up and fully paid up**

	2016 Number	2015 Number	2016 £m	2015 £m
Ordinary shares (nominal value of 10.0p each)				
At 1 January	436,810,096	448,741,789	43.8	45.0
Cancelled under share buy back	(15,805,287)	(11,931,693)	(1.6)	(1.2)
At 31 December	421,004,809	436,810,096	42.2	43.8

b. Share buy back programme

During the year, the Group repurchased 15,805,287 (2015 – 11,931,693) of its own shares through purchases on the London Stock Exchange at a cost of £108.2m (2015 – £90.8m). The shares repurchased during the year were cancelled, with none held within treasury shares at the end of the reporting period. An amount of £1.6m (2015 – £1.2m), equivalent to the nominal value of the cancelled shares, has been transferred to the capital redemption reserve. Costs of £1.6m (2015 – £0.6m) associated with the transfer to the Group of the repurchased shares and their subsequent cancellation have been charged to the profit and loss reserve.

c. Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 28 February 2017 under the provisions of the Companies Act 2006 have been disclosed in the significant shareholdings section of the Corporate Governance Report.

d. Share options

At 31 December 2016, options to acquire ordinary shares of 10.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Number of ordinary shares of 10.0p each	Exercisable until	Option price (£)	Number of ordinary shares of 10.0p each	Exercisable until	Option price (£)
The Inchcape 1999 Share Option Plan			The Inchcape SAYE Share Option Scheme		
– approved (Part II – UK)			– approved		
1,503	19 May 2019	2.00	91,646	1 May 2017	4.76
1,615	7 April 2020	3.10	430,584	1 May 2018	5.40
			752,660	1 May 2019	5.78
			777,105	1 May 2020	5.63
– unapproved (Part I – UK)			Recruitment and Retention Plan		
2,501	19 May 2019	2.00	206,881	31 March 2025	0.10
5,448	7 April 2020	3.10	124,909	10 April 2026	0.10
– unapproved overseas (Part I – Overseas)					
296,329	19 May 2019	2.00			
47,763	7 April 2020	3.10			

Included within the retained earnings reserve are 770,102 (2015 – 631,253) ordinary shares in the Company held by the Inchcape Employee Trust, a general discretionary trust whose beneficiaries include current and former employees of the Group and their dependants. The book value of these shares at 31 December 2016 was £5.5m (2015 – £4.5m). The market value of these shares at both 31 December 2016 and 28 February 2017 was £5.4m and £5.8m respectively (31 December 2015 – £5.0m, 14 March 2016 – £4.5m).

25 Other reserves

	Translation reserve £m	Hedging reserve £m	Total other reserves £m
At 1 January 2015	(162.7)	(19.9)	(182.6)
Cash flow hedges:			
– Fair value movements	–	38.7	38.7
– Reclassified and reported in inventories	–	(15.2)	(15.2)
– Tax on cash flow hedges	–	(7.0)	(7.0)
Effect of foreign exchange rate changes	(49.0)	–	(49.0)
At 1 January 2016	(211.7)	(3.4)	(215.1)
Cash flow hedges:			
– Fair value movements	–	(59.3)	(59.3)
– Reclassified and reported in inventories	–	27.3	27.3
– Tax on cash flow hedges	–	9.6	9.6
Effect of foreign exchange rate changes	211.9	–	211.9
At 31 December 2016	0.2	(25.8)	(25.6)

The effect of foreign exchange rate changes includes a gain of £0.6m (2015 – £7.0m) on the liquidation of overseas subsidiaries that has been reclassified to the consolidated income statement in accordance with IAS 21, 'The effects of changes in foreign exchange rates'.

Available for sale reserve

Gains and losses on available for sale financial assets are recognised in the 'available for sale reserve' until the asset is sold or is considered to be impaired, at which time the cumulative gain or loss is included in the consolidated income statement.

Translation reserve

The translation reserve is used to record foreign exchange rate changes relating to the translation of the results of foreign subsidiaries arising after 1 January 2004. It is also used to record foreign exchange differences arising on long-term foreign currency borrowings used to finance or hedge foreign currency investments.

Hedging reserve

For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that are determined to be an effective hedge are recognised directly in shareholders' equity. When the hedged firm commitment results in the recognition of a non-financial asset or liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in shareholders' equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

26 Retained earnings

	2016 £m	2015 £m
At 1 January	1,106.8	1,148.2
Total comprehensive income attributable to owners of the parent for the year:		
– Profit for the year	184.4	175.8
– Actuarial losses on defined pension benefits (note 5)	(60.3)	(26.8)
– Tax credited to reserves	10.9	1.2
Total comprehensive income for the year	135.0	150.2
Share-based payments, net of tax	11.3	9.8
Share buy back programme	(109.8)	(91.4)
Net purchase of own shares by Inchcape Employee Trust	(10.9)	(18.9)
Dividends paid (note 10)	(90.2)	(91.1)
At 31 December	1,042.2	1,106.8

27 Notes to the consolidated statement of cash flows

a. Reconciliation of cash generated from operations

	2016 £m	2015 £m
Cash flows from operating activities		
Operating profit	277.5	275.2
Exceptional items (see note 2)	81.6	49.5
Amortisation including non-exceptional impairment of intangible assets	14.9	14.0
Depreciation of property, plant and equipment	38.0	34.5
Profit on disposal of property, plant and equipment	(12.7)	(2.1)
Share-based payments charge	12.1	9.6
Increase in inventories	(110.7)	(246.5)
Increase in trade and other receivables	(10.2)	(68.5)
Increase in trade and other payables	99.0	282.2
Decrease in provisions	(9.4)	(4.2)
Pension contributions less than the pension charge for the year*	1.9	2.7
Decrease / (increase) in interest in leased vehicles	2.9	(12.3)
Payments in respect of operating exceptional items	(3.2)	-
Other non-cash items	1.1	(5.7)
Cash generated from operations	382.8	328.4

* Includes additional payments of £2.1m (2015 – £1.7m).

b. Reconciliation of net cash flow to movement in net funds

	2016 £m	2015 £m
Net decrease in cash and cash equivalents	(89.8)	(20.3)
Net cash inflow from borrowings and finance leases	(132.1)	(3.2)
Change in net cash and debt resulting from cash flows	(221.9)	(23.5)
Effect of foreign exchange rate changes on net cash and debt	129.7	(21.2)
Net movement in fair value	1.0	0.9
Net loans and finance leases relating to acquisitions and disposals	(48.7)	-
Movement in net funds	(139.9)	(43.8)
Opening net funds	166.4	210.2
Closing net funds	26.5	166.4

Net funds is analysed as follows:

	2016 £m	2015 £m
Cash at bank and cash equivalents	473.7	335.3
Short-term deposits	171.5	138.5
Bank overdrafts	(229.2)	(98.5)
Cash and cash equivalents	416.0	375.3
Bank loans	(539.8)	(312.6)
Finance leases	(4.7)	(3.7)
	(128.5)	59.0
Fair value of cross currency interest rate swap	155.0	107.4
Net funds	26.5	166.4

28 Acquisitions and disposals

a. Acquisitions

On 22 December 2016, the Group acquired a multi-country scale Distribution business in South America, focused on Subaru and Hino and operating in the growth markets of Chile, Colombia, Peru and Argentina. The business was acquired from Empresas Indumotora S.A.

