Inchcape

Annual Report and Accounts 2019

# Bringing the best loved automotive brands to the world

## Strategic report



## Governance



## Financial statements



## Other information



## Highlights

**Revenue**

**£9.4bn**

**2018: £9.3bn**

**Dividend per share[1]**

**26.8p**

**2018: 26.8p**

**Cash returned to shareholders**

**£210.5m**

**2018: £115.2m**

**Return on capital employed[1]**

**22%**

**2018: 22%[2]**

1. APM (alternative performance measures) page 177
2. 28% in 2018, pre-IFRS16 restatement

***VISIT OUR WEBSITE FOR ADDITIONAL INFORMATION AND INTERACTIVE FEATURES INCHCAPE.COM***

Cover image: Roza Amberber Teshome, Junior Auto Technician II

### 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 | £m | Use of metric |
|---|---|---|
| Gross Profit | **1,272.1** | Direct profit contribution from Value Drivers (e.g. Vehicles and Aftersales) |
| Less: Segment operating expenses | (881.8) | |
| Trading Profit | **390.3** | Underlying profit generated by our segments |
| Less: Central Costs | (17.2) | |
| Operating Profit (pre-exceptional Items) | **373.1** | Underlying profit generated by the Group |
| Less: Exceptional Items | 75.5 | |
| Operating Profit | **448.6** | Statutory measure of Operating Profit |
| Less: Net Finance Costs and JV profit (inc exceptional items) | (46.8) | |
| Profit before Tax | **401.8** | Statutory measure of profit after the costs of financing the Group |
| Add back: Exceptional Items | (75.5) | |
| Profit Before Tax & Exceptional Items | **326.3** | One of the Group's KPIs |

As an independent, multi-brand automotive distributor and retailer, we bring the best loved brands to customers throughout the world.

We bring this to life through a combination of long-standing partner relationships, a growing global footprint, a unique business model and a long-term strategy.



# Strategic progress made amidst short-term challenges

**Nigel Stein**
Chairman

Dear Shareholders,

**I am pleased to report on a year of significant strategic progress that saw the business further refocused around its core Distribution activities. We entered a number of new markets, realised significant value through the disposal of non-core assets and have announced a share buyback programme, returning £150m to shareholders.**

## Performance

The overall trading result for the year was in line with expectations and reflected a resilient underlying performance despite weaker markets and some unexpected challenges, including the impact of political unrest in Hong Kong and Chile. This resilience is, in part, reflective of our exposure to a broad spread of markets and to the Distribution business model which now accounts for some 91% of Group profit.

Automotive markets generally remain challenging. Firm actions to improve efficiency and performance were undertaken during 2019, and will continue into 2020, to ensure the Group optimises its cost base both for the current and future years. This will place Inchcape in a strong position for all its stakeholders when markets stabilise or recover.

## Future trends and strategy

The Board continues to closely monitor the adoption and impact of several disruptive trends taking place in the industry, including the electrification of drivetrains, connected cars, shared ownership models and autonomous, "self- driving" vehicles.

Electrification of the drivetrain is the most advanced of these, driven by regulation in many markets. We believe Inchcape's partnerships with some of the most technically advanced global car manufacturers position us well for this more electrified world.

The increasing use of digital platforms for customers to choose and buy their cars online is another trend taking rapid hold in the industry. We are aligned with this development and are investing significantly in a class-leading end-to-end digital offering.

The Ignite strategy continued to be at the heart of the Group's activities. As well as successfully positioning the business to leverage the Group's competitive advantages, it has further embedded relationships with our OEM partners. Ignite is also driving everyday efficiency. Our focus, for example, on delivering the full potential on all our revenue streams saw good growth across our Aftersales and Finance & Insurance activities.

Our Ignite strategy plays a key role in ensuring that Inchcape remains a sustainable business in the long term.

## Board

We welcomed Gijsbert de Zoeten to the Board as Chief Financial Officer, with effect from 1 September 2019, in succession to Richard Howes. Gijsbert was, until 2018, CFO at LeasePlan Corporation NV, an international fleet management and mobility services company with a turnover of €9bn and a 1.7m strong car fleet, so brings excellent knowledge of our industry. Previously, Gijsbert had a successful 27-year career at Unilever plc where he held a range of senior financial and operational positions.

Nigel Northridge and Coline McConville both stepped down as Non-Executive Directors during the year. Nigel served on the Board for over nine years and provided invaluable support to me in his role as Senior Independent Director. Coline led our last remuneration policy review in 2017 in her role as Remuneration Committee Chair which was well received by shareholders.

I would like to thank Nigel, Coline and Richard for their contributions to the Group.

I am pleased that Jerry Buhlmann accepted the position as Senior Independent Director and Jane Kingston assumed the role of Remuneration Committee Chair and is leading the current remuneration policy review. This will be put to shareholders for approval at the forthcoming 2020 AGM.

The Committee spent significant time considering all aspects of the policy and had detailed consultations with shareholders to ensure that it aligns with both shareholders' latest thinking on remuneration and the continuing incentivisation and retention of Executives. I am grateful to Jane for the considerable work this policy review entailed.

In February 2020, Alex Jensen joined the Board as a Non-Executive Director. Alex's experience at BP, where she is Chief Marketing Officer, Global Retail and Senior Vice President, European Retail, will bring very relevant experience to the Board and we are delighted to have her as a Director.

Also in February, we accepted with regret the resignation of our Group CEO, Stefan Bomhard who will become CEO of the FTSE100 company Imperial Brands plc. Stefan has done an excellent job in his near five years at Inchcape and I thank him for his significant contribution to Inchcape's success.

The Board has enacted a succession process to choose Stefan's replacement and an announcement will be made at the appropriate time.

## Returning to shareholders

The Board is recommending a final ordinary dividend of 17.9p per ordinary share (2018: 17.9p) which, if approved at the forthcoming Annual General Meeting, will give a total dividend for the year of 26.8p per ordinary share (2018: 26.8p). The dividend will be paid on 19 June 2020 to all shareholders on the register of members on 15 May 2020. A Dividend Reinvestment Plan (DRIP) is available to Ordinary shareholders and the final date for receipt of elections to participate in the DRIP is 29 May 2020.

We have a disciplined approach to capital and cash allocation and in 2019 we completed a buyback of £100m, ensuring that we have continued with our policy of returning surplus cash to you, our shareholders. I am also pleased to announce a share buyback of £150m to be completed over the next 12 months.

## People

Inchcape is a truly international business with over 17,300 people across 33 countries. The success of the business is down to everyone who works at Inchcape and, on behalf of the Board, I would like to thank all of them for their efforts and commitment over the last year.

## Statement on section 172

As a Board, we are mindful of the need to create value and deliver benefit to all stakeholders. In considering our purpose together with our strategic vision and commercial priorities, we balance outcomes for our OEM brand partners, customers, employees and the impact on local communities and the environment, as well as delivering long-term sustainable growth for our shareholders.

**Section 172 states that:**
A director of a company must act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a. the likely consequences of any decision in the long term
b. the interests of the company's employees
c. the need to foster the company's business relationships with suppliers, customers and others
d. the impact of the company's operations on the community and the environment
e. the desirability of the company maintaining a reputation for high standards of business conduct, and
f. the need to act fairly as between members of the company

The factors listed in the S172 statement are integral to most of the significant decisions taken by the Board. The Board is satisfied that the information provided by management, and other stakeholders, via reporting, performance updates and key performance measures is of sufficient quality to allow the Board to have due regard for each of the factors. Throughout this report we have given examples of how the Board has demonstrated its regard for the factors above during the year.

*PLEASE REFER TO PAGE 61 FOR CASE STUDIES PERTAINING TO SECTION 172, TO PAGE 16 FOR OUR APPROACH TO STAKEHOLDER ENGAGEMENT, AND TO THE GOVERNANCE SECTION ON PAGE 60 FOR THE BOARD'S ENGAGEMENT WITH STAKEHOLDERS.*

## Looking ahead

We see our markets remaining challenging, with coronavirus restricting activity with a consequent impact on trading. However, in the longer term, we remain excited about the Group's prospects and continue to focus on further strengthening our position in the automotive value chain. We are confident of further strategic progress and underlying operational improvement in 2020, maintaining Inchcape's position as the world's leading independent multi-brand automotive distributor with global scale.

**Nigel Stein**
Chairman

# Underlying strength delivering long-term value

**Stefan Bomhard**
Chief Executive

## Whilst we continued to experience a range of short-term headwinds and market fluctuations, the story of 2019 was really about the actions taken to position the business for growth.

***A FULL REVIEW OF HOW OUR MARKETS PERFORMED IN 2018 CAN BE FOUND ON PAGES 20-26 IN THE OPERATING REVIEW.***

It is my pleasure to present this review of 2019, a year in which we continued to deliver significant progress towards achieving our strategic objective of transforming the Group around our proven Distribution model.

We entered two brand new markets as a distributor for Daimler and extended our representation with them into a third in January 2020. This represents an exciting development in our platform strategy with a core OEM partner in the high growth potential LatAm region. We sold several sites across Australia, China and the UK that were outside our core focus on Distribution activities, realising value of around £250m. We also maintained focus on our policy of efficient allocation of capital with the completion of a £100m share buyback in the year.

Overall, the actions taken during the year, in line with our Ignite strategy, have further reinforced the trajectory of the Group, positioning it for sustainable growth over the longer term.

### A resilient performance

**Group revenue was £9.4bn (2018: £9.3bn) including £5.0bn in our Distribution business. Group Profit Before Tax (pre exceptionals) was £326.3m (2018: £350.6m) with Distribution now accounting for 91% of profits.**

Whilst the trading environment was challenging across a number of markets, our 2019 results were in line with the expectations we set at the beginning of the year, once again demonstrating the resilience of our Distribution model.

Against the impact of disruption in the Hong Kong and Chilean markets and the ongoing AUD/JPY headwind, we saw a normalisation of the Subaru supply in Australasia, which impacted the first half of the year, and improved currency availability in Ethiopia.

With a stronger underlying H2 over H1 performance, we delivered flat pre-exceptional profit year-on-year, excluding the AUD/JPY headwind. With the AUD/JPY a drag to profit, we delivered Distribution trading profit of £354.2m (2018: £382.8m).

Whilst we expect a number of headwinds to continue into 2020, we remain focused on our Ignite initiatives which will support our medium-term growth aspirations as our Distribution activities drive the performance of the Group.

### A unique and sustainable business model

**Inchcape has a unique business model; we are the only independent automotive Distributor and Retailer with global scale. Our underlying organisational strength is the foundation of Inchcape's resilience to the effect of cyclical changes in the automotive industry.**

The heart of our business, and our core set of competencies, is in automotive Distribution, that is the management of the post-factory value chain for our vehicle manufacturer or 'OEM' (original equipment manufacturer) partners. The Distribution model allows us to capture a greater portion of the value chain and drive higher margins and returns. We have long-standing strategic Distribution partnerships, providing end-to-end routes to market for some of the world's leading and most recognisable vehicle manufacturers; our portfolio of these brands is diverse and includes premium, volume and commercial OEMs, which gives us a balanced segmental representation across our operations.

Within that value chain we also operate as a Retailer, giving us true insight into our customers and allowing us to develop world-class customer experience solutions that are globally scalable. In fact, through the full-spectrum Distribution value chain Inchcape manages business partner and customer touchpoints from vehicle product planning right through to servicing customers' cars.

1. Denotes alternative performance measure, see note 177

The diversity of our global portfolio of 33 markets and over 30 OEM partners provides a high level of defence against the fluctuating volatility of the automotive industry, and this organisational strength is enhanced by the Ignite strategy.

## Ignite-driven portfolio development

**Our Ignite strategy is the enabler that drives our inorganic growth objective.**

Over the year, we made significant strategic progress on our transformation journey by further optimising our portfolio through selective Retail disposals. This reflects our strategy to focus on businesses that support global Distribution activities and on the optimal deployment of capital.

In the UK, our actions have been centred on optimising our portfolio of Retail sites where we were less able to leverage costs efficiently through a local scale presence. Consequently, we disposed of several Retail centres as well as Inchcape Fleet Solutions (IFS). In the case of IFS, we were able to agree the sale with the European arm of our core OEM partner, Toyota, supporting their ambition to become a leader in the mobility space. Fleet capability remains of importance to Inchcape as we seek to develop the revenue streams of the future, however we see the major opportunity for Inchcape where we control the end-to-end value chain in Distribution markets such as in Singapore and Hong Kong. Additionally, we disposed of our remaining Retail sites in China and the majority of our non-Subaru Retail businesses in Australia, significantly reducing our exposure where we were less able to leverage a scale Retail position.

It is important to note that divesting of Retail sites in any territory does not necessarily mean that we are exiting that market. Indeed, in Australia, we see a market with an exciting future where we can, through optimally deploying our capital, reconfigure our activities there around our Distribution model. We remain excited around the prospects for our Subaru and Peugeot Citroen Distribution contracts and have reconfigured our operations in the market, creating a more efficient and focused business unit.

During the year we were awarded new BMW Distribution businesses in Lithuania and Kenya, consolidating our position with BMW in the Baltics alongside our operations in Estonia and Latvia. We were also pleased to pioneer our partnership with BMW in East Africa, where again we see significant growth potential springing from the platform we have created.

Continuing on the path to develop our core higher-margin, capital-light Distribution business, the Group reinvested some of the proceeds realised through disposals into the acquisition of Autolider, a distributor of Daimler brands, in Uruguay and Ecuador. Subsequently, we have also been awarded the Mercedes-Benz passenger vehicles Distribution contract for Colombia. These acquisitions typify our strategic rationale and approach.

These Daimler acquisitions were a key milestone for Inchcape and for our OEM partner of choice strategy. They saw Inchcape enter new geographies and, more importantly, extended our partnership with a core OEM partner. Until this year, our relationship with Daimler has been focused on the Mercedes-Benz Retail business in the UK, and it is partly due to the strength of that partnership that we have been able to secure these first Distribution contracts with the OEM.

This expansion represented Inchcape's 11th and 12th Distribution business win since 2016, and we have grown from two to eight markets in South and Central America during that time. As we increase our presence across LatAm and add further OEM relationships to an already strong and balanced portfolio, we have an exciting opportunity to generate significant economies of scale, translating a series of acquisitions into a regional platform for growth.

We have an attractive pipeline of growth opportunities which meet our strict criteria and will accelerate the development of major regional presences across key growth markets.

## Ignite-driven business optimisation

**Ignite is also the powertrain to maximise our potential for efficiency to share best practice across the Group, and to optimise our existing business and core capabilities.**

Of particular note, we saw further progress in our next generation customer experience, significant procurement savings, Aftersales gross profit outperformance and Finance & Insurance profit growth.

We believe that the key to our long-term success lies both in providing end-to-end routes to market for our OEM partners and in owning the life-cycle customer journey, ensuring that we build the capability to answer our key stakeholders' needs, now and for the future. We have made great headway on the Ignite 'lead on customer experience' objective, for example with the

**Group revenue**
**£9.4bn**

**Group profit before tax and exceptional items**
**£326.3m**

**Completion of share buyback**
**£100m**

Plus announcement of £150m share buyback to take place in 2020 omni-channel platform in Subaru Melbourne which is where we are developing and implementing our future model of how we interact with our customers, before deploying it to other markets.

To maximise the potential across all our revenue streams, we have invested in a range of new and innovative initiatives. We plan to extend our trial with Grab, the leading shared mobility services provider in South East Asia, with technology-based solutions for quick turnaround servicing and parts provision, and we continued to partner with Easymile on the autonomous transport trial at the National University of Singapore. Whilst this is not an immediate driver of profits, it is important that we build the internal capabilities to future-proof the business in the face of rapid developments across the automotive industry. We are therefore investing in areas, and seeking out partnerships, where we see profit and growth potential in the future.

Aftersales, Parts Distribution and Used car sales provide further defence against the effects of cyclicality in the New car market especially in markets where we control more of the value chain ourselves, as in Ethiopia where Aftersales is a key driver. Examples of success here include Russia, where a strong performance in Aftersales, Used and F&I offset the impact of competitor discounting activities; and in the UK, where progress in Aftersales was a contributing factor in stabilising performance. Within Distribution we turned Costa Rica's used operation to profitability in our first year of operation and saw improved parts and accessories sales processes support Australasia Aftersales.

Additionally, we have achieved our £30m target in Finance & Insurance products, two years after the target was announced, helped by continued expansion of vehicle car products, as well as the implementation of finance retention products in several markets.

We have also achieved our procurement savings target of £50m cumulatively, demonstrating a key Ignite focus of leveraging our scale optimally. We have achieved these savings since 2016 and over 2019 some key milestones include 50% of our global spend being tracked through our global procurement system, with 85% targeted by the end of 2020. More than 20% of 2019's savings were achieved through improved vehicle logistics and storage spending, and we were able to establish a global view of oil spend which has enabled a 30% reduction in LatAm spend on oil in 2019, with Asia's oil spend to be aggregated in 2020.

## Investment proposition

**Inchcape is well placed to deliver attractive shareholder value both in-year and for the long term through structured earnings growth and cash returns.**

Whilst we continued to see a number of anticipated challenges during the year, I absolutely believe that the business will continue its track record of delivering shareholder value. The development of our Distribution activities is core to our investment proposition. This is underpinned by our focus on ensuring that we are deploying our capital effectively towards both existing and new opportunities. Through Inchcape's weighting to markets with greater structural opportunity, our focus on optimising performance, our consolidation activity and our solid cash generation have positioned the business strongly for the future.

We have a disciplined capital allocation policy targeting an optimal allocation of funds to enable both the continued development of the business and the returns we can deliver to our shareholders.

In line with this policy, given the strength of our cash generation and strong balance sheet, we embarked on our £100m share buyback programme, which was successfully completed by the end of 2019. We have also announced a new buyback to return £150m of cash to shareholders over the next 12 months. Inclusive of this buyback, since 2016 we have paid around £500m in dividends, invested around £550m in acquisitions, and distributed around £400m of excess cash through buybacks.

## Looking ahead

While 2020 is expected to be challenging, a continued focus on improving operations for the medium term and enhancing the global footprint through the Ignite strategy, along with ongoing cost controls, will ensure further meaningful strategic progress.

I am confident that when markets improve we will see Inchcape delivering on its real potential for sustainable profitable growth.

This is my last statement as Group CEO. It has been a privilege to lead such a high-quality organisation as Inchcape in this exciting and dynamic sector. I would like to offer my sincere thanks to the many industry-leading vehicle manufacturer brands with whom Inchcape has built strong partnerships based on Trust, the central tenet of the Ignite strategy.

I would like to thank the Board for its support and advice during my tenure, and to acknowledge my Group Executive colleagues whose talent, experience and capability contribute so much to the underlying strength of this business. I would also like to thank all of our employees throughout the Group whose dedication and expertise are what has made Inchcape so successful in the past and I am fully confident will continue to do so for the long term. I wish everyone at Inchcape all the best for the future.

**Stefan Bomhard**
Chief Executive Officer

# Inchcape plays a critical role in the value chain as a 'route to market'



**We provide full-spectrum Distribution capability for our OEM partners, operating throughout the value chain.**

Acting as custodians of some of the world's most recognisable brands, we provide automotive manufacturers with a highly effective route to market and a vital link between the brand and the customer. In many of our markets, this means that Inchcape is the only direct interface between the customer and the manufacturer and so our understanding of both our partners' brand equity and the local market are paramount.

**Advances in technology and its effect on consumer behaviours are redefining the automotive value chain and the role of the distributor as a 'route to market' for our OEM partners.**

Our customers' experience in other, more digitally advanced consumer industries has exposed a relative lack of development in the automotive route to market, presenting opportunities for incumbents as well as new entrants. We are seeing trends that have disrupted other markets emerging which may challenge the role that traditional dealers play in the value chain: new specialist market entrants who focus on specific 'pain-points' within the existing experience; OEMs re-examining their route to market, the role of the dealer network, and direct access to their customers; and aggregators that come between the traditional dealer-customer relationship.

Given our role as both Distributor and Retailer in many markets, we are ideally placed to redesign how we serve both our customers and our OEM partners' need to create a more efficient and effective route to market. In other words, we can have a disruptive influence on existing routes to market, to the mutual benefit of our key stakeholders.

**Our Ignite strategy is enabling this transformation.**

Our M&A strategy continues to focus on building scale Distribution presence in key regions such as South and Central America, Africa and Northern Europe. These Distribution hubs enable us to create operational synergies across our core competencies and support processes, enabling a more efficient operation. Leveraging this core capability to quickly build scale Distribution platforms in new markets, we can then build from these hubs to 'bolt on' and extend the integration of additional businesses.

In parallel, our omni-channel pilot in Melbourne Australia is focused on redesigning our customer journey to deliver a superior experience at a significantly reduced cost to serve, while at the same time bringing a more consistent approach to service by leveraging a curated suite of support systems. Our proprietary digital platform is a key enabler to this and has been designed to scale across our existing business portfolio as well as new acquisitions.

**Our goal is a better customer experience at a lower cost to ourselves, our OEMs and the environment.**

We are combining our deep local expertise and knowledge with our OEMs' global expertise to create a route to market which delights our customers today and in the future, enabling us to remain a key value chain partner for our OEMs by delivering their products and services in the most efficient and effective way possible.

Additionally, our approach to developing new routes to market for our OEM partners to reach their customers has the potential to reduce our physical footprint through providing a wider range of access points, both on- and offline, supporting our own and our partners' commitments to lowering the environmental impact of the vehicles we sell and service.

# How we generate value

**Our business model is unique in our industry, with our distinct routes to market and global footprint leveraged across the full Distribution value chain to deliver sustainable value to our stakeholders and superior returns to our shareholders. Throughout the following pages, we explore our business model to demonstrate how we bring the best loved automotive brands to the world.**

Our routes to market
SEE PAGE 8

Our global footprint
SEE PAGE 13

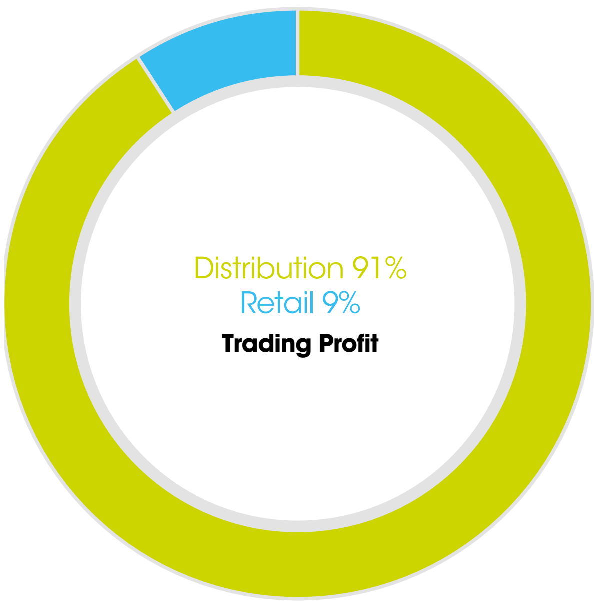
Our value chain
SEE PAGE 9

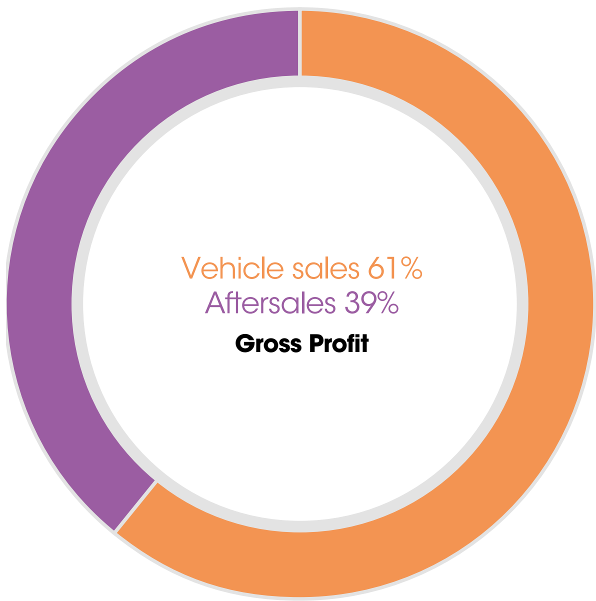
Our OEM partnerships
SEE PAGE 14

Delivering for our stakeholders
SEE PAGE 16

# Our routes to market

**Inchcape's organisational strength comes from a combination of parts that forms our business model: diversified revenue streams, our global portfolio of operations, our value chain, our stakeholders and how we engage them, our long-standing and deeply embedded brand partner relationships and our operating strategy. These are explained on the following pages.**




**Distinct routes to market**
The Inchcape value chain spans both Distribution and Retail competencies, with a weighting towards higher margin Distribution contracts.

**Diversified revenue streams**
We have a balanced approach to revenue generation, maximising opportunities at all points in the value chain.

Our business model: where we operate

# A growing global footprint

**An independent, multi-brand automotive Distributor and Retailer with operations that span countries on five continents. A balanced and diverse portfolio of both mature and emerging markets to provide access and in-country expertise for some of the world's leading automotive manufacturers.**

**17,300+**
**Employees**

**33**
**International markets**

**90+ years**
**Automotive experience**

**1,000+**
**Locations in our Distribution and Retail network**

**Our business is segmented in four regions, three along geographical lines and Emerging Markets where we organise our new and high-growth potential markets.**

**Asia**
Brunei
Guam
Hong Kong
Macau
Saipan
Singapore
Thailand

**Australasia**
Australia
New Zealand

**UK/Europe**
Albania
Belgium
Bulgaria
Estonia
Finland
Greece
Latvia
Lithuania
Luxembourg
Macedonia
Poland
Romania
UK

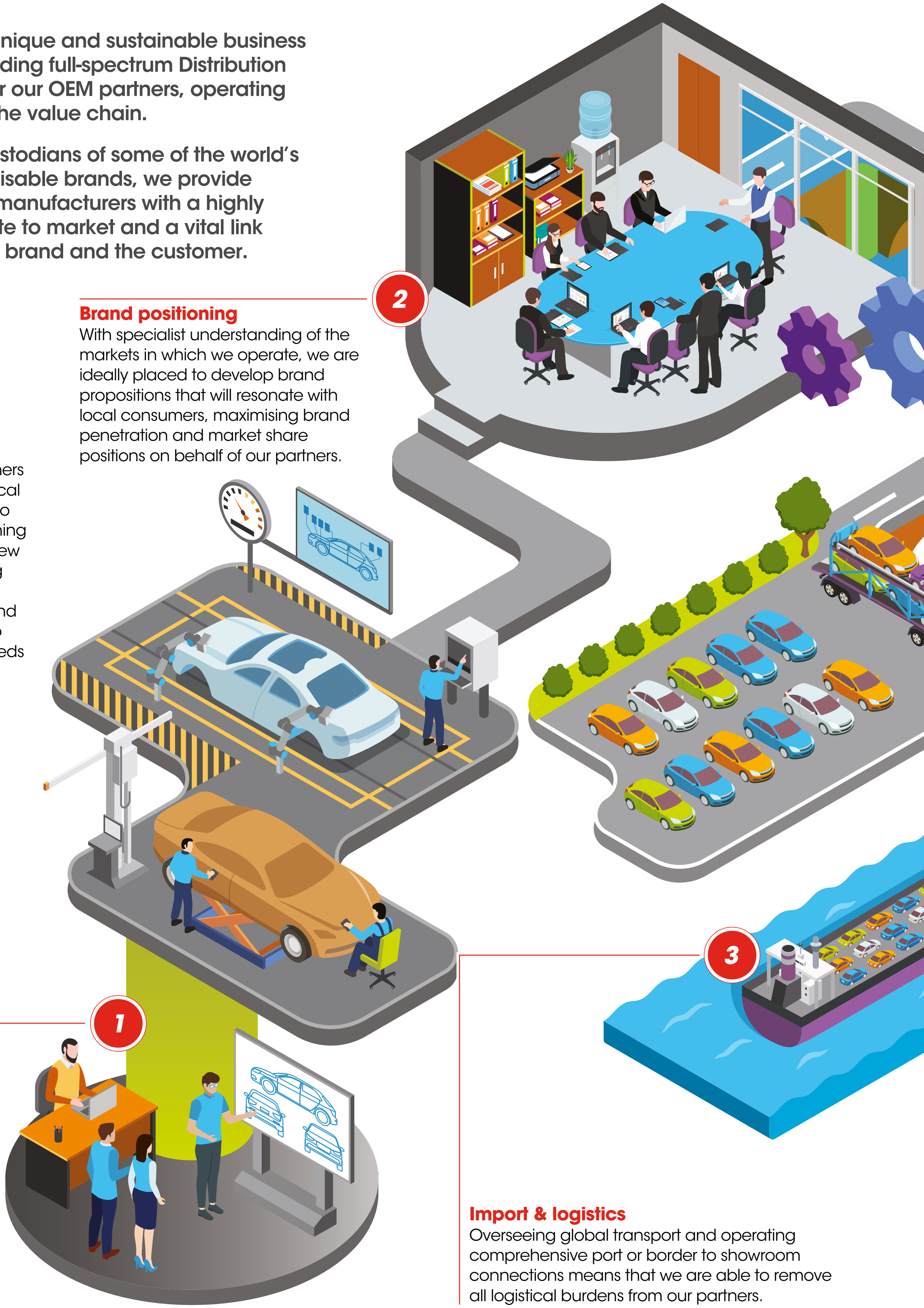
**Emerging Markets**
Argentina
Chile
Colombia
Costa Rica
Ethiopia & Djibouti
Ecuador
Kenya
Panama
Peru
Russia
Uruguay

Operations in China ended in Q3 2019

# Full spectrum distribution

**We have a unique and sustainable business model, providing full-spectrum Distribution capability for our OEM partners, operating throughout the value chain.**

**Acting as custodians of some of the world's most recognisable brands, we provide automotive manufacturers with a highly effective route to market and a vital link between the brand and the customer.**




### Product planning

Our brand partners call upon our local market insights to inform the planning and design of new models, tailoring designs, specifications and sales volumes to the exacting needs of each market.