Details of the provisional fair values of the identifiable assets and liabilities as at the date of acquisition are set out below:

	2016 £m
Assets and liabilities acquired, at provisional values¹	
Intangible assets	3.6
Property, plant and equipment	29.6
Tax assets	9.7
Inventory	73.0
Trade and other receivables	67.4
Other assets	2.2
Cash and cash equivalents	29.9
Trade and other payables	(91.5)
Provisions	(4.4)
Borrowings	(48.7)
Tax liabilities	(7.2)
Other liabilities	(0.3)
Net assets acquired	63.3
Distribution agreements recognised on acquisition (net of deferred tax) (see notes 11 and 16)	112.2
Goodwill	51.2
Purchase consideration	226.7
1 Given the proximity of the acquisition prior to the year end, work is underway to identify the fair value of assets and liabilities acquired. The value at which assets and liabilities are stated above are therefore provisional values largely based on book values at the acquisition date.	
Net cash in business acquired	29.9
Borrowings in business acquired	(48.7)
	(18.8)

The goodwill arising on acquisition is attributable to the anticipated future cash flows of the acquired business and synergies expected to arise following integration with the Group's existing business in South America. Specifically, the goodwill represents the premium paid to expand the Group's presence in this important market and to create a scale Distribution platform across South America with attractive growth prospects. This provides a platform to deliver growth and improved returns far quicker than would have been achievable through organic expansion.

During the year, the Group also acquired a number of sites in the UK in relation to the optimisation of our Jaguar Land Rover footprint ahead of the new combined site format being launched in the UK, and a site in Australia. Consideration for the acquisitions was £4.3m with goodwill arising on the transaction of £0.2m.

b. Proforma full year information

If the acquisition of the South American Distribution business had occurred on 1 January 2016, the approximate revenue and operating profit before exceptional items for the period ended 31 December 2016 of the Group would have been £8,203.1m and £384.3m respectively. This information has been estimated based on the management information of the acquired business prior to acquisition.

c. Disposals

During the year, the Group disposed of certain Jaguar Land Rover sites in the UK as part of the footprint optimisation referred to above, a site in Australia and finalised the liquidation of a joint venture in Greece. Disposal proceeds were £2.8m.

In 2015, the Group disposed of a small number of dealerships in Australia and its interest in Excelease SA, a financial services business in Belgium, generating disposal proceeds of £5.4m and a profit on disposal of £0.6m.

29 Guarantees and contingencies

	2016 £m	2015 £m
Guarantees, performance bonds and contingent liabilities	58.4	31.2

Guarantees and contingencies largely comprise letters of credit issued on behalf of the Group in the ordinary course of business.

The Group also has, in the ordinary course of business, commitments under foreign exchange instruments relating to the hedging of transactional exposures (see note 23).

Franked Investment Income Group Litigation Order

Inchcape is a participant in an action in the United Kingdom against HM Revenue and Customs (HMRC) in the Franked Investment Income Group Litigation Order (FII GLO). There are 25 corporate groups in the FII GLO. The action concerns the treatment for UK corporate tax purposes of profits earned overseas and distributed to the UK. The resolution of test cases is incomplete. The current status of the test case is that a judgment on a range of issues of quantification was handed down by the Court of Appeal on 24 November 2016. HMRC have applied to the Supreme Court for permission to appeal the Court of Appeal's judgment of November 2016 on all issues on which they were unsuccessful. The outcome of this application is not yet known. Inchcape is not a test case and its specific claim under the FII GLO has not been considered by the Courts.

In September 2015 Inchcape filed an application at the High Court for summary judgment in respect of the Foreign Income Dividend (FID) component of the FII GLO. This is a claim for restitution of Advance Corporation Tax (ACT) paid under the FID regime and is a subsidiary component of the FII GLO. In January 2016, Henderson J handed down judgment in favour of a number of claimants in the GLO who had brought similar applications. HMRC agreed that that judgment should also apply to resolve Inchcape's application in its favour. Subsequently, the Group received a payment from HMRC. The award under the summary judgment was £6.5m and this has been reported within other operating income. The net payment received was £3.5m after tax at 45%. This net payment is subject to refund if HMRC are granted leave to appeal to the Supreme Court on the issue concerning FID claims and that appeal is then successful.

No potential receipts have been recognised in the period to 31 December 2016 in the results of the Group in relation to the balance of the claim in the FII GLO due to the uncertainty of the amounts and eventual outcome given the test case has not yet completed nor has Inchcape's specific claim been heard by the Courts.

30 Commitments

a. Capital commitments

Contracts placed for future capital expenditure at the balance sheet date but not yet incurred are as follows:

	2016 £m	2015 £m
Property, plant and equipment	22.9	16.8
Computer software	-	2.0

b. Lease commitments

Operating lease commitments – Group as lessee

The Group has entered into non-cancellable operating leases for various offices, warehouses and dealerships. These leases have varying terms, escalation clauses and renewal rights. None of these leases are considered to be individually significant.

Future minimum lease payments under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
Within one year	65.1	53.7
Between one and five years	148.7	122.7
After five years	181.0	192.8
	394.8	369.2

Operating lease commitments – Group as lessor

The Group has entered into non-cancellable operating leases on a number of its vehicles and certain properties. These leases have varying terms, escalation clauses and renewal rights and are not individually significant to the Group.

Future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
Within one year	5.2	4.1
Between one and five years	10.6	8.6
After five years	6.1	6.7
	21.9	19.4

Finance leases and hire purchase contracts

The Group has finance leases and hire purchase contracts for various items of property, plant and equipment. These leases have varying terms, escalation clauses and renewal rights. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments (included within borrowings), are as follows:

	2016 £m	2015 £m
Minimum lease payments:		
– Within one year	1.4	0.8
– Between one and five years	0.6	1.6
– After five years	4.6	3.0
Total minimum lease payments	6.6	5.4
Less: future finance charges	(1.9)	(1.7)
Present value of finance lease liabilities	4.7	3.7

c. Residual value commitments

The Group has entered into agreements with leasing companies and other third parties to repurchase vehicles for a specified value at a predetermined date as follows:

	2016 £m	2015 £m
Vehicles subject to residual value commitments	87.8	83.4

Residual value commitments comprise the total repurchase liability on all vehicles where the Group has a residual value commitment. These commitments are largely expected to be settled over the next three years.

Where the repurchase commitment is in respect of a vehicle sold by the Group, the repurchase commitment is included within 'trade and other payables'. Included within the above are £10.7m (2015 - £9.1m) of residual value commitments that are included within 'trade and other payables'.

31 Related party disclosures

a. Trading transactions

Intra-group transactions have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	Transactions		Amounts outstanding	
	2016 £m	2015 £m	2016 £m	2015 £m
Other income paid to related parties	0.6	0.6	0.1	0.1

All of the transactions arise in the ordinary course of business and are on an arm's length basis. The amounts outstanding are unsecured and will be settled in cash. There have been no guarantees provided or received for any related party receivables. The Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2015 – £nil).

b. Compensation of key management personnel

The remuneration of the Board of Directors and the Executive Committee was as follows:

	2016 £m	2015 £m
Wages and salaries	6.4	6.4
Post-retirement benefits	0.9	1.0
Share-based payments	5.8	4.2
Compensation for loss of office	0.4	0.4
	13.5	12.0

The remuneration of the Directors and other key management is determined by the Remuneration Committee having regard to the performance of individuals and market trends. Further details of emoluments paid to the Directors are included in the Directors' Report on Remuneration.

32 Foreign currency translation

The main exchange rates used for translation purposes are as follows:

	Average rates		Year end rates	
	2016	2015	2016	2015
Australian Dollar	1.82	2.04	1.71	2.02
Euro	1.23	1.38	1.17	1.36
Hong Kong Dollar	10.51	11.85	9.57	11.42
Singapore Dollar	1.87	2.10	1.78	2.09
Russian Rouble	90.72	93.72	75.97	107.30

33 Events after the reporting period

There have been no events subsequent to the year end that require additional disclosure.

Five year record

The information presented in the table below is prepared in accordance with IFRS, as in issue and effective at that year end date.