### Brand positioning

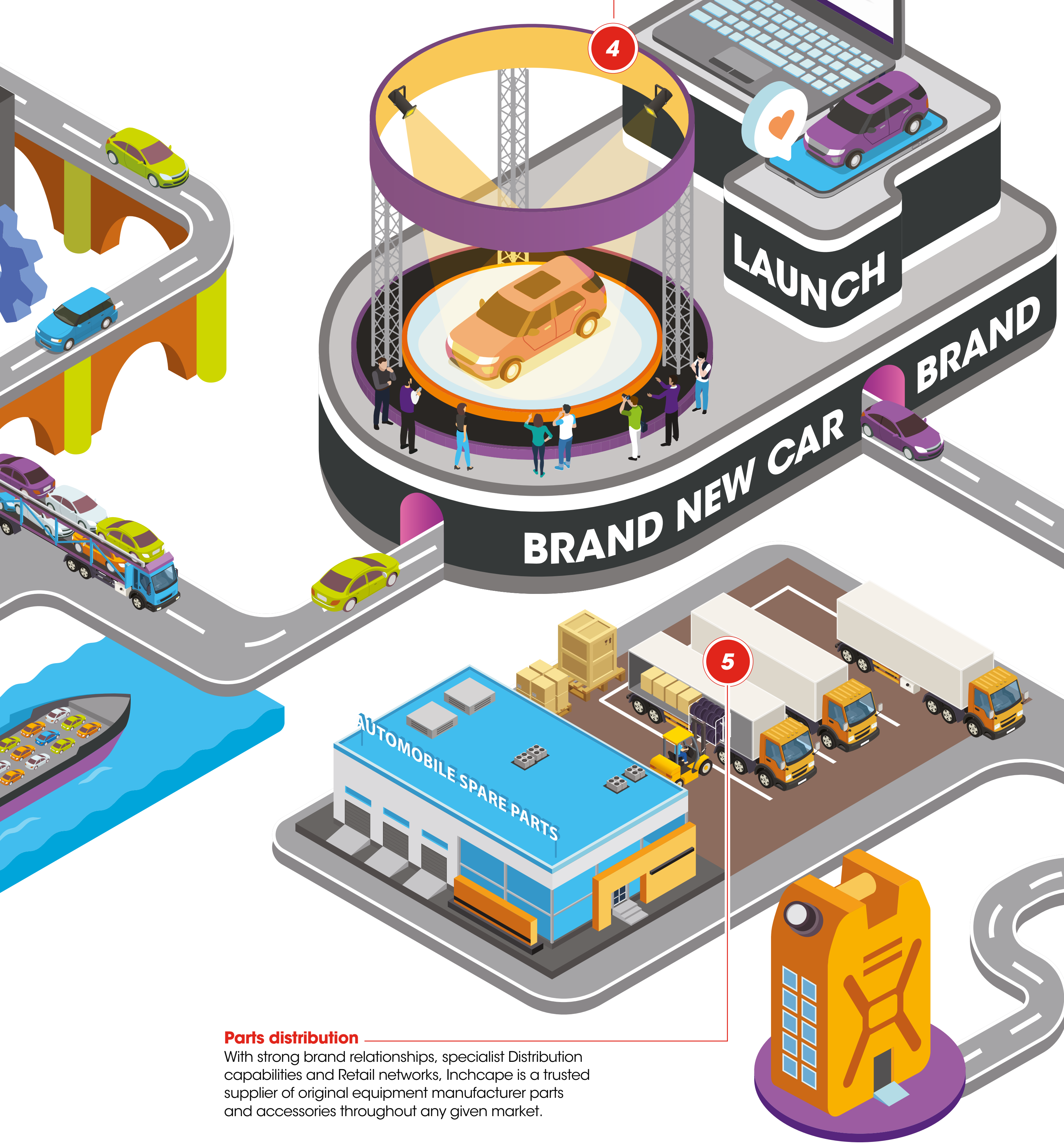
With specialist understanding of the markets in which we operate, we are ideally placed to develop brand propositions that will resonate with local consumers, maximising brand penetration and market share positions on behalf of our partners.

### Import & logistics

Overseeing global transport and operating comprehensive port or border to showroom connections means that we are able to remove all logistical burdens from our partners.

**National marketing**

We develop and refine marketing plans on behalf of our partners from pricing and promotion to customer communications, based on extensive research of consumers and competitors as well as our specialist insight of local market dynamics and macro-economic trends.

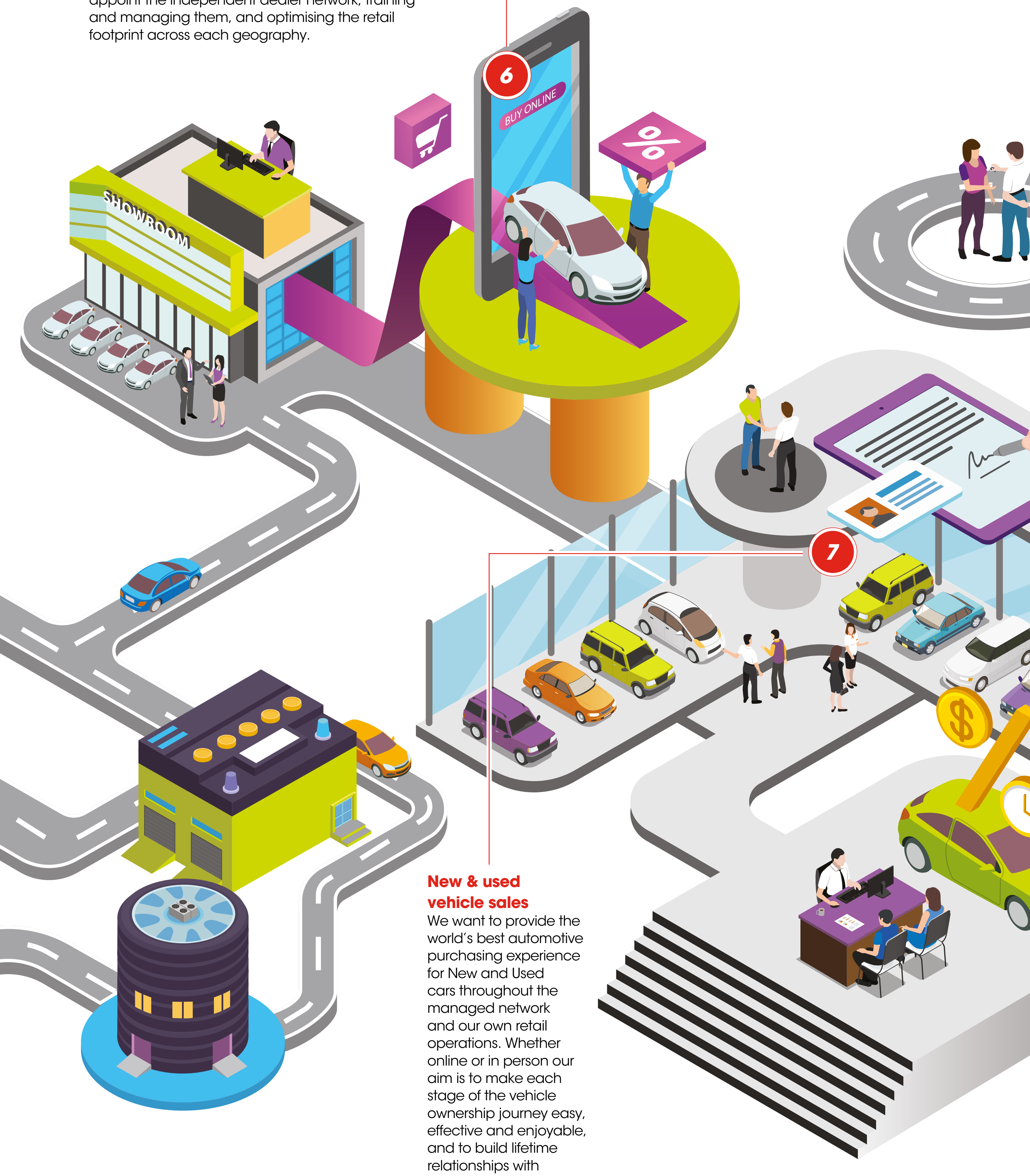



**Parts distribution**

With strong brand relationships, specialist Distribution capabilities and Retail networks, Inchcape is a trusted supplier of original equipment manufacturer parts and accessories throughout any given market.

## Network management

As an OEM Distribution partner, we select and appoint the independent dealer network, training and managing them, and optimising the retail footprint across each geography.

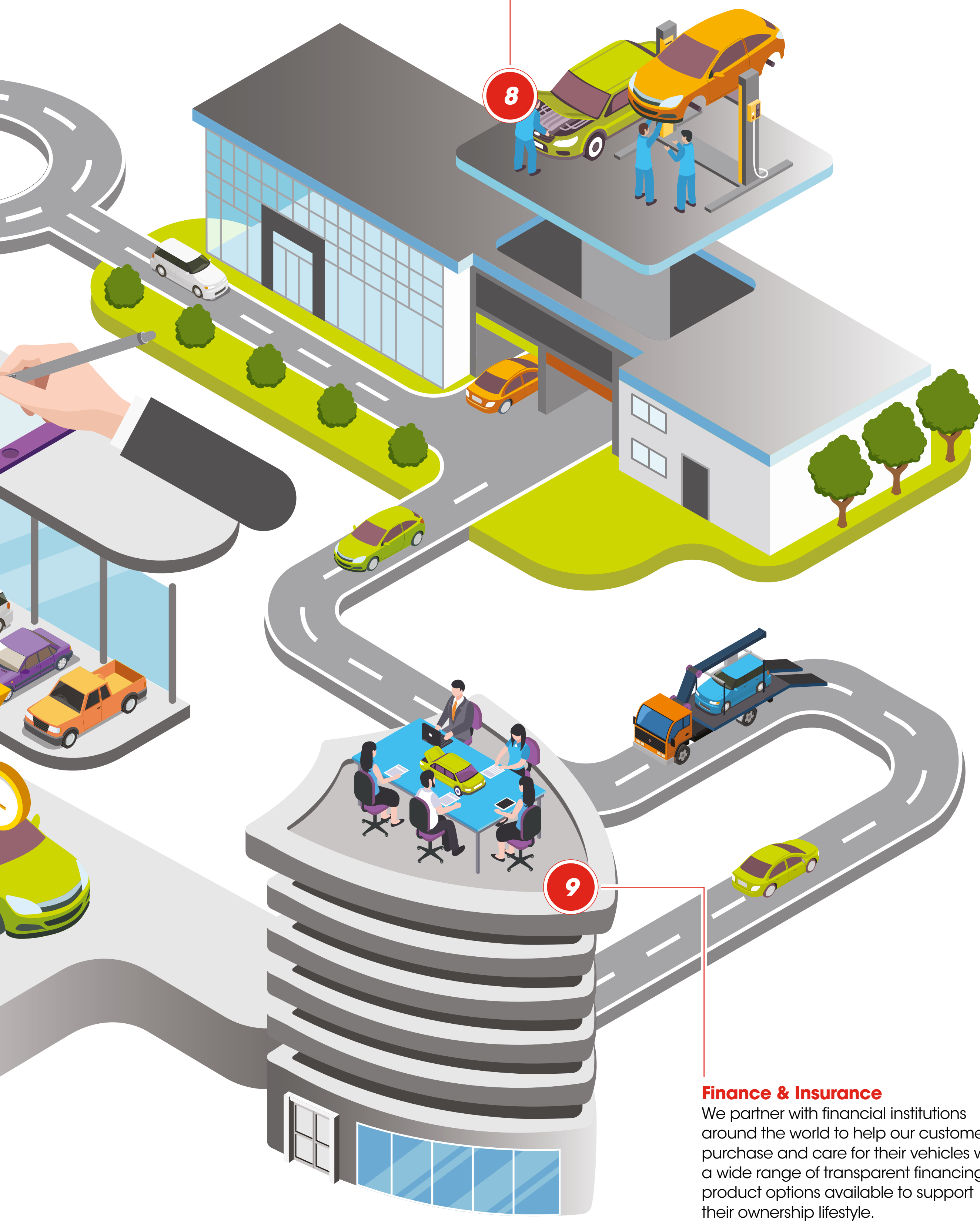



## New & used vehicle sales

We want to provide the world's best automotive purchasing experience for New and Used cars throughout the managed network and our own retail operations. Whether online or in person our aim is to make each stage of the vehicle ownership journey easy, effective and enjoyable, and to build lifetime relationships with our customers.

## Aftersales and servicing

With long-term investments in state-of-the-art facilities, expert technicians and first-class customer care, our objective is to create life-long Inchcape customers for all their Aftersales needs, from routine servicing to accident repair.




## Finance & Insurance

We partner with financial institutions around the world to help our customers purchase and care for their vehicles with a wide range of transparent financing product options available to support their ownership lifestyle.

# Long-standing partner relationships

Inchcape has long-standing partnerships with the world's leading automotive groups, with a core focus on manufacturers of premium and volume passenger vehicles. In select markets we also represent commercial and agricultural vehicles and machinery as well as emergent passenger vehicle brands.

## Seven core partnerships

We have long-standing relationships with each of our seven core OEM partners, the majority of which are built around exclusive Distribution contracts in multiple markets.

- Toyota
- Jaguar Land Rover
- Suzuki
- Mercedes Benz
- Volkswagen
- BMW
- Subaru

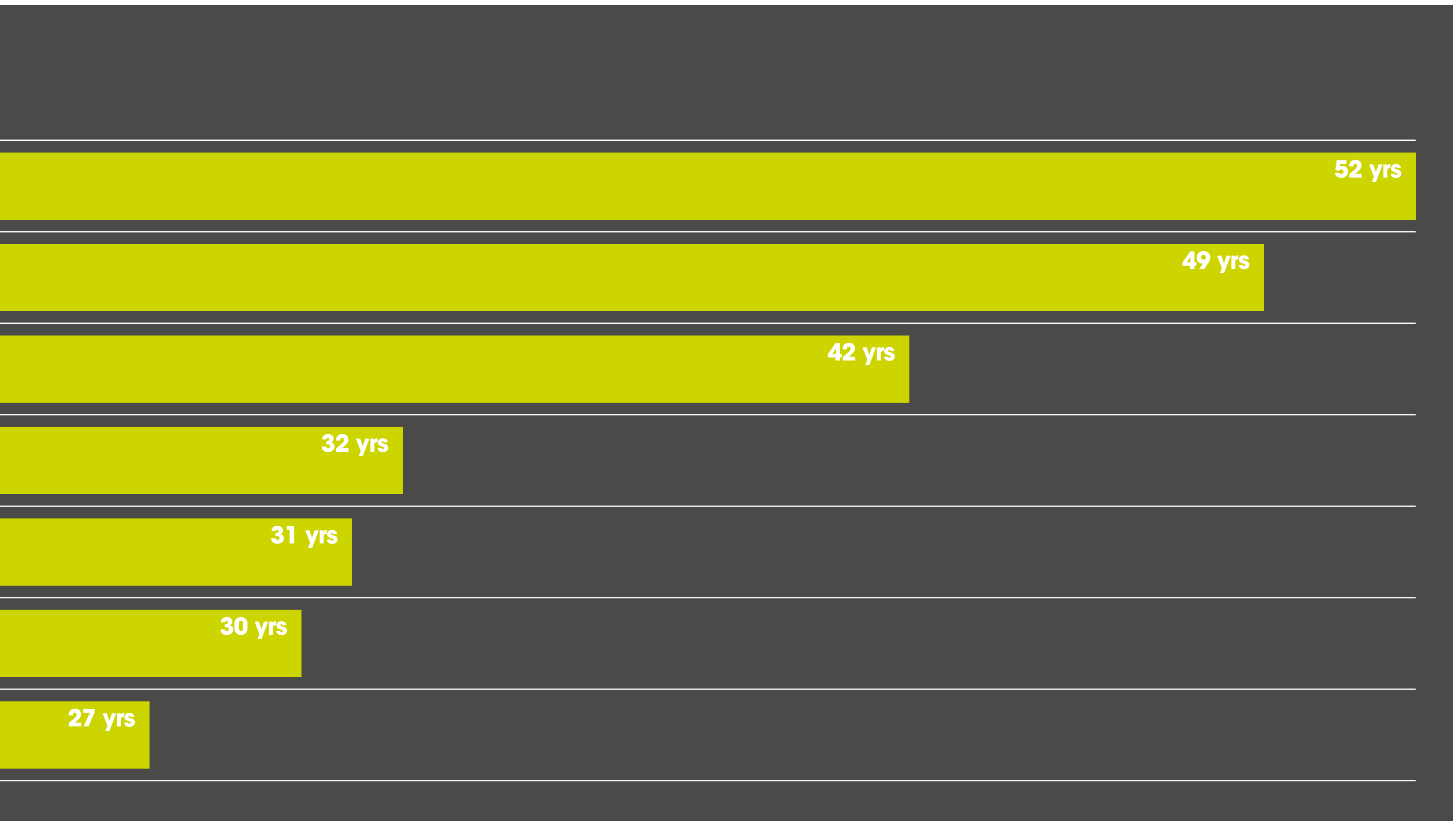
## OEM passenger relationships

- Audi
- 北京汽车 BAIC MOTOR
- BYD
- 长安汽车 CHANGAN
- CHEVROLET
- CITROËN
- DAIHATSU
- DFSK
- Ford
- 长城汽车 Great Wall Motors
- HYUNDAI

## OEM commercial relationships

- HINO
- FREIGHTLINER
- FUSO
- KOMATSU

The OEMs (original equipment manufacturers) with which Inchcape works are some of the foremost drivers of technological innovation in the automotive industry, from advances in hybrid and battery electric drivetrains to future mobility solutions.