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Consolidated income statement					
Revenue	7,838.4	6,836.3	6,702.7	6,524.9	6,085.4
Operating profit before exceptional items	359.1	324.7	318.4	286.9	259.8
Operating exceptional items	(81.6)	(49.5)	(47.4)	(8.5)	0.7
Operating profit	277.5	275.2	271.0	278.4	260.5
Share of (loss) / profit after tax of joint ventures and associates	(0.1)	0.7	(1.9)	-	0.2
Profit before finance and tax	277.4	275.9	269.1	278.4	260.7
Net finance costs before exceptional items	(9.6)	(13.3)	(13.3)	(12.3)	(13.0)
Profit before tax	267.8	262.6	255.8	266.1	247.7
Tax before exceptional tax	(88.0)	(74.9)	(68.6)	(65.9)	(60.8)
Exceptional tax	11.5	(4.8)	-	0.6	0.5
Profit after tax	191.3	182.9	187.2	200.8	187.4
Non-controlling interests	(6.9)	(7.1)	(7.6)	(6.6)	(5.9)
Profit for the year	184.4	175.8	179.6	194.2	181.5
Basic:					
- Profit before tax	267.8	262.6	255.8	266.1	247.7
- Earnings per share (pence)	43.2p	39.8p	39.7p	41.8p	39.4p
Adjusted (before exceptional items):					
- Profit before tax	349.4	312.1	303.2	274.6	247.0
- Earnings per share (pence)	59.6p	52.1p	50.2p	43.5p	39.1p
Dividends per share - interim paid and final proposed (pence)	23.8p	20.9p	20.1p	17.4p	14.5p
Consolidated statement of financial position					
Non-current assets	1,563.4	1,259.1	1,341.2	1,512.1	1,464.4
Other assets less (liabilities) excluding net funds	(227.4)	(183.6)	(233.3)	(135.9)	(212.2)
	1,336.0	1,075.5	1,107.9	1,376.2	1,252.2
Net funds	26.5	166.4	210.2	123.0	276.2
Net assets	1,362.5	1,241.9	1,318.1	1,499.2	1,528.4
Equity attributable to owners of the parent	1,343.9	1,219.0	1,292.9	1,470.0	1,502.6
Non-controlling interests	18.6	22.9	25.2	29.2	25.8
Total shareholders' equity	1,362.5	1,241.9	1,318.1	1,499.2	1,528.4

Independent auditors' report to the members of Inchcape plc

Report on the Group financial statements

Our opinion

In our opinion:

- Inchcape plc's Group financial statements (the "financial statements") give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report & Accounts (the "Annual Report"), comprise:

- the Consolidated statement of financial position as at 31 December 2016;
- the Consolidated income statement for the year then ended;
- the Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the accounting policies
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

Materiality	• Overall group materiality: £17.5 million which represents 5% of profit before taxation and exceptional items.
Audit scope	• We conducted our work in 19 countries covering 27 reporting units. • The reporting units where we conducted our audit work accounted for 94% of the Group's revenues and 94% of the Group's profit before taxation.
Areas of focus	• Goodwill impairment assessment. • Manufacturers' bonuses and rebates. • Carrying value of inventory. • Restructuring costs. • Indumotora acquisition. • Impairment of iPower software.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing 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.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus

Goodwill impairment assessment

Excluding the recent acquisition of Indumotora, Inchcape plc has £333.8 million of goodwill generated from Cash Generating Units ("CGUs") spanning five main countries as at 31 December 2016. The risk is that this balance is overstated.

For the CGUs which contain goodwill, the determination of recoverable amount, being the higher of value in use and fair value less costs to dispose, requires judgements on the part of management in valuing the relevant CGUs. Recoverable amounts are based on management's view of future trading performance and profitability and the most appropriate discount and long term growth rates. As required by accounting standards, management tests all CGUs containing goodwill for impairment on an annual basis.

As described further in note 11, management has recorded an impairment charge of £24.9 million against the goodwill in its Lithuania and Estonia CGU's, which represented the remaining goodwill for each CGU.

How our audit addressed the area of focus

We evaluated management's future cash flow forecasts and the process by which they were drawn up, including testing the underlying calculations and comparing them with the latest Board approved budgets. We challenged:

- projected vehicle volume and margin forecasts over the next five years by comparing them with external industry forecasts, where available, and historical and current results;
- the long-term growth rate used to extrapolate the cash flows beyond year five (the period covered by Board approved forecasts) into perpetuity, by comparing them with historical results and wider industry forecasts; and
- the discount rate, by independently calculating the cost of capital for the Group and any country risk premia.

We evaluated the historical accuracy of budgets and forecasts, for example, comparing the budgets used in the prior year value-in-use model against the actual performance of the business in the current year. These procedures enabled us to assess the accuracy of the forecasting process.

Where the difference between the value in use calculations and the carrying value of the CGU was more limited, we undertook downside sensitivity analysis on the key assumptions which were determined to be revenue growth and margins and we calculated the degree to which these assumptions would need to move before an impairment charge would have to be recognised.

For the Lithuania and Estonia CGUs, where the assets are now recorded at their recoverable amount, we calculated the extent to which management's assumptions would have to change for the impairment charge of £24.9 million to be materially misstated.

We satisfied ourselves as to the reasonableness of the assumptions used and judgements made by management in determining the recoverable amount of each of the five main CGUs. We also confirmed the appropriateness of the related disclosures in note 11 of the financial statements.

Manufacturers' bonuses and rebates

In certain markets, principally the UK, the Group receives rebates which are based in part on sales targets set by the Original Equipment Manufacturers (OEMs). The Group is also entitled to further OEM bonuses and rebates dependent on achieving other targets – including non-financial metrics. The quantum of these amounts is material.

The manufacturers' bonuses and rebates are usually determined by the OEMs and have varying terms, the majority of which are governed by annual agreements, whilst others are based on shorter term arrangements entered into during the year.

We focused on this area as the amounts are material and because not all bonuses and rebates are directly linked to quantitative measures, which means that the recognition of some of these amounts requires management judgement and estimation in determining whether they have been earned as at the balance sheet date.

We understood and evaluated the controls and processes with respect to manufacturers' bonuses and rebates.

We reconciled the total of all credit notes received during the year from the OEMs to the amount recognised as income during the period. On a sample basis, we tied through the amounts recognised as income from the credit note through to the actual cash received in the bank statement.

For bonus amounts held in the balance sheet as at 31 December 2016, we performed subsequent receipts testing to the extent possible, agreeing the amounts recognised from the credit note through to the cash received in the bank statement.

We also recalculated a sample of the year end accrued bonus accruals using the communication from the OEM and the data used in our audit of revenue.

To address the risk that income had been recorded in the incorrect period, on a sample basis we agreed the information on the credit note on a vehicle by vehicle basis back to audited revenue information to validate the bonus had been earned in the correct period.

No significant issues were identified during our testing.

Independent auditors' report to the members of Inchcape plc continued

Area of focus

Carrying value of inventory

As at 31 December 2016, inventory of £1.5 billion was held across multiple locations. Inventory is recorded at the lower of cost and net realisable value, being selling price less estimated selling costs.

As gross margins on sales of vehicle inventory can be low and inventory is sometimes sold at a loss, provisions are recorded against inventory to write it down to management's best estimate of its recoverable amount. Management has established a formal provisioning policy based on historical performance and their future trading forecasts.

How our audit addressed the area of focus

We considered the Group's past trading performance, including testing the levels of losses incurred on vehicle sales historically and subsequent to the year-end, to evaluate the level of provisioning and to assess the reasonableness and accuracy of management's provisioning methodology.

We established that the inventory provisions were reasonable by recalculating the inventory provisions in each country, using the provisioning policy, and comparing the results with the actual provision level.

We also verified the completeness and accuracy of any additional provisions made by management outside of its standard policy where specific events or circumstances warranted additional provisioning.

Our testing confirmed that the provisions were reasonable.

Restructuring costs

Exceptional costs totalling £24.8 million have been recorded in the final quarter of 2016 relating to a global restructuring project principally consisting of employee and property related expenses.

Determining whether the costs recorded as exceptional are directly related to the restructuring program is judgemental.

Given the restructuring programme was announced close to year end, we have also focused on assessing whether the recognition criteria for recording restructuring provisions have been met in the current period and the judgements underpinning their valuation.

For employee related costs we ensured that a valid expectation had been raised prior to year end through corroboration to public announcements and review of communication to the impacted individuals.

We assessed the accuracy of the amounts recorded through review of cash paid to employees where possible and through review of supporting documentation such as employee contracts.

We established that the property related provisions were reasonable by corroborating management's calculations to supporting evidence such as third party estimates for reinstatement costs, rental agreements for onerous lease provisions and agreeing accelerated depreciation and impairment charges to the underlying books and records of the company.

To ensure the costs classified as exceptional are directly related to the restructuring program, we held discussions with senior management of the group to understand the scope of the restructuring program and to confirm that the employee related costs relate to permanent reductions in headcount.

Our testing confirmed that the provisions were reasonable and that their classification as exceptional was in line with the Group's accounting policy for exceptional items.

Indumotora acquisition

On 22 December 2016, the Group completed the acquisition of certain operations of Empresas Indumotora S.A. ('Indumotora') in Chile, Peru, Argentina and Colombia primarily related to the distribution businesses of Subaru and Hino. Goodwill of £51.2 million and intangible assets of £162.4 million have been recognised on acquisition primarily relating to the acquired Subaru and Hino distribution agreements. The classification of the acquired distribution agreements as indefinite lived is judgemental.

A provisional acquisition date balance sheet is disclosed in note 28 reflecting management's best estimates of the fair values of the acquired assets and intangibles recognised.

We focused on this areas as there is judgement involved in the identification and valuation of intangible assets.

£8.8 million of acquisition related costs have been presented as exceptional costs in the Group income statement.

We obtained a detailed listing of the acquisition related costs and reconciled them to the underlying books of the Group with no significant differences noted. We agreed a sample of the costs to supporting documentation such as invoices, and reviewed the nature of the costs incurred to ensure they were directly related to the acquisition. We confirmed that the inclusion of these costs as exceptional was in line with the Group's accounting policy for exceptional items.

We instructed the local statutory auditors in Colombia, Peru and Chile to audit and report to us on certain balances in the 31 December 2016 balance sheet. No issues above our reporting threshold were identified in their work and we were able to reconcile the reporting packages through to the consolidation with no issues noted.

We engaged PwC Valuation experts to review Management's provisional report on the fair value exercise on the acquisition balance sheet, including the valuation of the Subaru and Hino distribution agreements. This review included validating the mechanical accuracy of the valuation model, assessing the appropriateness of the valuation methodology and challenging the key assumptions used in the model with reference to external data where possible.

No significant issues were noted.

We benchmarked the classification of the distribution agreements as indefinite lived to common industry practice, reviewed the length of existing OEM relationships held by the Group and considered the terms of the distribution contracts. On the basis of the procedures performed, we considered the classification as indefinite lived to be appropriate.

We also confirmed the appropriateness of the related disclosures in note 28 of the financial statements.

Impairment of iPower software

The Group has impaired £23.1 million of IT assets relating to the Group's ERP roll out programme. The impaired assets relate to functionality that has been superseded following changes to the Group's IT strategy. The related costs have been classified as exceptional.

As at 31 December 2016, £14.8 million of IT cost relating to the ERP programme is held centrally and is not yet subject to amortisation. Management has performed an impairment test and considers the carrying value of this remaining asset to be fully supportable.

We assessed the accuracy of the impairment charge through re-performing management's calculation and agreeing the balances back to the underlying books of the Group with no significant issues noted.

To ensure the impairment was recorded in the appropriate period we verified whether the change in the Group's IT strategy, the triggering event for the impairment, arose in the period through review of supporting documentation such as meeting minutes and internal communications. We consider the recording of the impairment in this period to be appropriate.

To obtain comfort over the recoverability of the remaining asset we:

- reviewed management's roll out plan for the IT systems where costs continue to be held centrally to ensure that these systems are still expected to bring economic benefit to the Group;
- reviewed the anticipated allocation of central costs to those territories expected to benefit from future roll outs; and
- where significant, we considered these cost allocations in light of our work performed on goodwill impairment in those territories.

We were satisfied that the remaining balance was recoverable.

Independent auditors' report to the members of Inchcape plc continued

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 geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group structure is organised into four geographic operating segments (Australasia, UK and Europe, Asia, and Emerging Markets). The operating businesses are further categorised into two market channels – distribution and retail. The Group financial statements are a consolidation of 60 reporting units, comprising the Group's operating businesses (within the four geographic segments and two market channels) and centralised functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC UK and from other PwC network firms and other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We conducted our audit work in 19 countries covering 27 reporting units. The reporting units where we conducted our audit work accounted for 94% of the Group's revenues and 94% of the Group's profit before tax and exceptional items. We instructed and maintained regular contact with the component audit teams we used and evaluated the outcome of their work. Six components were visited by partners or Directors on the Group team.

This together with additional procedures performed at the Group level, including audit procedures over consolidation adjustments, treasury, post retirement benefit, goodwill and litigation provisions gave us the evidence we needed for our opinion on the Group financial statements as a whole.

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 on the financial statements as a whole.

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

Overall Group materiality	£17.5 million (2015: £15.6 million).
How we determined it	5% of profit before taxation and exceptional items.
Rationale for benchmark applied	We believe that profit before taxation and exceptional items is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £870,000 (2015: £800,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on pages 79 to 80, in relation to going concern.

We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- information in the Annual Report is: - materially inconsistent with the information in the audited financial statements; or - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or - otherwise misleading.	We have no exceptions to report.
the statement given by the Directors on pages 79 to 80, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
the section of the Annual Report on pages 50 to 53, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

the Directors' confirmation on pages 84 to 85 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.	We have nothing material to add or to draw attention to.
the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
the Directors' explanation on page 38 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Inchcape plc continued

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent 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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the parent company financial statements of Inchcape plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Neil Grimes

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

28 February 2017

Company statement of financial position

As at 31 December 2016

	Notes	2016 £m	2015 £m
Fixed assets			
Intangible assets	3	17.3	–
Property, plant and equipment	4	1.5	–
Investment in subsidiaries	5	1,629.4	1,631.5
		1,648.2	1,631.5
Current assets			
Trade and other receivables:			
– Amounts due within one year	6	271.1	95.6
– Amounts due after more than one year	6	134.4	300.6
Cash and cash equivalents	7	7.3	11.6
		412.8	407.8
Trade and other payables – amounts falling due within one year	8	(264.1)	(6.8)
Net current assets		148.7	401.0
Total assets less current liabilities		1,796.9	2,032.5
Trade and other payables – amounts falling due after more than one year	9	(732.8)	(758.3)
Provisions for liabilities	11	(2.0)	(4.6)
Net assets		1,062.1	1,269.6
Equity			
Ordinary shares	13	42.2	43.8
Share premium		146.7	146.7
Capital redemption reserve		138.4	136.8
Retained earnings		734.8	942.3
Total shareholders' funds		1,062.1	1,269.6

The financial statements on pages 153 to 169 were approved by the Board of Directors on 28 February 2017 and were signed on its behalf by:

Stefan Bomhard,
Group Chief Executive

Richard Howes
Chief Financial Officer

Registered Number: 609782
Inchcape plc

Company statement of changes in equity

For the year ended 31 December 2016

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 January 2015		45.0	146.7	135.6	1,015.2	1,342.5
Profit for the year		-	-	-	119.1	119.1
Total comprehensive income for the year		-	-	-	119.1	119.1
Dividends	14	-	-	-	(91.1)	(91.1)
Net purchase of own shares by the Inchcape Employee Trust		-	-	-	(18.9)	(18.9)
Share buy back programme	13	(1.2)	-	1.2	(91.4)	(91.4)
Share-based payments, net of tax		-	-	-	9.4	9.4
At 1 January 2016		43.8	146.7	136.8	942.3	1,269.6
Loss for the year		-	-	-	(8.7)	(8.7)
Total comprehensive income for the year		-	-	-	(8.7)	(8.7)
Dividends	14	-	-	-	(90.2)	(90.2)
Net purchase of own shares by the Inchcape Employee Trust		-	-	-	(10.9)	(10.9)
Share buy back programme	13	(1.6)	-	1.6	(109.8)	(109.8)
Share-based payments, net of tax		-	-	-	12.1	12.1
At 31 December 2016		42.2	146.7	138.4	734.8	1,062.1

Share-based payments include a net tax charge of £nil (2015 – net tax charge of £0.2m (deferred tax charge of £0.8m and a current tax credit of £0.6m)).