# Our stakeholders and how we engage with them

| Group | How we create value | How we engage | Outcomes in 2019 |
|---|---|---|---|
| **OEMs**  | We provide our OEM partners with professional and efficient routes to market for the post-factory automotive value chain. | – 'Top-to-top' executive management meetings<br>– Regular market-level operational meetings focus on maximising performance<br>– Pan-market brand development support for leading OEMs | – Establishment of Daimler as a core Distribution partner with contracts awarded in Uruguay and Ecuador for passenger and commercial vehicles, and in Colombia for passenger |
| **Customers**  | We provide access to automotive ownership and support services throughout the customer journey, and aim to deliver the best experiences for customers in our industry globally. | – Analysis of reviews to feed in to continuous cycle of improvement<br>– Single view of customer through Salesforce implementation<br>– Ongoing surveys at market level | – Development and initial rollout of omni-channel customer service, sales and marketing platform in Subaru Melbourne<br>– Expansion and continued rollout of reputation.com, Salesforce and Brightedge digital CRM tools |
| **Employees**  | We aim to enable every colleague to achieve their personal goals at each stage of the employee journey; to recognise and develop talent; and to foster a socially conscious culture based on inclusion, empowerment and optimised potential through learning. | – Bi-annual engagement & pulse surveys<br>– Employee intranet and collaborative platforms provide two-way communications capability Group-wide<br>– Prospective employees – maintain active awareness of issues to stay relevant | – All markets completed Employee Experience consultations as part of two-year cycle of engagement and listening<br>– Senior Leaders Employee Experience consultation conducted with in-depth focus on attitudes to leadership<br>– Structured action planning put in place where engagement gaps identified |
| **Investors & Shareholders**  | Our objective is to deliver outstanding returns on long-term investment based on a sustainable platform for growth, disciplined approach to capital allocation and cash returns through dividends and share buyback. | – Regular dialogue with institutional investors<br>– AGM<br>– Annual Report & plc website<br>– Capital Markets Day held at regular intervals – last in May 2018 | – Media engagement undertaken to develop strong relationships with key titles and further position the business for financial stakeholders<br>– 125 management investor meetings held in 2019 |
| **Local communities**  | We have a balanced approach to engagement with the communities in which we operate, empowering ownership at local level with structural support from the Group. | – Market-specific activity, coordinated at local level<br>– Group-level support for extraordinary events affecting our market communities | – Range of local community initiatives and support schemes, a summary of which can be found on page 37 |

# Toyota Motor Corporation

**Our partnership with Toyota is the biggest and longest standing in our portfolio, with over 50 years of representation as a distributor in geographies that now reach from South East Asia to East Africa and from Europe to the Americas. Our partnership with TMC includes all variations of our business models – Distribution with exclusive Retail, such as in Hong Kong and Singapore; Distribution with a managed Retail network, such as Greece; and Retail only, such as our operations in the UK. The partnership also extends to both passenger and commercial vehicles.**

## Locations

**Distribution**
Hong Kong, Macau, Guam, Saipan, Singapore, Brunei, Greece, Belgium, Luxembourg, Bulgaria, Macedonia, Romania, Albania, Ethiopia & Djibouti

Chile & Colombia (Hino only)

**Retail**
UK, Russia

# Ignite: Our optimisation and growth strategy

**Inchcape's strategic objectives are what drives our business. With the twin focal points of our customers and OEM partners at the heart of the strategy, Ignite combines five objectives to bring to life our vision to become the world's most trusted automotive Distributor and Retailer.**

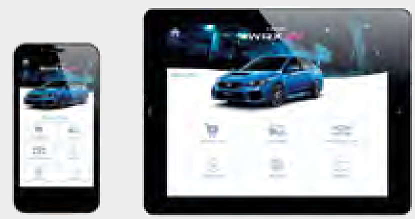
| Objective | Priorities |
|---|---|
| **1 Lead in customer experience** | |
| As the global automotive industry rapidly evolves, the purchasing behaviour and service-level expectations of consumers are clearly changing. We will invest to maintain our position as leader in customer service innovation in automotive Distribution and Retail, with digital a key priority | – Build digital and data capabilities at Group and market levels<br>– Improve mobile performance to better reflect customers' preferences<br>– Optimise digital traffic to improve online performance<br>– Introduce structured measurement to improve customer experience |
| **2 Become 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 | – Understand and support our OEM partners' objectives<br>– Ensure we maintain and reinforce contact with OEM partners<br>– Maintain and grow market share for existing partners<br>– Partner with OEMs to consolidate regional Distribution markets |
| **3 Deliver the full potential on all our revenue streams** | |
| The addressable market for Aftersales is set to grow faster than New car sales. The Used car market, which is typically a multiple of that of New cars in most of our territories, is a further growth opportunity. Finance & Insurance (F&I) is another significant focus for growth | – Implementation of Aftersales playbooks in all territories including new markets<br>– Strong focus on extending F&I product coverage to more of portfolio<br>– Deploying proven Used car initiatives to grow GPU |
| **4 Leverage our global scale** | |
| We aim to maximise the opportunity of our unique position in the automotive industry to share more expertise and best practice across our organisation, leveraging our global scale to improve collaborative working and cost optimisation | – Development and initial implementation of procure-to-payment (P2P) programme<br>– Continue to drive savings through extension of procurement initiatives to new opportunities for centralised purchasing<br>– Demonstrate shared best practice globally through extending rollout of commercially successful initiatives |
| **5 Invest 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 | – Continue to develop rich pipeline of relevant M&A opportunities<br>– Focus on acquisitions in strong growth potential, small- to medium-sized markets<br>– Build regional platforms of consolidated Distribution contracts to support OEMs, leverage our scale and drive improvements in customer experience |

Our strategy was developed to drive operational excellence across our markets; to consolidate markets with high-growth potential in our fragmented industry; to innovate to take advantage of our scale and expertise; and to build a sustainable business model for the long term.

Ignite is structured to drive continual improvement and the spread of best practice across all our revenue streams, powering our defence against fluctuating market conditions. Within this structure the strategy has room to evolve to ensure that the business can react with agility, to keep pace with and anticipate the changing automotive industry.

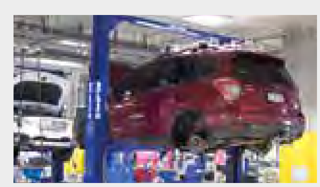
## Progress in 2019

- Omni-channel customer journey launched in Subaru Melbourne with customers able to trade-in, finance & reserve vehicles online and in-store
- Market improvement in website performance across all markets with improved speed, structure and search engine navigation, indexing & ranking
- Reputation.com introduced and rolled-out across all markets to measure and improve customer experience
- Significant like for like improvement on reputation.com scores, surpassing our annual goal across all regions

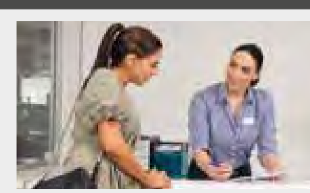


- Increased collaboration with a number of key partners on strategic projects such as Grab & Uber in Singapore
- Over 20 top-to-top meetings throughout 2019
- Two major acquisitions which build on regional presence in key markets
- The addition of Daimler as a Distribution partner in Ecuador and Uruguay

- Development and roll-out of common best practices (Aftersales playbook) across all regions
- YoY growth in F&I income from roll-out of new finance renewals strategy (AutoFutura) and fabric & paint protection products
- Costa Rica Used cars turned to profit in first year of ownership



- Implementation of Coupa P2P programme delivering significant benefit in terms of simplification, productivity and cost savings
- Achieved F&I income and procurement savings targets in 2019



- Continued industry consolidation in 2019 through acquisition of exclusive Distribution for BMW Lithuania and Daimler passenger cars and trucks in Uruguay and Ecuador
- Further integration of the acquired Rudelman business into our Latin America platform

# Subaru Corporation

**Inchcape's Distribution partnership with Subaru is one of the most important in our portfolio and an example of the close collaboration between us and our brand partners. We distribute and operate the brand in Australia, maintaining Subaru's highest share globally in that market. Subaru was the OEM brand central to our first significant expansion in South America in 2016 which has helped to create a platform for further growth in the region.**

## Locations

**Distribution**
Australia, New Zealand, Chile, Colombia, Peru, Argentina

# A multi-layered investment proposition

**Well positioned to deliver shareholder value through organic growth, consolidation and cash returns.**

## Distribution at our core

**Profit contribution evolution: Distribution**

**2014** 80%

**2019** 91%

**Distribution strengths**
- High ROCE
- Lower fixed costs
- High barriers to entry
- Strong cash generation

## Strong and increasing weighting to high growth markets

**Profit contribution evolution: Emerging Markets**

**2014** 10%

**2019** 19%

**New contracts since 2016**
Argentina, Australia, Chile, Colombia, Costa Rica, Ecuador, Estonia, Guam, Kenya, Lithuania, Panama, Peru, Thailand, Uruguay

## Total return components

**Multi-layered earnings growth opportunity: annual return consideration**

**Organic growth**

Market drivers
- Inchcape market growth expectations
- Supported by 40% payout ratio (targeted) growth markets

Operational excellence
- Revenue stream optimisation
- Global cost efficiencies and best practices

**Strategic options**

Contract wins/ M&A
- Strong balance sheet, annual free cash flow
- Large consolidation opportunity
- Actively shifting to higher growth, cash generative businesses

Buybacks
- Excess cash returned to shareholders

**Dividend**
- 40% payout ratio (targeted)

**Attractive total return**

### Ignite strategy

- Underlying existing Distribution markets expected to grow 3% through the cycle
- Operational optimisation and innovation creating the right internal conditions for inorganic growth

### Continued consolidation in a fragmented market will create value

- Highly fragmented industry
- Inchcape is the largest global independent distributor
- Inchcape has a 1% share of the addressable market of Distribution-led regions (c.14m TIV, 20% of global total) and envisages significant opportunity

### Sustainable business model

- Strong, long-term partnerships with OEMs
- Strong track record of value creation
- Investing for the future

# A strong position to grow the business

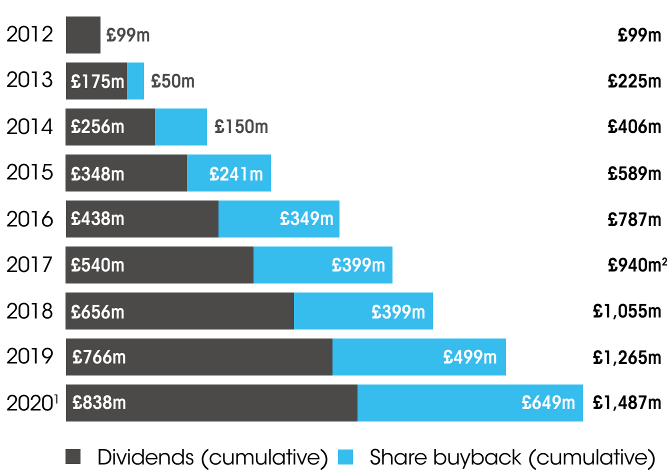
**Inchcape has a disciplined capital allocation policy. We have a strong balance sheet and an attractive cash conversion model, resulting in excess free cash post investment in organic capex and payment of dividends. We look to utilise this strong position to grow the business inorganically, investing in value-accretive acquisitions that will ensure longer-term growth of the business and value for shareholders. Beyond this we will look to return any excess cash to shareholders through share buybacks.**

## Cash utilisation priorities

Excess cash post capex, working capital → Dividend → Value-accretive M&A opportunities → Remaining excess FCF distributed through buybacks

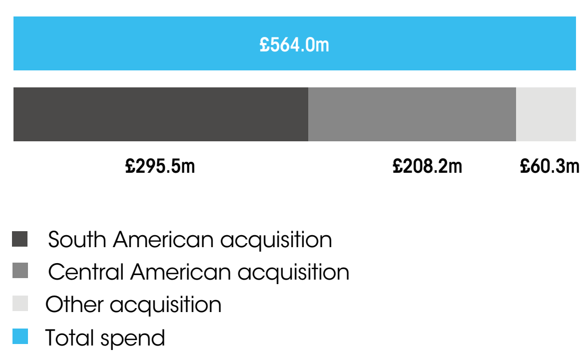
- Strong balance sheet.
- Targeted 60-70% FCF conversion.

## Cumulative cash returns to shareholders




1. For final dividend announced with FY19 results
2. Dividends and Share buyback rounded to nearest £m

## Acquisition spend since 2016




### Progressive dividend strategy

- Target 40% annual payout ratio of basic adjusted EPS (pre exceptionals).
- Full year dividend at least maintained on the prior year.
- Interim dividend set at 1/3 of the prior year's total DPS.

### Section 172

When making decisions on capital allocation and dividend policy, the Board considers the interests of the Company's shareholders as a whole, whilst having regard for the long-term viability of the Company, the need for capital investment and interests of other stakeholders (for example, employees and pension trustees). The Board considers both the expectations of and the impacts to these stakeholders, when agreeing the capital allocation policy which targets an optimal allocation of funds to enable both the continued development of the business and the returns we can deliver. When interacting with the Board, shareholders express their view that returns should be made in the absence of any significant M&A. The Board is therefore recommending a share buyback of £150m with the flexibility to suspend the buyback should the right acquisition opportunities emerge.

# BMW Group

**Our partnership with BMW Group is 30 years strong and has been a key focus for consolidated growth, especially in the Baltic region where we now represent the brand in all three countries: Estonia, Latvia and Lithuania. Additionally, in 2019 we were awarded the Distribution contract for Kenya with a view to creating a BMW platform in East Africa. As well as holding Distribution contracts in South America, we also have significant operations of BMW Group's brands in our Retail-only markets: UK, Poland and Russia.**

## Locations

**Distribution**
Chile, Peru, Latvia, Lithuania, Estonia, Guam, Kenya

**Retail**
UK, Russia, Poland

# Measuring progress

**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. KPIs are stated in actual rates of exchange and page 177 provides definitions of Key Performance Indicators and other Alternative Performance Measures.**

## Revenue

**£9.4bn**

2018: £9.3bn


### Definition

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

### Why we measure

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

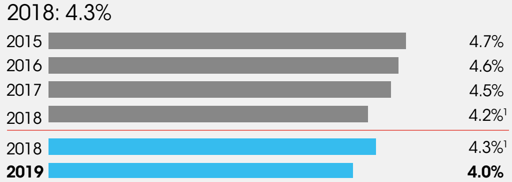
### 2019 highlights

The Group has delivered £9.4bn, growth of 1.1% vs. last year. This was 3% excluding the impact of announced disposals.

## Operating margin[2]

**4.0%**

2018: 4.3%




### Definition

Operating profit (before exceptional items) divided by sales.

### Why we measure

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

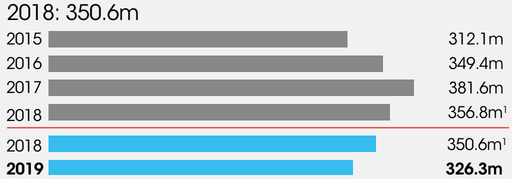
### 2019 highlights

Operating margin at 4.0% is 30bps lower than the operating margin achieved in 2018.

## Profit before tax and exceptional items[2]

**£326.3m**

2018: 350.6m




### Definition

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

### Why we measure

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

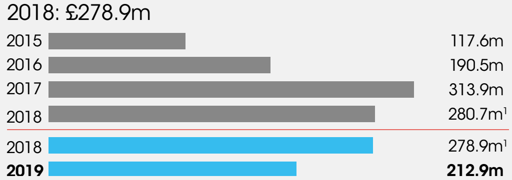
### 2019 highlights

In 2019 this decreased by 6.9% to £326.3m. The impact from announced disposals was immaterial to profits over 2019.