Accounting policies

General information

These financial statements are prepared for Inchcape plc (the Company) for the year ended 31 December 2016. The Company is the ultimate parent entity of the Inchcape Group (the Group).

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The financial statements are prepared under the historical cost convention modified for fair values in accordance with the Companies Act 2006. As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. The Directors of Inchcape plc manage the Group's risks at a group level rather than an individual business unit or company level. Further information on these risks and uncertainties, in the context of the Group as a whole, are included within the Group disclosures on pages 34 to 37.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise price of share options, and how the fair value of goods and services received was determined)
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 73(e) of IAS 16, 'Property, plant and equipment';
 - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows),
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third statement of financial position),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Sterling at closing rates of exchange and differences are taken to the income statement.

Finance costs

Finance costs consist of interest payable on the Private Placement borrowing. Costs are recognised as an expense in the period in which they are incurred.

Investments

Investments in subsidiaries are stated at cost, less provisions for impairment.

Accounting policies continued

Other intangible assets

Intangible assets, when acquired separately from a business (including computer software), are carried at cost less accumulated amortisation and impairment losses. Costs comprise purchase price from third parties as well as internally generated development costs where relevant. 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 five years.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and directly attributable costs of the asset and includes, where relevant, capitalised borrowing costs. Depreciation 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 hardware is five years.

Deferred tax

Deferred income tax is accounted for using the liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference is due to goodwill arising on a business combination, or to an asset or liability, the initial recognition of which does not affect either taxable or accounting income.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled using rates enacted or substantively enacted at the end of the reporting period. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to shareholders' equity, in which case the deferred tax is also dealt with in shareholders' equity.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle balances net.

Provisions

Provisions are recognised when the Company has a present obligation in respect of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

Share capital

Ordinary shares are classified as equity.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid is deducted from shareholders' funds until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' funds.

Dividends

Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

Share-based payments

The Company operates various share-based award schemes. The fair value at the date at which the share-based awards are granted is recognised in the income statement (together with a corresponding increase in shareholders' equity) on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At the end of each reporting period, the Company revises its estimates of the number of awards that are expected to vest. The impact of any revision is recognised in the income statement with a corresponding adjustment to equity.

For equity-settled share-based awards, the services received from employees are measured by reference to the fair value of the awards granted. With the exception of the Save As You Earn scheme, the vesting of all share-based awards under all schemes is solely reliant upon non-market conditions, therefore no expense is recognised for awards that do not ultimately vest. Where an employee cancels a Save As You Earn award, the charge for that award is recognised as an expense immediately, even though the award does not vest.

Financial instruments

The Company's policies on the recognition, measurement and presentation of financial instruments under IFRS 7 are the same as those set out in the Group's accounting policies on pages 93 to 99.

1 Auditors' remuneration

The Company incurred £0.1m (2015 – £0.1m) in relation to UK statutory audit fees for the year ended 31 December 2016.

2 Directors' remuneration

	2016 £m	2015 £m
Wages and salaries	4.2	4.1
Social security costs	0.2	0.3
Pension costs	0.3	0.4
	4.7	4.8

Further information on Executive Directors' emoluments and interests is given in the Directors' Report on Remuneration which can be found on pages 57 to 77.

3 Intangible assets

	Computer software £m	Total £m
Cost		
At 1 January 2016	-	-
Transfer from Group company	36.4	36.4
At 31 December 2016	36.4	36.4
Accumulated amortisation and impairment		
At 1 January 2016	-	-
Transfer from Group company	(2.5)	(2.5)
Impairment of computer software	(16.6)	(16.6)
At 31 December 2016	(19.1)	(19.1)
Net book value at 31 December 2016	17.3	17.3
Net book value at 31 December 2015	-	-

Impairment

During the year, the Group has made configuration changes to the iPower system to better reflect the Ignite strategy. This has resulted in a number of areas of functionality being superseded and as such, we have recorded an exceptional, non-cash impairment charge of £16.6m.

4 Property, plant and equipment

	Plant, machinery and equipment £m	Total £m
Cost		
At 1 January 2016	-	-
Transfer from Group company	1.8	1.8
At 31 December 2016	1.8	1.8
Accumulated depreciation and impairment		
At 1 January 2016	-	-
Impairment of plant, machinery and equipment	(0.3)	(0.3)
At 31 December 2016	(0.3)	(0.3)
Net book value at 31 December 2016	1.5	1.5
Net book value at 31 December 2015	-	-

5 Investment in subsidiaries

	2016 £m	2015 £m
Cost		
At 1 January	1,712.6	1,712.6
Disposals	(1.6)	–
At 31 December	1,711.0	1,712.6
Provisions		
At 1 January	(81.1)	(76.9)
Provisions for impairment	(0.5)	(4.2)
At 31 December	(81.6)	(81.1)
Net book value	1,629.4	1,631.5

The Directors believe that the carrying value of the individual investments is supported by their underlying net assets.

An impairment charge of £0.5m has been recognised in the year (2015 – £4.2m) to ensure that the carrying value of the individual investments is stated at the lower of cost and estimated recoverable amount.

6 Trade and other receivables

	2016 £m	2015 £m
Amounts due within one year		
Current tax asset	0.7	–
Amounts owed by Group undertakings	270.4	95.6
	271.1	95.6
Amounts due after more than one year		
Deferred tax asset (note 10)	0.7	1.7
Amounts owed by Group undertakings	133.7	298.9
	134.4	300.6

Amounts owed by Group undertakings that are due within one year consist of current account balances that are interest free and repayable on demand, as well as intercompany loans that bear interest at rates linked to source currency base rates.

Amounts owed by Group undertakings that are due after more than one year bear interest at rates linked to source currency base rates.

7 Cash and cash equivalents

	2016 £m	2015 £m
Cash and cash equivalents	7.3	11.6

8 Trade and other payables – amounts falling due within one year

	2016 £m	2015 £m
Amounts owed to Group undertakings	35.7	2.2
Private Placement	223.6	–
Other taxation and social security payable	1.8	1.4
Other creditors	3.0	3.2
	264.1	6.8

The Company has an amount of US\$275m under the Private Placement which bears interest at a fixed rate of 5.94% per annum and is repayable in 2017.

Amounts owed to Group undertakings are interest free and repayable on demand.

9 Trade and other payables – amounts falling due after more than one year

	2016 £m	2015 £m
Amounts owed to Group undertakings	602.1	461.9
Private Placement	130.7	296.4
	732.8	758.3

The Company has an amount of US\$160.8m under the Private Placement which bears interest at a fixed rate of 6.04% per annum and is repayable in 2019.

Amounts owed to Group undertakings are repayable in more than one year and bear interest at rates linked to source currency base rates.

10 Deferred tax

	Share-based payments £m	Other timing differences £m	Total £m
Net deferred tax asset / (liability)			
At 1 January 2016	0.7	1.0	1.7
Charged to the income statement	(0.7)	(0.3)	(1.0)
At 31 December 2016	-	0.7	0.7

11 Provisions for liabilities

	2016 £m	2015 £m
At 1 January	4.6	4.6
Released to the income statement	(2.6)	-
At 31 December	2.0	4.6

Provision has been made for warranties, indemnities and other litigation issues in relation to motors and non-motors business exits, based on expected outcomes. These provisions are expected to be settled within the next three to five years.

12 Contingent liability

The Company is party to composite cross guarantees between banks and its subsidiaries. The Company's contingent liability under these guarantees at 31 December 2016 was £7.3m (2015 – £11.6m), equal to the carrying value of its cash and cash equivalents at the end of the period (see note 7).

In addition, the Company has given performance guarantees in the normal course of business in respect of the obligations of Group undertakings amounting to £84.7m (2015 – £34.7m).

13 Share capital

a. Allotted, called up and fully paid up

	2016 Number	2015 Number	2016 £m	2015 £m
Ordinary shares				
At 1 January	436,810,096	448,741,789	43.8	45.0
Cancelled under share buy back	(15,805,287)	(11,931,693)	(1.6)	(1.2)
At 31 December	421,004,809	436,810,096	42.2	43.8

b. Share buy back programme

During the year, the Company repurchased 15,805,287 (2015 – 11,931,693) of its own shares through purchases on the London Stock Exchange, at a cost of £108.2m (2015 – £90.8m). The shares repurchased during the year were cancelled, with none held within treasury shares at the end of the reporting period. An amount of £1.6m (2015 – £1.2m), equivalent to the nominal value of the cancelled shares, has been transferred to the capital redemption reserve. Costs of £1.6m (2015 – £0.6m) associated with the transfer to the Company of the repurchased shares and their subsequent cancellation have been charged to the profit and loss reserve.

c. Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 28 February 2017 under the provisions of the Companies Act 2006 have been disclosed in the significant shareholdings section of the Corporate Governance Report.

13 Share capital continued

d. Share options

At 31 December 2016, options to acquire ordinary shares of 10.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Number of ordinary shares of 10.0p each	Exercisable until	Option price (£)	Number of ordinary shares of 10.0p each	Exercisable until	Option price (£)
The Inchcape 1999 Share Option Plan – approved (Part II – UK)			The Inchcape SAYE Share Option Scheme – approved		
1,503	19 May 2019	2.00	91,646	1 May 2017	4.76
1,615	7 April 2020	3.10	430,584	1 May 2018	5.40
			752,660	1 May 2019	5.78
			777,105	1 May 2020	5.63
– unapproved (Part I – UK)			Recruitment and Retention Plan		
2,501	19 May 2019	2.00	206,881	31 March 2025	0.10
5,448	7 April 2020	3.10	124,909	10 April 2026	0.10
– unapproved overseas (Part I – Overseas)					
296,329	19 May 2019	2.00			
47,763	7 April 2020	3.10			

Included within the retained earnings reserve are 770,102 (2015 – 631,253) ordinary shares in the Company held by the Inchcape Employee Trust, a general discretionary trust whose beneficiaries include current and former employees of the Group and their dependants. The book value of these shares at 31 December 2016 was £5.5m (2015 – £4.5m). The market value of these shares at both 31 December 2016 and 28 February 2017 was £5.4m and £5.8m respectively (31 December 2015 – £5.0m, 14 March 2016 – £4.5m).

e. Share-based remuneration

Inchcape plc has two employees, the Group Chief Executive and the Group Finance Director.

The terms and conditions of the Company's share-based payment plans are detailed in the Directors' Report on Remuneration.

The charge arising from share-based transactions during the year was £2.5m (2015 – £1.9m), all of which is equity-settled.

The weighted average exercise price of shares exercised during the period was £nil (2015 – £nil).

The weighted average remaining contractual life for the share options outstanding at 31 December 2016 is 8.6 years (2015 – 9.2 years) and the range of exercise prices for options outstanding at the end of the year was £0.10 to £5.78 (2015 – £0.10 to £5.78).

14 Dividends

The following dividends were paid by the Company:

	2016 £m	2015 £m
Interim dividend for the six months ended 30 June 2016 of 7.0p per share (30 June 2015 – 6.8p per share)	29.9	30.0
Final dividend for the year ended 31 December 2015 of 14.1p per share (31 December 2014 – 13.8p per share)	60.3	61.1
	90.2	91.1

A final proposed dividend for the year ended 31 December 2016 of 16.8p per share amounting to £70.6m is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2016.

15 Related Undertakings

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, associates and joint ventures as at 31 December 2016 is shown below:

Subsidiaries

Name and address	Percentage owned
Argentina	
<i>Entre Ríos 2550, Martínez, Buenos Aires</i>	
Distribuidora Automatrix Argentina SA	100%
Indumotora Argentina SA	100%
Australia	
<i>Level 2, 4 Burbank Place, Baulkham Hills, NSW 2153</i>	
AutoNexus Pty Ltd	100%
Bespoke Automotive Australia Pty Ltd	100%
Inchcape Australia Ltd	(i) 100%
Inchcape Automotive Retail Pty Ltd	100%
Keystar Motors Pty Ltd	(ii) 100%
SMLB Pty Ltd	100%
Subaru (Australia) Ltd	90%
TCH Unit Trust	100%
Trivett Automotive Group Pty Ltd	100%
Trivett Bespoke Automotive Pty Ltd	100%
Trivett Classic Garage Pty Ltd	100%
Trivett Classic Group Finance Pty Ltd	100%
Trivett Classic Holdings Pty Ltd	(iii) 100%
Trivett Classic Pty Ltd	(iv) 100%
Trivett Motorcycles Pty Ltd	100%
Trivett P/L	100%
Trivett Tyres Pty Ltd	100%
Belgium	
<i>Leuvensesteenweg 369, 1932 Sint-Stevens-Woluwe</i>	
Autoproducts NV	100%
Car Security NV	100%
Toyota Belgium NV/SA	100%
<i>Boulevard Industriel 198, 1070 Anderlecht</i>	
Garage Francorchamps SA	100%
Inchcape Retail Belgium	100%
Brunei	
<i>KM3.6, Jalan Gadong, Bandar Seri Begawan</i>	
Champion Motors (Brunei) Sdn Bhd	70%
NBT (Brunei) Sdn Bhd	70%
NBT Services Sdn Bhd	70%
Bulgaria	
<i>163 Tsarigradsko Shosse Str, Sofia</i>	
Inchcape Brokerage Bulgaria EOOD	100%
TM Auto EOOD	100%
Toyota Balkans EOOD	100%

Notes to the financial statements continued

15 Related Undertakings continued

Name and address	Percentage owned
Chile	
<i>Av. La Dehesa 265, Santiago, Región Metropolitana</i>	
Mobility Services Chile SA	100%
Universal Motors SA	100%
Williamson Balfour Motors SA	100%
Williamson Balfour SA	100%
 <i>19 Ruta 5 Norte, 100, Lampa</i>	
Automotriz Autocar SA	100%
Camiones y Buses Indumotora SA	100%
Hino Chile SA	100%
 <i>455 Santa Rosa, Santiago</i>	
Indumotora Internacional SA	100%
 <i>537 Santa Rosa, Santiago</i>	
Subaru Chile SA	100%
 <i>Apoquindo 3721, Piso 13, Las Condes, Santiago</i>	
Indigo Chile Holdings SpA	100%
 <i>Francisco Bilbao 0102, Providencia Santiago</i>	
Indigo One SA	100%
China	
<i>405 Shi Guang Road, Yang Pu District, Shanghai</i>	
Inchcape Investment Holding (China) Ltd	100%
 <i>110 Jiurui Avenue, International Auto Park, Kiujiang Economic & Technological Development Zone, Jiujiang City, Jiangxi</i>	
Jiujiang Inchcape Premium Auto Sales & Service Co Ltd	100%
 <i>755 Gaoxin Avenue, Nanchang, Jiangxi</i>	
Nanchang Inchcape Premium Auto Sales & Service Co Ltd	100%
 <i>Suite 208, Tower 1, 1135 Bo Tou Road, Yang Pu District, Shanghai</i>	
Shanghai Hongshi Consultancy Co Ltd	100%
 <i>Suite 319, Tower A, 169 Taigu Road, China (Shanghai) Pilot Free Trade Zone, Shanghai</i>	
Shanghai Bell Rock Auto Sales & Service Co Ltd	100%
 <i>405 Shi Guang Road, Yang Pu District, Shanghai</i>	
Shanghai Inchcape Auto Sales & Service Co Ltd	100%
 <i>6 Yu Yue Middle Road, Dou Men Town, Paojiang Industrial Zone, Shaoxing</i>	
Shaoxing Inchcape Lexus Auto Sales & Service Co Ltd	100%
 <i>QC-1, Keqiao Economic Development Zone, East of Jin Keqiao Avenue, South of Kehai, Shaoxing</i>	
Shaoxing Inchcape Premium Auto Sales & Service Co Ltd	100%