## Free cash flow[2]

**£212.9m**

2018: £278.9m




### Definition

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

### Why we measure

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

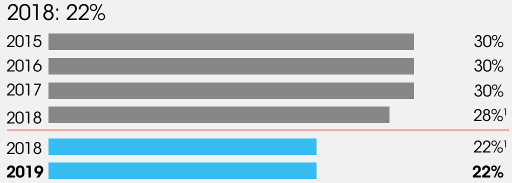
### 2019 highlights

The Group delivered free cash flow of £212.9m, a 24% decrease on 2018.

## Return on capital employed[2]

**22%**

2018: 22%




### Definition

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

### Why we measure

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.

### 2019 highlights

The Group delivered ROCE of 22%.

1. 2018 and 2019 are not comparable with prior years due to IFRS 16 restatement.
2. Alternative performance measure see page 177.

# Jaguar Land Rover

**Inchcape and Jaguar Land Rover's partnership is our second longest standing, stretching back nearly 50 years in total. We have continued our JLR growth story right up to the present day, with Distribution contracts awarded for Thailand in 2016, and Colombia and Kenya in 2018. We now represent Jaguar and Land Rover as either a distributor or retailer in 10 markets on three continents.**

## Locations

**Distribution**
Thailand, Hong Kong, Macau, Colombia, Finland, Estonia, Latvia, Lithuania, Kenya

**Retail**
UK, Russia

# Good distribution growth amidst challenging headwind

**Gijsbert de Zoeten**
Chief Financial Officer

## I am pleased to present the end of year Operating and Financial Review, my first since joining Inchcape in September 2019.

The focus of my first six months has been to get to know the business from the inside, to visit as many of our markets as possible and to thoroughly understand Inchcape's fundamental strengths and, importantly, its external challenges. In that time, I have found energy and professionalism in abundance, and a strong entrepreneurial spirit that stems from a deep understanding of the Company's heritage, the industry in general and of our individual markets specifically.

During my career with Unilever I developed a love of consumer brands, and I can see at Inchcape an appreciation of the importance of brand equity; our colleagues cherish their responsibility as custodians of our OEM partners' brands wherever in the world we represent them. More recently, at LeasePlan, I was able to extend this passion for brands into the automotive industry, combined with a B2B and B2C mix that is not dissimilar to Inchcape's own core capabilities.

I believe that this business is very well positioned to continue its long-term success story with diversity in its income streams, geographic spread and OEM portfolio. Inchcape has a strong balance sheet and disciplined approach to capital allocation which adds to its defensibility in challenging trading environments. I am looking forward to helping the business develop in its next phase as we adopt greater process automation to manage our business more efficiently, consolidate through selective M&A and support our OEMs' ambitions through providing innovative access to automotive mobility for consumers globally.

**Gijsbert de Zoeten**

CONTINUES ON PAGE 28

## Key Performance Indicators – results

| | **Year ended 2019 £m** | Year ended 2018 (Restated) £m | % change | % change in constant currency |
|---|---|---|---|---|
| **Revenue** | **9,379.7** | 9,277.0 | +1.1% | +1.3% |
| Operating profit before exceptional items[1] | **373.1** | 398.6 | (6.4%) | (6.7%) |
| Operating margin before exceptional items[1] | **4.0%** | 4.3% | (0.3ppt) | (0.3ppt) |
| Profit before tax and exceptional items[1] | **326.3** | 350.6 | (6.9%) | (7.4%) |
| Profit before tax | **401.8** | 113.0 | +256% | |
| Free cash flow[1] | **212.9** | 278.9 | (23.7%) | |
| Return on capital employed | **22%** | 22% | | |

1. See page 177 for definition of Key Performance Indicators and other Alternative Performance Measures.

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 translational exchange rate effects. Unless otherwise stated, changes in sales and trading profit in the operating review are at constant currency. The 2020 outlook commentary is also referenced at constant currency. IFRS 16 has been adopted with all comparatives restated. See note 33.

2. Segmental detail can also be found in note 1 of the accounts, and our appendix contains the list of markets that fall within each region.

# Daimler

**In 2019 we signed our first ever Distribution contracts with Daimler for both passenger and commercial vehicles in Uruguay and Ecuador, followed swiftly by a further agreement in January 2020 to become the distributor for Mercedes-Benz passenger vehicles in Colombia. This significant expansion of our Daimler relationship was built on the strong foundations of a long partnership in our UK Retail market, dating back to 1985.**

## Locations

**Distribution**
Uruguay, Ecuador, Colombia

**Retail**
UK

FREIGHTLINER

FUSO

# Performance review

Our performance in 2019 was in line with our expectations for the year, with the pre-exceptional profit decline for the Group largely driven by an adverse transactional currency impact. Excluding this currency impact our portfolio of markets delivered a stable profit performance. Over the year Inchcape also made significant strategic progress around reshaping the Inchcape portfolio towards attractive Distribution businesses, with the disposal of selective Retail operations that were outside of Inchcape's Distribution operations. These disposals included exiting China Retail, largely exiting non-Subaru and non-Peugeot Citroen Retail in Australia, the sale of UK fleet operations and the selective sale of less productive UK retail sites. Given the timing of completion on these disposals they had an immaterial impact on 2019's trading profit, although they have had some impact on 2019 revenue and gross profit.

Group revenue of £9.4bn is up 1.1% year-on-year in actual currency and 1.3% in constant currency, excluding the impact of disposals, revenue grew 3% in constant currency. The driver of this growth was Europe, where there was broad-based growth across markets outside of the UK, and the Emerging Markets with Russia's momentum remaining strong for the year although with meaningful margin pressure experienced in the second half. Asia's revenue declined slightly given political instability in Hong Kong and market contraction in Singapore, and Australasia's revenue decline reflected the Subaru supply constraints experienced in the first half of the year, although normalisation from May onwards supported an improved second half revenue performance despite a challenging market.

The Group delivered an operating profit before exceptional items of £373.1m, down 6.4% year-on-year in actual currency and down 6.7% in constant currency. The impact of a material second half-weighted transactional AUD/JPY headwind drove this decline, with the impact falling within Distribution and the Group's Distribution's trading profit correspondingly declining 7.8% at constant currency. Excluding this currency impact Distribution's performance was broadly flat, with the second half's performance materially improved on the first half following normalisation of Subaru supply constraints in Australia and reduced impact of currency-driven supply constraints in Ethiopia. Distribution in Europe saw the strongest growth, with growth broadly based across markets, whilst Asia saw a small growth despite revenue contraction supported by good cost control. Australasia's Distribution profits were also stable excluding the transactional FX impact, despite supply constraints in the first half and a challenging market, similarly with good cost control helping to drive this. Emerging Markets Distribution was much improved in the second half with Ethiopia fulfilling two large orders, but the segment was impacted by the sharp contraction of the Chilean market.

Our Retail trading profit grew 12.1% at constant currency off a low base, to £36.1m, with a reduction of losses in Australia over the year supported by cost savings. However, the business has now largely been sold although given the timing of these disposals the benefit to 2019's profit was immaterial. The UK and Europe business was stable despite continued market pressures. Russia was also stable over the year, with competitor-driven pressure impacting margins in the second half.

Overall, our Group operating margin for 2019 was 4.0% compared with 4.3% in 2018, driven by the yen headwind. Profit before tax and exceptional items of £326.3m is down 6.9% year-on-year in actual currency and 7.4% in constant currency. Excluding the effect of the AUD/JPY impact, Group profit before tax and exceptionals was stable in comparison to the period last year. Reported profit before tax grew 256% year-on-year in actual currency. In 2019 there is a net positive operating exceptional gain of £75.5m resulting from the profit on announced disposals, offset to an extent by restructuring costs and asset write-offs and impairments relating to the disposals, as well as acquisition costs. In 2018 we saw an operating exceptional charge of £224m largely relating to impairments in our UK and Europe Retail segment. 2018 profit before tax also included a £13.9m exceptional non-cash finance cost relating to fair value adjustments in respect of US Private Placement loans.

The Group delivered free cash flow of £213m, compared with £279m in the prior year. The free cash flow decline year-on-year reflects lower operating profit, a higher working capital outflow, and an £11m exceptional pension cash inflow in 2018. The working capital outflow results from the impact of completing disposals and an acquisition towards year end, as well as higher receivables in Ethiopia, due to the delivery of government orders towards the end of the year. In contrast 2018's working capital had benefited from one-time benefits of improved net working capital management in our Central America businesses. 2019's working capital move was only partially offset through a lower capex spend year-on-year, with reductions in tangible investments in the UK in particular. We achieved a FCF conversion of 57% overall, but excluding the one-off working capital movements described in 2019 our conversion would have been above 60%.

After adopting the new accounting standard IFRS 16 that capitalises leases, we ended the period with net debt of £250m vs. £446m in 2018, reflecting in part the benefit of cash received through our disposal programme. Excluding these leases, net funds of £103m compares to £15m in the prior year. Our ROCE over the period was 22%, on an IFRS 16 basis, compared to 22% in the prior year, with lower profits offset by a lower asset base given impairments at the end of 2018 and disposals over 2019.

## Distribution

The Distribution segment delivered year-on-year revenue growth of 1.2%. Trading profit declined 7.8%. Group Distribution trading margin declined 70bps to 7.0%, driven by the impact of AUD/JPY transaction headwind. The impact of announced disposals on 2019 revenue and trading profit was immaterial. Given its modest contribution to Asia's revenue and profit, China Retail has historically been consolidated into Asia Distribution.

| | 12 months to 31.12.19 £m | 12 months to 31.12.18 (Restated)[1] £m | % change | % change in constant currency |
|---|---|---|---|---|
| **Revenue** | | | | |
| Asia | 1,681.9 | 1,687.7 | (0.3%) | (3.7%) |
| Australasia | 1,036.3 | 1,198.4 | (13.5%) | (11.2%) |
| UK & Europe | 1,329.6 | 1,145.5 | +16.1% | +17.1% |
| Emerging Markets | 993.5 | 956.5 | +3.9% | +6.4% |
| **Total Distribution** | **5,041.3** | **4,988.1** | **+1.1%** | **+1.2%** |
| **Trading profit** | | | | |
| Asia | 181.9 | 172.2 | +5.6% | +2.0% |
| Australasia | 60.8 | 89.4 | (32.0%) | (30.1%) |
| UK & Europe | 43.7 | 34.7 | +25.9% | +27.1% |
| Emerging Markets | 67.8 | 86.5 | (21.6%) | (19.6%) |
| **Total Distribution** | **354.2** | **382.8** | **(7.5%)** | **(7.8%)** |
| **Trading profit margin** | | | | |
| Asia | 10.8% | 10.2% | 0.6ppt | 0.6ppt |
| Australasia | 5.9% | 7.5% | (1.6ppt) | (1.6ppt) |
| UK & Europe | 3.3% | 3.0% | 0.3ppt | 0.3ppt |
| Emerging Markets | 6.8% | 9.0% | (2.2ppt) | (2.2ppt) |
| **Total Distribution** | **7.0%** | **7.7%** | **(0.7ppt)** | **(0.7ppt)** |

1. IFRS 16 has been adopted with all 2018 comparatives restated. See note 33.

- **Asia** revenue declined 3.7% and trading profit grew +2.0%. Whilst the Singapore market benefited from a Commercial Vehicle scrappage scheme in the first half of the year, the market overall contracted 5% in 2019 driven by more limited permit availability. However, Inchcape's Passenger Vehicle sales were supported by product launches, including the new Toyota Rav4, which helped to drive market share +70bps. In Hong Kong, although the launch of attractive new products like the Toyota Rav4 and Toyota CHR, as well as new taxis, supported performance, the underlying market was challenging. The Hong Kong market declined 10% over the year, with an already weak market impacted further by civil unrest in H2. However, a strong focus on cost enabled good management of profit in both markets, and the region as a whole benefited from good growth in Guam, Thailand and Brunei where we have driven market share growth. Trading profit margins grew by 60bps to 10.8%, reflecting the region's focus on margin against weaker revenue. China, which has now been disposed, contributed £9m of trading profit over the period.
- **Australasia** revenue declined by 11.2% and trading profit was down 30.1%. Whilst the weakness in the Australian market persisted over the period, with the market down 8% over 2019, the contraction in profit was driven by the AUD/JPY. Given the AUD/JPY exchange rate and the lag generated by our hedging policy, the impact to profit was £26m. The temporary slowdown in Subaru supply over the January to April period, which materially impacted H1, normalised during the second half, resulting in 2019 Australasia profit, excluding the transactional currency headwind, being broadly flat year-on-year. We started to raise prices later in the year, where possible, to partially offset the headwind and we expect this, alongside other mitigating factors such as product mix, to be a greater benefit in 2020. Trading profit margins declined 160bps to 5.9%.
- **UK & Europe** revenue grew 17.1% and trading profit was up 27.1%, with profit growth broad-based across regions. In the Balkans we benefited from strong market growth and market share gains, with Romania's growth particularly strong. Performance in the Baltics was similarly supported by market growth and the inclusion of the new Lithuanian business. The Greek market's recovery continues to support the region, and growth of F&I also provided a tailwind to our performance.
- **Emerging Markets** revenue increased 6.4% but trading profit declined by 19.6%. Within the Emerging Markets division, we saw strong growth in Ethiopia over the second half, with the fulfilment of two large orders and improved currency availability easing supply constraints. Demand remains very strong in Ethiopia in this high margin Aftersales-driven business. Our South American business saw good performance in Peru, following a more challenging 2018. Good performance in the segment was offset by an 11% volume contraction in the Chilean market, driven by a decline in the copper market and civil unrest, after achieving 16% growth in 2018. The Colombian market saw strong growth in Commercial Vehicles, which benefited Hino volumes, but passenger volumes were weaker.
- The **Central America** acquisition made in March 2018 contributed £41m of revenue and £3.5m of trading profit in the January to March 2019 period, prior to its annualisation as part of the Group. We continue to make progress with the business despite the market weakness. We are pleased with the strategic advantage the business has brought Inchcape for the longer term through the scale with Suzuki it has provided and through the market presence in Central America it has established.

## Retail

The Retail segment delivered a solid revenue performance, growing by 1.4%, and grew 5% when excluding the impact on 2019 revenue growth from announced disposals. Trading profit increased 12.1% year-on-year, from a low base, with margins up 10bps year-on-year. The impact of disposals on trading profit in 2019 was immaterial.

| | 12 months to 31.12.19 £m | 12 months to 31.12.18 (Restated)[1] £m | % change | % change in constant currency |
|---|---|---|---|---|
| **Revenue** | | | | |
| Australasia | 306.7 | 382.2 | (19.8%) | (17.5%) |
| UK & Europe | 3,004.9 | 3,057.6 | (1.7%) | (1.6%) |
| Emerging Markets | 1,026.8 | 849.1 | +20.9% | +20.7% |
| **Total Retail** | **4,338.4** | **4,288.9** | **+1.2%** | **+1.4%** |
| **Trading profit** | | | | |
| Australasia | (1.4) | (5.8) | +75.9% | +80.9% |
| UK & Europe | 17.5 | 17.7 | (1.1%) | (0.6%) |
| Emerging Markets | 20.0 | 20.2 | (1.0%) | (1.0%) |
| **Total Retail** | **36.1** | **32.1** | **+12.5%** | **+12.1%** |
| **Trading profit margin** | | | | |
| Australasia | (0.5%) | (1.5%) | +1.0ppt | +1.0ppt |
| UK & Europe | 0.6% | 0.6% | +0.0ppt | +0.0ppt |
| Emerging Markets | 1.9% | 2.4% | (0.5ppt) | (0.5ppt) |
| **Total Retail** | **0.8%** | **0.7%** | **+0.1ppt** | **+0.1ppt** |

1. IFRS 16 has been adopted with all 2018 comparatives restated. See note 33

- **UK** & **Europe** revenue declined 1.6% year-on-year and trading profit declined 0.6% on a small base. Revenue grew 1% when excluding the 2019 impact of the announced disposals. The stabilisation of profit was pleasing considering the declines experienced over 2018 and amidst continuing UK market pressures. The UK market was down 2% over the year, with diesel decreasing by a further 22% leading to a continued oversupply of New car product in the market. An improved opening inventory position at the start of the year, a focus on driving all value drivers and a focus on costs helped to stabilise performance. Poland Retail performed well over the period. Inchcape Fleet Solutions (UK), which has now been disposed, contributed £9m of trading profit over the period.
- **Emerging Markets**, which for Retail includes only Russia, saw 20.7% revenue growth in the reporting period although trading profit decreased 1.0%. The 50bps decline in margins was largely owing to competitor-discounting activity in New cars, in the second-half, which we expect to be temporary. However, over the year performance in Aftersales, Used and F&I remained strong, offsetting the New car impact.
- **Australasia** will no longer be disclosed as a Retail segment as of 2020, following our sale of most of the business in H2 2019, but performance in 2019 was good. Despite revenue declining 17.5% year-on-year, the business reported a significantly smaller loss over the period compared to the prior year.