15 Related Undertakings continued

Name and address	Percentage owned
Colombia	
<i>78-20 Avenida el Dorado, Bogotá</i>	
Distribuidora Hino de Colombia SAS	100%
Impoquing Motor SAS	100%
Matrase SAS	100%
Praco Didacol SAS	100%
Cook Islands	
<i>First Floor, BCI House, Avarua, Rarotonga</i>	
IB Enterprises Ltd	100%
Djibouti	
<i>Route de Venise – Djibouti Free Zone – LOB 124, PO Box 2645</i>	
Red Sea Automotive FZCO	100%
Estonia	
<i>Läike tee 38, Peetri küla, Rae vald, Harjumaa 75312</i>	
Inchcape Motors Estonia OU	100%
Ethiopia	
<i>Bole Sub City, Kebele 03, H.Nr. 2441, Addis Ababa</i>	
The Motor & Engineering Company Of Ethiopia (Moenco) Ltd	94%
Finland	
<i>Ansatie 6 a C, 01740 Vantaa, Kotipaikka, Helsinki</i>	
Inchcape Motors Finland Oy	100%
Greece	
<i>48 Ethnikis Antistaseos Street, Halandri 15231</i>	
British Providence SA	100%
Eurolease Fleet Services SA	100%
Toyota Hellas SA	100%
Inchcape Incredit SA	100%
<i>11th Km, National Road Thessaloniki-Airport, Thessaloniki 60371</i>	
Polis Inchcape Thessaloniki SA	100%
<i>517 Vouliagmenis Avenue, Hlioupoli, Athens 16341</i>	
Polis Inchcape Athens SA	100%
Guam	
<i>443 South Marine Corps Drive, Tamuning, Guam 96913</i>	
Atkins Kroll Inc	100%

Notes to the financial statements continued

15 Related Undertakings continued

Name and address	Percentage owned
Hong Kong	
<i>22nd Floor, Citicorp Centre, 18 Whitfield Road, North Point</i>	
British Motors Ltd	100%
Crown Motors Development Ltd	100%
Crown Motors Ltd	100%
Future Motors Ltd	100%
Inchcape Asia Pacific Ltd	100%
Inchcape Finance (HK) Ltd	100%
Inchcape Hong Kong Ltd	100%
Inchcape Motor Leasing Limited	100%
Inchcape Motor Services Ltd	100%
Inchcape South China Ltd	100%
Nova Motors Ltd	100%
Ireland	
<i>7th Floor, Hume House, Ballsbridge, Dublin 4</i>	
Inchcape Finance (Ireland) Ltd	(v) 100%
Ivory Coast	
<i>01 BP 3893, Abidjan 01</i>	
Distribution Services Cote d'Ivoire SA	100%
Toyota Services Afrique SA	100%
Latvia	
<i>4a Skanstes Street, Riga, LV-1013</i>	
Baltic Motors Imports SIA	100%
Baltijas Ipasumum Fonds SIA	100%
BM Lizings SIA	100%
Ermans SIA	100%
Inchcape Motors Latvia SIA	100%
<i>Paula Stradina 29, Ventspils, LV-3602</i>	
Ventmotors SIA	100%
Lithuania	
<i>Laisves av. 137, Vilnius, LT-06118</i>	
UAB Autovista	67%
UAB Autovytaras	67%
UAB Inchcape Motors	67%
Luxembourg	
<i>24 Rue de l'Ouest, L-2273</i>	
Car Company Luxembourg	100%
<i>6 ZAI Bourmicht L-8070, Bertrange</i>	
Grand Garage de Luxembourg	100%
<i>193 Route d'Arlon, L-1150</i>	
Jaguar Luxembourg	100%
Yat Fung Motors Ltd	100%

15 Related Undertakings continued

Name and address	Percentage owned
Macau	
No. 223-225, Av. Do Dr. Rodrigo Rodrigues, 8/F Nam Kwong Building, Apt B-C Nova Motors (Macao) Ltd	100%
Macedonia	
21 8th September Boulevard, 1000 Skopje Toyota Auto Center DOOEL	100%
Netherlands	
Strawinskylaan 3127, Atrium Building, 8th Floor, 1077 ZX Amsterdam Inchcape International Group BV	100%
Inchcape T Property BV	100%
Inchcape T.B.V.	100%
Inchcape Moscow Holdings BV	100%
Inchcape Moscow Motors BV	100%
Olimp BV	100%
New Zealand	
C/- Bell Gully, Level 22, Vero Centre, 48 Shortland Street, Auckland Inchcape Motors NZ Ltd	100%
Panama	
Vía General Nicanor A. de Obarrio (Street 50), Plaza Bancomer Ilaothor SA	100%
Ilachile SA	100%
Peru	
Av. Republica de Panama 3330, San Isidro 15047, Lima 27 Inchcape Motors Peru SA	100%
IMP Distribuidora SA	100%
Av. Morro Solar 812, Santiago de Surco Autocar del Peru SA	100%
Distribuidora del Peru SA	100%
Indumotora del Peru SA	100%
Rentas y Inmobiliaria Sur Andina SA	100%
Poland	
Al. Prymasa Tysiąclecia 64, 01-424 Warszawa Inchcape Motors Polska Sp z o.o	100%
Al. Karkonoska 61, 53-015 Wrocław Interim Cars Sp z o.o	100%
Romania	
Pipera Boulevard No 1, Voluntari, Ilfov, 077190 Inchcape Motors Srl	100%
Inchcape Real Estate Srl	100%
Toyota Romania Srl	100%

Notes to the financial statements continued

15 Related Undertakings continued

Name and address	Percentage owned
Russia	
<i>Building 1, 18 2-ya Magistralnaya street, Moscow 123290</i>	
Inchcape Management Services Rus LLC	100%
LLC Inchcape Holding	100%
<i>31 Litera A, Rustaveli Street, St Petersburg 195273</i>	
Inchcape Olimp LLC	100%
<i>Building 8, Kievskoe Shosse 24 km, Kartmazovo Village, Settlement Moskovskiy, Moscow 142784</i>	
Inchcape T LLC	100%
<i>10 Seslavinskaya Street, Moscow 121309</i>	
LLC Autopark	100%
LLC Autoproject	100%
<i>36 Yaroslavskoe Shosse, Moscow 129337</i>	
LLC Borishof 1	100%
<i>87 Litera A, ul. Sofiyskaya, St Petersburg 192289</i>	
LLC Concord	100%
<i>Building 22, 18 2-ya Magistralnaya Street, Moscow 123290</i>	
LLC Musa Motors JLR	100%
LLC Musa Motors Volvo	100%
<i>41 ul. Kuznetsovskaya, St Petersburg 196105</i>	
LLC Orgtekhstroy	100%
Saipan	
<i>PO Box 500267, MP 96950-0267</i>	
Atkins Kroll (Saipan) Inc	100%
Singapore	
<i>33 Leng Kee Road, 159102</i>	
Borneo Motors (Singapore) Pte Ltd	100%
Century Motors (Singapore) Ltd	100%
Champion Motors (1975) Pte Ltd	100%
Inchcape Automotive Services Pte Ltd	100%
Inchcape Motors Private Ltd	100%
Thailand	
<i>No. 4332 Rama IV Road, Prakhonong Sub-District, Klongtoey District, Bangkok</i>	
Inchcape (Thailand) Company Ltd	100%
Inchcape Services (Thailand) Ltd	100%

15 Related Undertakings continued

Name and address	Percentage owned
United Kingdom	
<i>Inchcape House, Langford Lane, Kidlington, Oxford OX5 1HT</i>	
Armstrong Massey (York) Ltd	100%
Armstrong Massey Holding Ltd	100%
Autobyte Ltd	100%
Automobiles of Distinction Ltd	100%
Bates Motors (Belcher) Ltd	100%
Casemount Holdings Ltd	100%
Castle Motors (York) Ltd	100%
Chapelgate Holdings Ltd	100%
Chapelgate Motors Ltd	100%
D J Smith Ltd	100%
Dane Motor Company (Chester) Ltd	100%
European Motor Holdings Ltd	100%
Ferrari Concessionaires Ltd	(vi) 100%
Gerard Mann Ltd	100%
H A Fox Ltd	100%
Inchcape East (2) Ltd	100%
Inchcape East (Acre) Ltd	100%
Inchcape East (Brook) Ltd	100%
Inchcape East (Hill) Ltd	100%
Inchcape East (Holdings) Ltd	100%
Inchcape East (Properties) Ltd	100%
Inchcape East Ltd	100%
Inchcape Estates Ltd	100%
Inchcape Fleet Solutions Ltd	100%
Inchcape Motors International Ltd	100%
Inchcape Motors Pension Trust Ltd	100%
Inchcape Pension Trustee Ltd	100%
Inchcape Midlands Ltd	100%
Inchcape North West Group Ltd	100%
Inchcape North West Ltd	100%
Inchcape Park Lane Ltd	100%
Inchcape Retail Ltd	100%
Inchcape Trade Parts Ltd	100%
Inchcape Transition Ltd	100%
Inchcape UK Ltd	100%
Inchcape UK Corporate Management Ltd	100%
James Edwards (Chester) Ltd	100%
L&C Auto Services (Croydon) Ltd	(vii) 100%
L&C Auto Services Ltd	(viii) 100%
L&C Banstead Ltd	100%
Malton Motors Fleet Ltd	100%
Malton Motors Ltd	100%
Mann Egerton & Co Ltd	100%
Mill Garages Ltd	100%
Nexus Corporation Ltd	100%
Normand Heathrow Ltd	100%
Normand Ltd	100%
Normand Motor Group Ltd	100%
Normand Trustees Ltd	100%

Notes to the financial statements continued

15 Related Undertakings continued

Name and address		Percentage owned
Northfield Garage (Tetbury) Ltd		100%
Notneeded No. 144 Ltd		100%
Notneeded No. 145 Ltd		100%
Packaging Industries Ltd		100%
Penta Watford Ltd		88%
Smith Knight Faye (Holdings) Ltd		100%
Smith Knight Faye Ltd		100%
The Cooper Group Ltd		100%
Tozer International Holdings Ltd		100%
Tozer Kemsley Millbourn Automotive Ltd		100%
Wyvern (Wrexham) Ltd		100%
<i>22a St James's Square, London, SW1Y 5LP</i>		
Cavendish 1 Ltd		100%
Inchcape Baltic Motors Ltd		100%
Inchcape (Belgium) Ltd	(ix)	100%
Inchcape BMI Ltd		100%
Inchcape Corporate Services Ltd		100%
Inchcape Finance plc		100%
Inchcape Hellas Funding (unlimited)		100%
Inchcape Hellas UK (unlimited)		100%
Inchcape Imperial (unlimited)		100%
Inchcape Investments (no 1) Ltd		100%
Inchcape Investments (no 2) Ltd		100%
Inchcape International Holdings Ltd		100%
Inchcape Latvia Ltd		100%
Inchcape Management (Services) Ltd		100%
Inchcape Overseas Ltd		100%
Inchcape Russia (UK) Ltd	(x)	100%
Inchcape (Singapore) Ltd		100%
Kenning Motor Group Ltd		100%
St Mary Axe Securities Ltd		100%
<i>PO Box 33, Maison Trinity, Trinity Square, St Peter Port, Guernsey, Channel Islands GY1 4AT</i>		
St James's Insurance Ltd		100%
<i>4th Floor 115 George Street, Edinburgh EH2 4JN</i>		
Inchcape Investments & Asset Management Ltd		100%
United States of America		
<i>The Corporation Company, 30600 Telegraph Road Bingham Farms, MI 48025</i>		
Baltic Motors Corporation		100%
<i>Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801</i>		
SS Acquisition Corporation		100%

15 Related Undertakings continued

Joint Ventures

Name and address	Percentage owned
Greece	
48 Ethnikis Antistaseos Street, Halandri 15231 Tefin SA	50%
United Kingdom	
116 Cockfosters Road, Barnet, Hertfordshire, EN4 0DY Enterprise Car Finance Ltd	(xi) 49%
Charterhall House, Charterhall Drive, Chester, Cheshire CH88 3AN Inchcape Financial Services Ltd	(xii) 49%

Unless stated below, all holdings have one type of ordinary share capital:

- (i) Ordinary A and Ordinary B shares
- (ii) Ordinary shares, B Class shares, J Class shares and L Class shares
- (iii) Ordinary shares and E Class shares
- (iv) Ordinary shares, A Class shares, C Class shares, D Class shares and E Class shares
- (v) Ordinary shares, redeemable cumulative preference shares and non-redeemable preference shares
- (vi) Ordinary shares, Ordinary A shares and 8% non-cumulative redeemable preference shares
- (vii) Ordinary shares and redeemable cumulative preference shares
- (viii) Ordinary shares and redeemable cumulative preference shares
- (ix) Ordinary A and Ordinary B shares
- (x) Ordinary A and Ordinary B shares
- (xi) Ordinary A and Ordinary B shares
- (xii) Ordinary A and Ordinary B shares

Independent auditors' report to the members of Inchcape plc

Report on the parent company financial statements Our opinion

In our opinion, Inchcape plc's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Company statement of financial position as at 31 December 2016;
- the Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities set out on pages 79 to 80, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group financial statements of Inchcape plc for the year ended 31 December 2016.

Neil Grimes

(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 February 2017

Shareholder Information

Registered office

Inchcape plc
22a St James's Square
London SW1Y 5LP
Tel: +44 (0) 20 7546 0022
Fax: +44 (0) 20 7546 0010
Registered number: 609782
Registered in England and Wales

Advisors

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors

Share registrars

Computershare Investor Services PLC
Registrar's Department, The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel: +44 (0) 370 707 1076

Solicitors

Slaughter and May

Corporate brokers

Deutsche Bank
JP Morgan Cazenove

Inchcape PEPs

Individual Savings Accounts (ISAs) replaced Personal Equity Plans (PEPs) as the vehicle for tax efficient savings. Existing PEPs may be retained. Inchcape PEPs are managed by The Share Centre Ltd, who can be contacted at PO Box 2000, Oxford House, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB
Tel: +44 (0) 1296 414144

Inchcape ISA

Inchcape has established a Corporate Individual Savings Account (ISA). This is managed by Equiniti Financial Services Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Tel: 0870 300 0430

International callers:

Tel: +44 121 441 7560

More information is available at www.shareview.com

Financial calendar

Annual General Meeting

25 May 2017

Announcement of 2017 Interim Results

27 July 2017

Explore our website for access to our latest Annual Report and more.



The 2016 Online Annual Report includes:

- How we are Driving our Strategy
- a searchable PDF of the Annual Report
- download prior year Annual Reports
- Inchcape videos – watch and learn more about Inchcape and what we do

 www.inchcape.com/annualreport



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