## Value drivers

Our gross profit is split into Aftersales and Vehicle sales as per the following definition:

- Gross profit attributable to Vehicles – New vehicles, Used vehicles and the associated F&I income; and
- Gross profit attributable to Aftersales – Service and Parts.

| | Gross profit £m | | % change | % change in constant currency |
|---|---|---|---|---|
| | **12 months to 31.12.19 £m** | 12 months to 31.12.18 £m | | |
| **Group** | | | | |
| Vehicles | 772.3 | 809.7 | (4.6%) | (4.8%) |
| Aftersales | 499.8 | 491.6 | +1.7% | +1.5% |
| **Total Retail** | **1,272.1** | **1,301.3** | **(2.2%)** | **(2.4%)** |

Over the reporting period we saw a 4.8% decline in Vehicle gross profit and a 1.5% increase in Aftersales gross profit. We operate across the automotive value chain and over 2019 generated 39% of gross profit through Aftersales, compared to 38% in the prior year.

## 2020 Outlook

We expect profits to be down modestly year-on-year. This excludes an anticipated transactional AUD/JPY headwind, profit lost following the disposals in 2019, and any impact from coronavirus. Key drivers to this include the market contraction in Singapore, continued political uncertainty in Hong Kong and weakness in the Australian market. Offsetting factors are expected to be the continued strength in Europe and solid growth in Emerging Markets, with support from announced acquisitions. Looking beyond 2020 we expect the declines in Singapore to have a lower impact on the Group.

Whilst we also anticipate a gross £25m AUD/JPY headwind over the year in Australasia we expect to offset this partially through mitigation factors which should reduce the net headwind to £15m on profits. Profit attributable to the announced disposals will reduce trading profit by £18m in 2020.

The effect of coronavirus on demand and supply remains uncertain and we continue to monitor the situation closely. In February we have seen a small impact on our Asia business, with reduced footfall in Hong Kong, Singapore and Macau. Our primary focus remains the health and safety of our employees and our customers. One of the attractive qualities of Inchcape's business model is the diversification of revenue streams and geographies, which provide opportunities to support performance.

We remain focused on improving the efficiency of the business through our Ignite initiatives and controlling costs to manage the headwinds expected over the year.

## Other financial items

### Central costs

Unallocated central costs for the year were £17.2m before exceptional items (FY 18: £16.3m). The small increase in costs reflects continued cost control, despite the reversal of one-off benefits seen in the prior year relating to central insurance operations.

### Operating exceptional items

Over 2019, we have benefited from a £75.5m exceptional operating gain which reflects a £108.8m gain largely relating to the disposal of our UK fleet business and China Retail business, offset by some restructuring costs and asset impairments relating to these disposals, as well as acquisition costs. In 2018, the Group recorded exceptional operating costs of £223.7m comprising goodwill and other asset impairments of £211.1m, costs of £7.2m relating to the acquisition and integration of businesses, primarily the Grupo Rudelman business in Central America, and £5.4m as a result of equalising Guaranteed Minimum Pensions in the Group's UK pension schemes following a ruling in the High Court.

### Net financing costs

Net financing costs, before exceptional finance costs, were £47.1m (FY 18: £48.1m). The interest charge is stated on an IFRS 16 basis and excluding interest relating to leases our net finance charge was £27.7m vs. £28.1m in the prior year.

In 2018 we incurred an exceptional finance cost of £13.9m. This represented a one-off correction to the fair value basis of assessment of the Group's US$ Private Placement loan notes. This amount was reported as an exceptional item in order to provide additional useful information regarding the Group's underlying business performance.

We expect net financing costs in 2020 will amount to c£44m.

### Tax

The effective tax rate for the period before exceptional items is 23.2% (FY 18: 22.6%), the increase being primarily due to the recognition of a provision in respect of the European Commission's judgment in respect of the UK's controlled foreign company rules.

We expect the effective rate to be 24-25% in 2020 given profit mix and the impact of unrecognised trading losses in certain markets.

**Non-controlling interests**

Profits attributable to our non-controlling interests were £5.8m (FY 18: 7.0m). The Group's non-controlling interests principally comprise 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**

The Group benefited from a gain of £4.5m (FY 18: a loss of £15.5m) from the translation of its overseas profits before tax into sterling at the average exchange rate over the 12 months when compared with the average exchange rates used over the comparable period for translation in 2018.

**Dividend**

The Board recommends a final ordinary dividend of 17.9p per ordinary share which is subject to the approval of shareholders at the 2020 Annual General Meeting. This gives a total dividend for the year of 26.8p per ordinary share (2018: 26.8p). The dividend will be paid on 19 June 2020 to all shareholders on the register of members on 15 May 2020. A Dividend Reinvestment Plan (DRIP) is available to Ordinary shareholders and the final date for receipt of elections to participate in the DRIP is 29 May 2020.

**Pensions**

At the end of 2019, the IAS 19 net post-retirement surplus was £9.5m (2018: £81.9m), with the decrease driven largely by changes in financial assumptions which were partially offset by a higher value of plan assets. In line with the funding programme agreed with the Trustees, the Group made additional cash contributions to the UK pension schemes amounting to £2.8m (2018: £2.7m).

The Trustees of the Inchcape Motors Pension Scheme are currently progressing with the actuarial valuation as at 5 April 2019, and future levels of contributions will be agreed with the Trustees in due course.

During 2018 the trustees of the TKM pension scheme returned £16.8m before tax (£10.9m after tax) to the Group following the wind up of that scheme.

**Acquisitions and disposals**

During 2019 Inchcape spent a total cash consideration of £41.2m (net of cash acquired) to purchase the BMW business in Lithuania from Modus Group and Autolider, the distributor of certain Daimler brands in Uruguay and Ecuador.

The acquisition of Daimler's own Mercedes passenger car and private vans distribution operations in Colombia was announced on 22 January 2020.

Over 2019 Inchcape disposed of various businesses that fell within our Retail-only business for a total of £249.8m (net of cash within the business).

In March 2018, the Group acquired Grupo Rudelman, a Suzuki focused distribution business with integrated retail assets operating in Costa Rica and Panama. The total cost of this acquisition was £155.5m including cash acquired of £8.5m. During 2018 the Group also entered into a Distribution contract with Jaguar Land Rover to distribute the Jaguar and Land Rover brands in Kenya and acquired one Lexus site in the UK. The Group also disposed of its Jaguar Land Rover operations in Shaoxing and a dealership in the UK generating disposal proceeds of £13.4m.

**Financing**

Driven by upcoming maturities, in February 2019 we refinanced our core Revolving Credit Facility (RCF). This has increased our committed facilities from £620m to £700m at improved rates. The RCF matures in February 2024 and has an option to renew until 2026.

**Capital expenditure**

During 2019 the Group invested £53.9m, significantly lower year-on-year given a reduction in tangible investments, particularly in the UK, although our spend on digital investments increased year-on-year. Key 2019 projects included capacity investments in Ethiopia and investments around our development of an omni-channel proposition. During 2018, the Group invested a total of £99.3m of net capital expenditure, although excluding exceptional investments in the UK, capex spend was c.£75m in 2018.

In 2020 we expect capex to resume to a more normalised level of c.£75m.

**Cash flow and net debt**

The Group generated free cash flow of £212.9m (FY 18: £278.9m) given a meaningful swing in working capital. After the acquisition of businesses in the year as well as disposal proceeds relating to disposals in China, Australia and the UK, the payment of the final dividend for 2018 and £100m of share buybacks, the Group had net debt of £249.9m (FY 18: net debt of £445.9m). Net funds excluding lease liabilities is £102.9m (FY 18: net funds of £14.5m).

## Reconciliation of free cash flow

| | **12 months to 31 December 2019 £m** | **12 months to 31 December 2019 £m** | 12 months to 31 December 2018 (restated) £m | 12 months to 31 December 2018 (restated) £m |
|---|---|---|---|---|
| Net cash generated from operating activities | | **327.2** | | 436.9 |
| Add back: Payments in respect of exceptional items | | **10.5** | | 10.1 |
| Net cash generated from operating activities, before exceptional items | | **337.7** | | 447.0 |
| Purchase of property, plant and equipment | **(44.9)** | | (90.8) | |
| Purchase of intangible assets | **(24.7)** | | (34.4) | |
| Proceeds from disposal of property, plant and equipment | **15.7** | | 25.9 | |
| Net capital expenditure | | **(53.9)** | | (99.3) |
| Net payment in relation to leases | | **(65.1)** | | (63.0) |
| Dividends paid to non-controlling interests | | **(5.8)** | | (5.8) |
| Free cash flow | | **212.9** | | 278.9 |

Included within Free Cash Flow are movements in restricted cash balances described in note 19.

# Regional business models

### Asia

At the heart of the Asia region, we are the Distributor and exclusive Retailer for Toyota, Lexus, Hino and Suzuki 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 | Business model | Brands |
|---|---|---|
| Hong Kong<br>Macau | Distribution & Exclusive Retail | Toyota, Lexus, Hino, Daihatsu, Jaguar, Land Rover, Ford, Maxus |
| Singapore | Distribution & Exclusive Retail | Toyota, Lexus, Hino, Suzuki |
| Brunei | Distribution & Exclusive Retail | Toyota, Lexus |
| Guam | Distribution & Exclusive Retail | Toyota, Lexus, BMW, Chevrolet |
| Saipan | Distribution & Exclusive Retail | Toyota |
| Thailand | Distribution & Exclusive Retail | Jaguar, Land Rover |
| China | Retail[1] | Porsche, Lexus, Mercedes |

### Australia

We are the Distributor for Subaru in both Australia and New Zealand, in addition to Peugeot and Citroen in Australia. We also operate multi-franchise Retail operations in Sydney, Melbourne and Brisbane.

| Country | Business model | Brands |
|---|---|---|
| Australia | Distribution & Retail | Subaru, Peugeot, Citroen |
| | Retail[1] | BMW, Jaguar, Land Rover, VW, MINI, Isuzu, Kia, Aston Martin, Bentley, McLaren, Rolls-Royce, Mitsubishi |
| New Zealand | Distribution | Subaru |

In Australia we operated BMW, Jaguar, Land Rover, VM, MINI, Honda, Isuzu, Kia, Mitsubishi, Aston Martin, Bentley, McLaren and Rolls-Royce retail sites until Q3 2019.

### UK & Europe

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 | Business model | Brands |
|---|---|---|
| UK | Retail[1] | Toyota, Lexus, Audi, BMW, MINI, Jaguar, Land Rover, Mercedes, VW, Porsche, Smart |
| Belgium<br>Luxembourg<br>Greece<br>Romania<br>Bulgaria<br>Macedonia<br>Albania | Distribution & Retail | Toyota, Lexus |
| Finland | Distribution | Jaguar, Land Rover, Mazda |
| Estonia | Distribution & Retail | Jaguar, Land Rover, Mazda, BMW, MINI, Kia |
| Latvia | Retail | BMW, MINI, Ford, Jaguar, Land Rover, Mazda, |
| Lithuania | Distribution & Retail | Mitsubishi, Jaguar, Land Rover, Mazda, Ford, Hyundai, BMW, MINI, Rolls-Royce |
| Poland | Retail | BMW, MINI |

### Emerging Markets

In South America, we have BMW Distribution businesses in Chile and Peru as well as Subaru and Hino operations across these markets, Colombia and Argentina. Our business in Ethiopia is centred on Distribution and exclusive Retail for Toyota. In Russia we operate 22 Retail centres in Moscow and St Petersburg representing a number of our global OEM partners.

| Country | Business model | Brands |
|---|---|---|
| Ethiopia & Djibouti | Distribution & Exclusive Retail | Toyota, Daihatsu, Komatsu, New Holland, Hino |
| Kenya | Distribution & Retail | Jaguar, Land Rover, BMW |
| Russia | Retail | Toyota, Audi, BMW, Jaguar, Land Rover, Lexus, MINI, Rolls-Royce, Volvo |
| Chile | Distribution & Retail | BMW, Subaru, Rolls-Royce, Hino, DFSK, Kia |
| Peru | Distribution & Retail | BMW, Subaru, DFSK, BYD |
| Colombia | Distribution & Retail | Subaru, Hino, DFSK, Mack, Jaguar, Land Rover, Daihatsu, BAIC, Mercedes-Benz[2] |
| Argentina | Distribution & Retail | Subaru, Suzuki |
| Costa Rica | Distribution & Retail | Suzuki, BAIC, JAC, Changan, Kubota |
| Panama | Distribution & Retail | Suzuki, JAC, Changan, Great Wall |
| Uruguay | Distribution & Retail | Mercedes-Benz, Freightliner and Fuso |
| Ecuador | Distribution & Retail | Mercedes-Benz |

1. The sale of retail operations in China completed on 12 December 2019, whilst the majority disposal of Australia Retail operations completed at various dates over H2 2019 but with the largest component completing on 2 December 2019. The UK's Fleet Solutions business disposal completed on 31 December 2019.
2. The acquisition of Mercedes-Benz distribution in Colombia has been announced and is yet to complete.

# Our business, our future

**CSR is one of the mechanisms that underpins the long-term sustainability and viability of the Company. It is an important contributor to building Trust, which is at the heart of our Ignite strategy's vision: to become the world's most trusted automotive Distributor and Retailer.**

**Our CSR strategy comprises three core pillars; our people; health and safety; and sustainability and the environment.**

## 1 Our people

The knowledge, experience and dedication to excellence embodied by Inchcape employees is the Company's greatest asset. We aim at both a Group and market level to ensure that our people's value is recognised and rewarded; that talent is developed through learning; that our people are engaged and communicated with effectively; and that all employees are empowered to achieve their personal goals at each stage of their career with Inchcape.

We are focused on creating a socially conscious culture based on inclusivity and learning.

- We believe that the business is strengthened by embracing diversity in the workplace and this is underpinned by market relevant policies and practices.
- We foster a learning culture to enable people to optimise their performance in role and truly realise their potential.
- We aim to empower our people to collaborate in communities of practice; to share and work together, knowing that their contribution is truly valued.

The approach we take to engaging and developing our employees is designed to proactively defend against key risk 16, see pages 43 and 50.

### 2019 progress

**Leadership and talent**

We have further developed the quality, breadth and depth of our People data to further support and prioritise our work in many areas, including talent, leadership development and effective succession. We have extracted rich insight to understand where we can make improvements in diversity, and we have made further progress in identifying high-potential individuals to support our long-term succession strategy from a broad pool of diverse talent.

Our 2020 Talent Strategy includes the launch of Careers@ Inchcape – giving individuals improved access to career development tools to realise their potential, effectively transition into new roles/opportunities and further develop our succession pipeline.

Additionally, we have further developed our online development portal (hive) giving more employees mobile access to both latest thinking and development and key market data, trends and insight, aligned to strategic priorities.

**'Employee Experience' consultation**

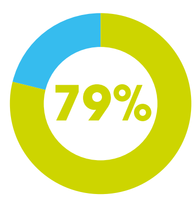
Understanding employees' 'experience' at Inchcape is key to ensuring an ongoing cycle of improvements, to drive better retention, motivation and, ultimately, performance.

The total population Employee Experience consultation completed its first two-year cycle in 2019, and we also conducted our first more specific consultation for our senior leaders population. As well as the standard questions asked of all employees, the additional focus of this initiative was to question in greater depth how well our leaders understand and agree with the strategy and direction of the organisation. We were pleased with the results of the consultation, with some headlines shown below.

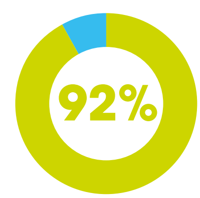
In addition, these data sets are allowing us to create detailed action plans across all our teams to improve where there is a clear gap between expectation and experience. We are also now able to understand where engagement is strong and to see where we are creating a positive experience for our employees.

**Percentage of responding employees**

All employees

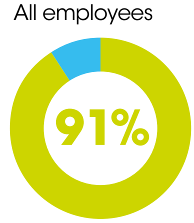



Leadership

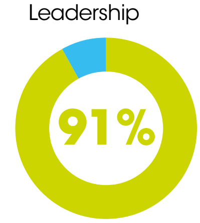



**Intention to stay 12 months +**

All employees

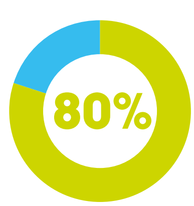



Leadership

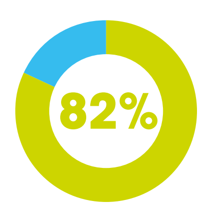



**Intention to recommend**

All employees




Leadership



## 2 Health and Safety

The health and safety of our people, customers and all who use our facilities is of the utmost importance to us. We are committed to providing environments that can be trusted as spaces in which to work that are clean, safe and promote healthy work-life balance.

Our ambition is to achieve zero avoidable safety incidents by continually challenging ourselves, sharing best practices and investing in the systems and structure to support our objectives.

This commitment is underpinned by the creation of a pan-market Group HSE Community of Practice. With operations in 33 international markets and no single standard worldwide HSE guideline to apply to the business, we feel that it is incumbent on us to build a consistent Inchcape approach with shared best practice and leveraged scale.

The primary function of the HSE Community of Practice is to develop a single direction for Inchcape's health and safety culture, with responsibility for implementing it part of every business's day to day activities. During 2019 we conducted over 450 separate HSE audits.

| Main activities | How we have progressed in 2019 |
|---|---|
| **Establishing performance transparency** | – We now have global HSE KPIs<br>– We have developed a business intelligence tool to support analysis and established a dashboard<br>– Developed a full set of global and local policies and procedures which are now being rolled out |
| **Managing Communities of Practice** | – Recruited and trained 42 HSE 'champions' to promote adoption of best practices and improve standards throughout our global markets<br>– Established regular Communities of Practice communications to improve the visibility of HSE in the business, and further improve compliance |
| **Codifying Inchcape practices and standards** | – We conducted 457 visits to sales and servicing departments to understand the risk profile of our businesses, and establish a robust HSE Strategic Plan<br>– A standard structure for the development of HSE documentation was agreed by the Community of Practice |
| **Coordinating opportunity assessments** | – We have developed a range of tools to support an agreed approach to risk and opportunity assessments including hazard and incident notification reports, daily checklists, management site reviews, as well as an audit library<br>– Through established 'Global Safety Alerts' the Communities of Practice share insights on incident and learning opportunities |
| **Providing expert support** | – The HSE champions are tasked with driving local site engagement which has begun with the rollout of the first Risk Management Programme<br>– The champions comprise a key support mechanism to enable managers, supervisors and employees to extend their knowledge of HSE risk and compliance |
| **Support training** | – We have now developed a range of training programmes for all employees to understand the key risks and mitigation actions<br>– An internal HSE Diploma is being developed in 2020 to upskill employees to a globally recognised standard |

## 3 Environment

We are committed to making continuous improvement in our emissions however we are also considering whether, in light of our broad regional spread, adopting a more 'science-based' target would be appropriate. We are still working closely with the Carbon Trust to improve in this area and are focused on delivering effective energy management in all our sites.

As the business continues to develop, for instance including the implementation of the omni-channel platform as detailed on page 7, we are evolving our approach to ensure we are able to build strategic alignment with our business model and the needs of our OEM partners. In the meantime, we are developing energy management best practice guidance to help those working at retail sites to better understand the concepts of energy management and energy efficiency.

The guidance will focus on key energy using systems and processes such as lighting, IT server rooms, heating, ventilation and air conditioning, compressed air and renewables.

In addition to monitoring our energy and emissions we have also participated in the CDP (previously the Carbon Disclosure Project) for the last two years after receiving feedback from investors and customers. We will continue to participate annually and will endeavour to manage our impact on the environment. Our score remained the same in 2019 as the previous year however there was an improvement in our climate-related risk assessment analysis which we will continue to focus on in 2020.

As key areas of focus, we continue to review CDP improvement recommendations in the following areas:

**Governance:**
structure and applicable incentives for the management of climate-related issues

**Targets:**
science-based targets that are set at least five years from the start year and include progress percentage of emissions achieved

**Opportunity disclosure:**
potential financial impact, time frame, likelihood, and magnitude of impact for climate-related opportunities

**Risk management process:**
the process for identifying, assessing and managing physical and transitional risks and opportunities

**Risk disclosure:**
descriptions, financial impacts, and management methods associated with climate-related risks

The GHG emissions for 2019 and for the two years prior are given on page 100 in the Directors' Report.

Importantly, our approach to business and environmental sustainability can be linked to our long-term customer strategy and the development of our omni-channel platform. This future model consists of a matrix approach to customer interactions both on and off-line and the vision is that this will contribute to a lower carbon intensity with a reduced physical dealership footprint as, over time, more customer interactions will take place online and virtually. More details of this project, our approach and its progress can be found in the Ignite strategy dashboard on pages 18-19, and in our commentary on the evolving automotive routes to market on page 7.

**Case study**

Current legislation in the UK identifies 2035 as the point by which sales of new petrol, diesel and hybrid vehicles will have been phased out, with BEV (battery electric vehicle) currently the preferred zero emission drivetrain of the future.

As we seek to support both our OEM partners and our customers in the transition to a significantly lower carbon-intensive future, we have recently begun marketing the full electric and hybrid range available in a curated section of the UK's consumer website. The ambition is not only to present the alternative drivetrain offer to customers, but also to educate them on the environmental and financial benefits that switching away from ICE (internal combustion engine) can deliver.

Adoption of reduced emission vehicles in the UK, and elsewhere, is rising; Inchcape is reskilling its employees and adapting service bays to manage a higher proportion of electric vehicles through its Aftersales processes. With this initiative, we are now also ensuring that we offer our customers low to zero emission options for their new car purchases, taking a responsible position in the developing low carbon society of the future.

# Non-financial information statement

The table sets out the non-financial information as required under the Non-Financial Reporting Directive.

| Reporting requirement | Relevant policy | Where to read more | Page |
|---|---|---|---|
| Environmental matters | Code of Conduct | See below | |
| Employees | Code of Conduct<br>Health & Safety Policy | CSR Report<br>Directors' Report | 36<br>100 |
| Social matters | Code of Conduct | See below | |
| Human rights | Code of Conduct<br>Modern Slavery Statement | See below | <br>www.inchcape.com |
| Anti-bribery and corruption | Anti-bribery and Corruption Policy<br>Gifts and Hospitality Policy | Code of Conduct<br>See below | |
| Business model | n/a | Our business model | Pages 8 to 16 |

The Group's business model, including our value chain, is on pages 8 to 16.
The Group's key stakeholders and how the Group has engaged with them during the year is explained on page 16.
The Group's principal risks are given on pages 39 to 51.

## Code of Conduct

In 2018 we launched a new Code of Conduct across the business. To further embed the Code and its requirements, online training was launched in 2019 across the whole Group, in 18 languages. Topics and scenarios were tailored to our business ensuring it was relevant and impactful for our employees.

Over 16,500 employees were assigned the online Code training and completion rates are monitored by the Group Compliance Team. Excluding the UK, we achieved 99% completion across the Group – each market achieved a completion rate of at least 95%, with most achieving 100%. The UK launched their training in Q4 of 2019, they are aiming for at least 95% completion during Q1 of 2020. New joiners across the Group are also required to undertake the online Code training as part of their induction.

Where employees do not have access to a computer, we have ensured that they are made aware of the Code and what is required of them through various non-digital means.

## Environmental matters

The Group's business model, of Distributing and Retailing vehicles, is not reliant on natural resources however the vehicles we sell for our OEM brand partners, are. Each of our OEM partners has developed comprehensive sustainability programmes and the automotive industry in general has made significant progress in reducing vehicle emissions. We work with OEM partners who are at the forefront of technological advances to improve fuel efficiency and to develop alternative powertrains, such as electric and hybrid. We ensure that our business model and the infrastructure are in place to support the changing industry and to be able to deliver cleaner technologies to our customers as their preferences change. As an automotive Distributor and Retailer, we do not have a manufacturing footprint to manage, however, we use energy in our dealerships, transport cars and parts globally and have an impact from business travel. We measure and report our greenhouse gas emissions which are given on page 100. Whilst we do not have a global environmental policy, each business is committed to reducing its energy usage and to managing energy in the most efficient way and the Code of Conduct sets out the expectation that employees:

- Seek all opportunities to reduce waste and energy usage, to recycle where possible and to switch off appliances when not in use;
- Favour the use of environmentally sustainable supplies and materials; and
- Look for opportunities to reduce business travel where possible.

## Employees

Our employees are integral to the delivery of the Ignite strategy. Failure to attract, retain and develop our people is a principal risk for the Group and the description, impact and mitigating actions taken by the Group are given on page 50. As the industry experiences a period of significant change, we continually review the skills of our employees to ensure we can deliver for customers and OEM partners. Training and development programmes are carried out within each business and include various initiatives such as technician programmes and apprenticeships.

An Employee Experience Consultation is carried out globally to ensure that we understand the views of our employees. Further information is on page 33. The findings of the consultation are reviewed by the CSR Committee which then monitors action plans implemented by management to address any issues. The Chair of the CSR Committee has designated responsibility for ensuring that employee views are communicated to the Board and he reports on a bi-annual basis.

We are making improvements on how we collate and manage the data on our people and have created a 'People Dashboard' which will enable us to track the employee journey. This data will allow us to monitor people KPIs to gain an understanding of where improvements can be made.

Employee-related policies are implemented at a local level and include policies on pay and rewards, flexible working, maternity and paternity policies.

## Human rights

We embrace, support and respect the human rights of everyone we work with and we comply with appropriate human rights legislation in the countries in which we operate. We did not receive any reports of human rights abuses during 2019. We do not use or accept forced, bonded, involuntary or child labour. We only employ people who choose to work freely and respect their rights to equal opportunities and freedom of association.

## Social matters

We believe in supporting the different cultures and communities in which we operate, often through sponsorship and support for local charities or local people. All our colleagues can be involved in such initiatives and can expect to be supported by Inchcape in their efforts to help local communities.

We do not have a global policy covering specific social matters and any initiatives are governed by the local business. Initiatives across the Group include:

| Market | 2019 Activity |
|---|---|
| **Russia** | 2019 was fourth year of ongoing employee support for 'Gift of Life' children's cancer charity. Gift giving drive for children with oncological illnesses. |
| **Poland** | Several internal initiatives to improve back office sustainability including energy saving measures, reduction of plastic, paper and print materials. |
| **Estonia** | Regular social initiatives run each summer. 2019 included toy and play area donation drive for hospitalised children, and coffee facilities for staff. |
| **Ethiopia** | Employee blood donation drive; support for Government greening campaign by planting trees; financial support for Mother & Child Rehabilitation Centre. |
| **Kenya** | Donation of new defibrillator to AIC Kijabe Hospital, one of the biggest receivers of road traffic casualties in Nairobi. |
| **Chile** | Christmas gift giving in partnership with Development Corporation for Children at Social Risk and San Vicente Children's home in Lo Barnechea. |
| **Panama** | Funds raised to donate Christmas baskets and toys to sponsored children; donated school supplies in Valle De Antón. |
| **Romania** | Environment cleaning volunteer days; plastic reduction initiatives; collaboration with key OEM partner as part of Toyota Green Month. |
| **Greece** | Beach clean ups in Athens and Thesaloniki; blood donation drives twice in the year; Toyota Hellas' Running Team in aid of child welfare charity 'Together For Children'; food and essentials donated for SOS Childrens' Villages Greece supporting homeless and abandoned children. |

## Anti-bribery and corruption

We have a global policy which is available to all Group employees via iConnect, the Group's global intranet. The policy states our zero-tolerance stance to bribery and corruption and mandated procedures. In 2020, identified employees will be required to complete a new online training module. This will also be included in the induction programme for new employees whose role and remit require additional focus in this area.

Programme compliance is monitored via reports to Speak Up!, the external whistleblowing channel, and adherence to other relevant policies such as the gifts and hospitality policy.

Reports to Speak Up! are monitored by an independent third party. Reports on anti-bribery and corruption matters are escalated to the iPOM Committee and, if significant in nature, are reported to the Audit Committee. The iPOM and Audit Committees monitor management's response to any issues and the implementation of any action plans deemed necessary. See page 40 for details of the committee's responsibilities.

As part of our monitoring and assurance procedures, the Internal Audit team carried out a global anti-bribery audit, covering eight markets. The objective of this review was to: understand related risk; assess the effectiveness of the anti-bribery and anti-corruption programme (including supplier selection and payments, gifts and hospitality monitoring and employee reference checking, for example); and determine what the organisation can do to further minimise risks in this area. The audit outcomes enabled us to further strengthen our control framework, particularly in relation to business partner selection and payment approvals.

# Suzuki

**We have a long-standing partnership with Suzuki of over 40 years, the majority of that time being in Singapore. However, we significantly expanded this relationship in 2018 through acquisition and awarding of the Distribution contracts in Costa Rica, Panama and Argentina. This expansion added to our established South America platform with our first move into Central America and the addition of two brand new markets to our global portfolio.**

## Locations

**Distribution**
Costa Rica, Panama, Singapore, Argentina

# Our framework and approach



**The automotive industry is set to experience a period of rapid and unprecedented change, bringing both risks and opportunities. We operate in an ever-changing, dynamic environment where economic, political, environmental, social, legal and technological changes present a complex risk landscape which could impact our ability to achieve our strategic objectives.**

The Board determines the nature and extent of the risks it is willing to take in order to achieve its objectives and oversees a comprehensive risk management framework to help it do so. By managing our risks in a professional and consistent way, we aim to operate with true 'peace of mind'.

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.

### Inchcape Peace Of Mind – our approach to risk

Inchcape Peace of Mind (iPOM) is our Group-wide risk management and governance framework with a focus not only on a clear and consistent process, but also empowering each and every one of our colleagues to consider the risks associated with the decisions they take. Through this framework, our management teams identify, evaluate and mitigate their principal risks, and there is a clear reporting and monitoring process to ensure that this is done effectively.

The Group has a three lines of defence model, with the first line of defence being our market management teams and the policies and procedures they have implemented locally; the second line of defence are the oversight functions together with regional and Group management; and the third line of defence is the Internal Audit function.

The Board carries out a robust assessment of principal and emerging risks which include those that would threaten the business model, future performance, solvency and liquidity, during the annual review of the Group principal risk footprint and during the Board's consideration of its risk appetite in relation to those risks. The Board adopts an integrated approach to risk by discussing the principal risks throughout the year as part of its decision-making process. The Board is assisted in this capacity by the Audit Committee, the Group Executive Committee and the Group iPOM Committee, who all have specific roles to play in our risk framework.

The Board focuses its review of the principal risks according to both the potential severity and likelihood of those risks, but also with regard to the level of influence we are able to exert over them. In doing so it ensures that the Group's risk mitigation activities are centred on those risks where it can have the greatest influence in the context of its risk appetite.

Continuously reviewing and refining our procedures, processes and frameworks helps to prevent risks from impacting our business and enables us to respond promptly and decisively when they do. This gives us confidence in our ability to achieve our strategic objectives and supports the long-term sustainable growth of our business.

### Risk appetite statement

During the year the Board considered its risk appetite against each of the principal risks, but with a strong focus on strategic and managed risks where we perceive we have the greatest influence.

- Strategic risks – those risks that are directly addressed by the Ignite strategy.
- Managed risks – those risks where our ability to influence the impact and/or likelihood is relatively high.
- Inherent risks – those risks where our ability to influence and/or likelihood is limited.

The Board also discussed its risk appetite with regard to inherent risks, but with recognition that we have proportionately less influence upon these, and whilst we mitigate as far as we can, some inherent risks are an accepted part of doing business.

In summary, the Board has a very low appetite for risks that could lead to breaches of legal and regulatory requirements, in particular any violations of health, safety and environmental legislation, and we have recently made additional investments in these areas to ensure we maintain appropriate compliance processes.

In keeping with the Ignite strategy, we also have a low appetite for risks that could impact our reputation, or that of our OEM partners, customers or employees, for example in the areas of data management and cyber security, as evidenced by our focus on fraud and internal control, GDPR compliance processes and data management and through the implementation of a comprehensive cyber security strategy.

In contrast, the Group has a higher risk appetite in relation to operating in economically or politically challenging markets, as demonstrated by our recent entry into Uruguay and Ecuador. Inchcape has experience in successfully managing operations in volatile markets and believes it has the capability, governance and control procedures in place to address the challenges they represent.

We recognise that the automotive industry is ripe for disruption and as such we are closely monitoring the opportunities and challenges that may arise. We are willing to take measured risks and make calculated investments to preserve and improve our position in the future automotive value chain, as evidenced by the significant investments we are making in the digital customer journey, and fleet servicing. Emerging Markets offer potentially higher long-term growth, although carry the risk of greater short-term volatility.

# The iPOM framework

**Direction & Oversight**
Risk appetite and risk governance framework

**Board**
The Board is responsible for setting out its risk appetite and for reviewing the Group's principal risks in that context. In addition to the annual risk assessment, the Board adopts an integrated approach by discussing the principal risks as part of its strategy review process.

**Audit Committee**
The Audit Committee has delegated responsibility from the Board for reviewing the effectiveness of risk management, internal controls, compliance and whistleblowing and receives regular reports from management, the Head of Corporate Assurance, and the Head of Internal Audit.

**Internal Audit**
Provide risk-based independent assurance to the Audit Committee over the effectiveness of internal controls and risk management.

**Group Executive Committee**
The Group Executive Committee carries out routine evaluations of the Group's principal risks and ensures that appropriate mitigating actions are identified and implemented. It annually reviews and approves the Group principal risk footprint.

**Corporate assurance**
Oversees and leads continuous improvement in our risk management practices and risk mitigation techniques, and coordinates the Group risk assessment process.

**Group iPOM Committee**
A sub-committee of the Group Executive Committee, whose remit is to ensure:

- There is the correct mechanism in place to identify, evaluate and mitigate the Group's principal risks;
- A compliance programme is in place that meets or exceeds external benchmarks and is appropriate in terms of legal requirements, content, sector, costs and resources;
- Internal controls are appropriate, well designed and operating consistently; and
- The Group's fraud and whistleblowing programme is operating effectively.

**Regional risk champions**
Market based experts who coordinate regional risk management activity, including risk reports.

**Finance leadership team**
Deliver ongoing support for the implementation of mitigating actions, and also provide independent challenge to the risk footprint at least annually.

**Risk information**
Identification, evaluation, management, mitigation, monitoring

**Functional Leaders**
Oversee risk management activity within their area of expertise, providing detailed input into the risk process, including biannual risk assessments to the Group iPOM Committee.

**Regional iPOM committees**
Provide direct oversight of risk management activity across each region. They meet quarterly to review the principal risks and mitigating actions, reporting twice annually to the Group iPOM Committee.

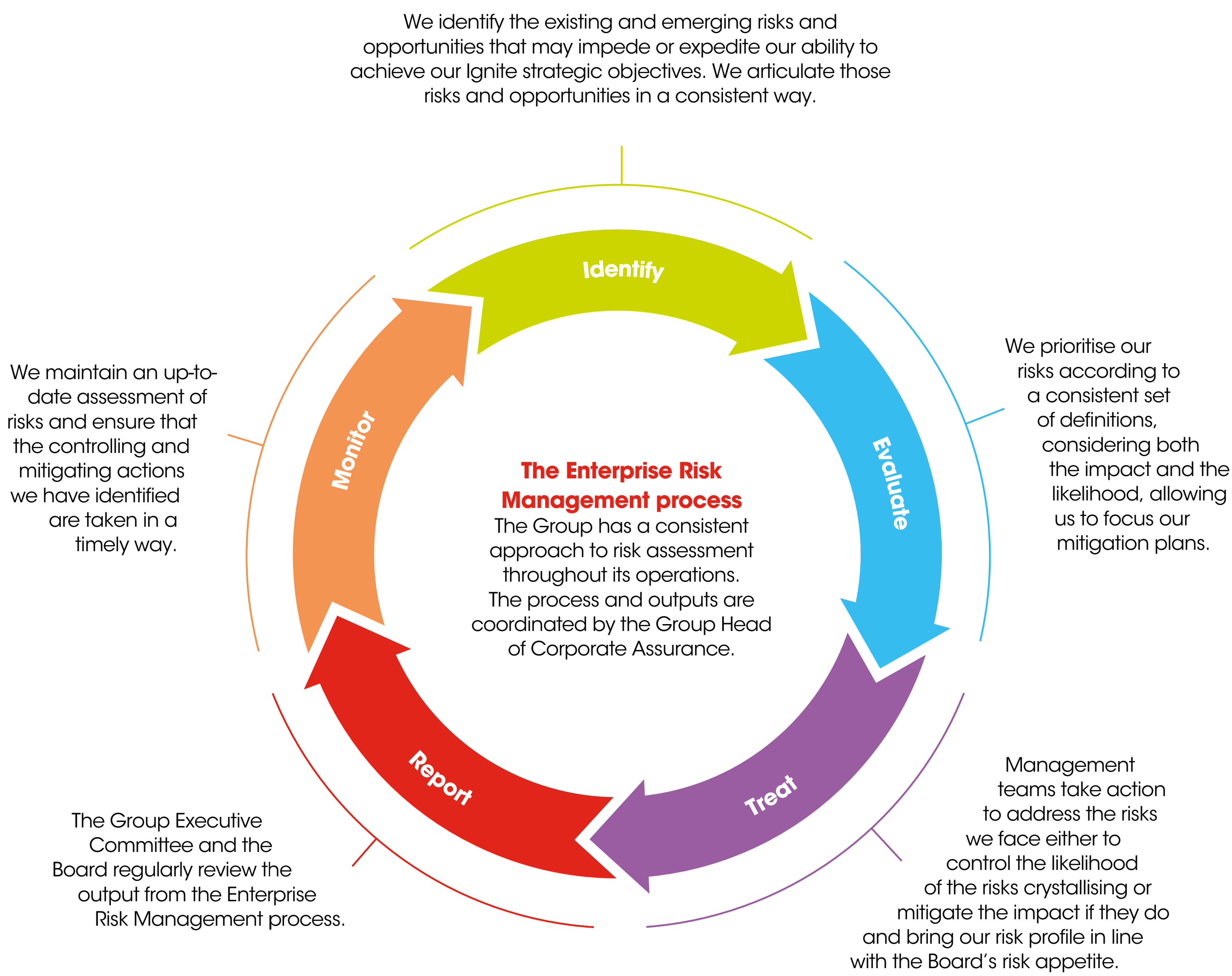
**Internal controls**
Oversee the Group Minimum Control Framework (MCF), providing implementation guidance, ongoing monitoring and continuous development.

**Market iPOM Committees**
In each market, a Market iPOM Committee ensures that risk management and internal control remains a management priority. Meetings and outputs are aligned with the Regional/Group iPOM Committee, Audit Committee and Board meetings.

- Direction and oversight
- 1st line of defence
- 2nd line of defence
- 3rd line of defence

# Enterprise risk management

**Market and regional iPOM Committees, and functional leads, review their risks on a quarterly basis and risk registers are formally reported to the Group twice per year.**



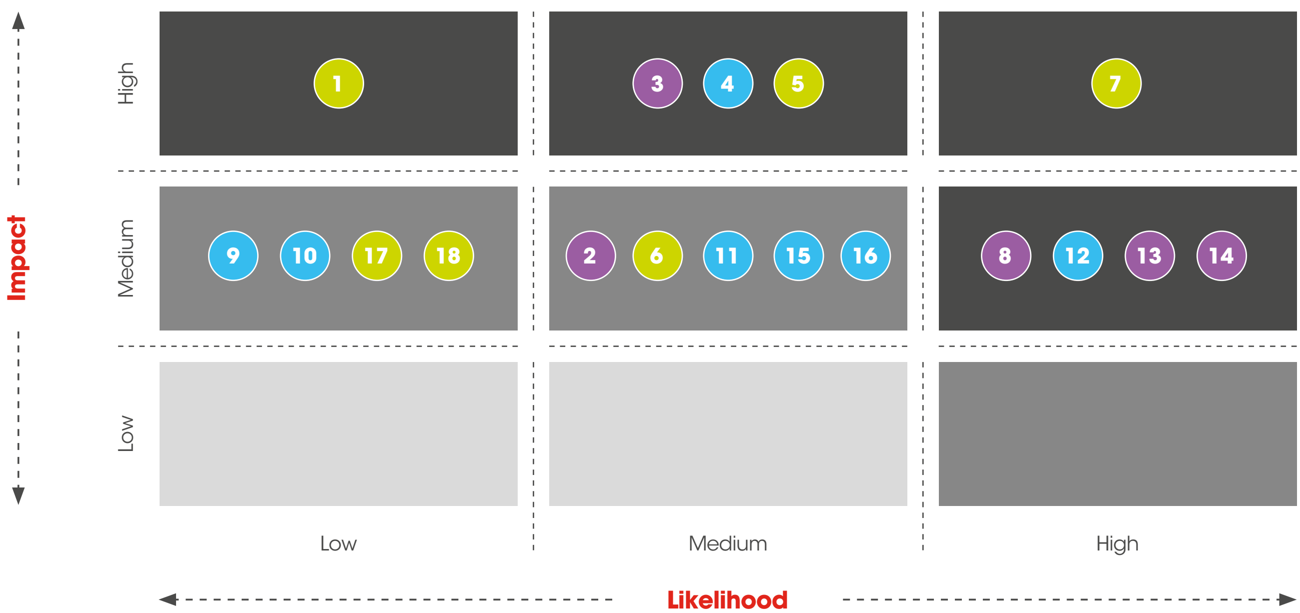
## Group principal risk footprint

The principal risk footprint comprises the most pressing risks that the Board believes could cause the greatest damage to the reputation or financial strength of the Company if not effectively evaluated, understood and managed. The Group iPOM Committee discusses and reviews the Group's principal risks on a rolling basis as part of its normal operations.

We recognise, and are actively managing, additional risks, including emerging risks as identified by our comprehensive risk management process.

However these are deemed less material than the 18 principal risk factors noted on the footprint below. These risks are continuously assessed to allow early detection in changes to both impact and likelihood of the risk crystallising.

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 risk management processes to ensure we capture as complete a picture as possible.




Note:

The Board reviews its risks according to where we have most influence over the outcome

**Meaningful for risk appetite discussion**

- STRATEGIC – Risks directly addressed by Ignite
- MANAGED – Our ability to influence the impact and/or likelihood is relatively high

**Less meaningful for risk appetite discussion**

- INHERENT – Our ability to influence the impact and/or likelihood is more limited

## Changes to the risk footprint

Following the annual review of the Group's principal risks, the Board made certain changes to the risk footprint. New and removed risks are detailed below. Revisions to other risks are noted in the commentary on pages 44 to 51.

### New risks

Reflecting the Ignite strategy to not only invest in acquisitions but also to continuously evaluate our existing portfolio, the following risk has been added to the principal risks:

Failure to optimise our existing portfolio leads to an impact on profitability (key risk number 17).

### Changes to existing risks

Two existing risks are now expressed at a more granular level to reflect the nature of severity of the underlying component risks, which will impact over different time periods and require different responses.

The risk of impact of disruptive technologies and/or new entrants to the industry threatens our position in the value chain has been replaced with:

- Growth in new mobility solutions leads to reduction in personal vehicle ownership and reduces overall units in operation through greater vehicle utilisation (key risk number six).
- Electrification of the drivetrain reduces demand for our OEM partners' product and impacts our ability to generate revenue from aftersales (key risk number 18).

The risk of major cyber incident or other systems interruption impacts on ability to service customers and/or operational efficiency has been replaced with:

- Major systems failure or other service interruption impacts on ability to service customers and/or operational efficiency (key risk number nine).
- Major cyber incident leads to fraud, loss of confidential or sensitive data, or business interruption (key risk number 12).

**Removed risks**
Following the disposal of our Chinese operations during 2019, the risk of governments increasing cross border currency movements has been removed. This risk now only relates to our Ethiopian business and the Board is comfortable that the implications can be managed under normal business operations.

## The Group principal risks

| | Key risks | | Link to Ignite | Trend |
|---|---|---|---|---|
| 1 | Loss of one or more Distribution contracts, which individually, or together, account for a material part of the Group's revenue or profits. | | Become the OEM partner of choice | → |
| 2 | Significant retrenchment of credit available to customers, and/or our independent dealers leads to a reduction in demand for new vehicles. | | Deliver full potential on all our revenue streams | → |
| 3 | Material damage to OEM brand or product reputation, or a major interruption to OEM operations or product supply, negatively impacts vehicle sales. | Climate change | Deliver full potential on all our revenue streams | ↑ |
| 4 | Major loss or misappropriation of confidential or sensitive data results in financial penalty and/or reputational damage. | | TRUST | → |
| 5 | Failure to achieve sufficient return on investment through our acquisition strategy leads to higher leverage, reduced EPS and/or deterioration of our relationship with our OEM partners. | | Invest to accelerate growth | → |
| 6 | Growth in new mobility solutions leads to reduction in personal vehicle ownership and reduces overall UIO through greater vehicle utilisation. | Climate change | Become the OEM partner of choice | → |
| 7 | Increased digitisation of the customer relationship threatens our position in the value chain as new entrants, OEMs and/or existing competitors provide alternative, digitally based, routes to market. | | Lead in customer experience | → |
| 8 | Fluctuations in exchange rates with negative impact on financial performance. | | Deliver full potential on all our revenue streams | → |
| 9 | Major systems failure or other service interruption impacts our ability to service customers and/or operational efficiency. | | Deliver full potential on all our revenue streams | → |
| 10 | Failure to safeguard our customers and employees by not consistently applying EH&S standards across the Group. | Climate change | TRUST | → |
| 11 | Fraud or error of sufficient scale to materially affect financial performance or reputation. | | Deliver full potential on all our revenue streams | → |
| 12 | Major cyber incident leads to fraud, business interruption or compromise of data. | | Deliver full potential on all our revenue streams | → |
| 13 | Political and social instability leads to economic uncertainty, market interruption and/or threat to safety. | | Deliver full potential on all our revenue streams | ↑ |
| 14 | Changes in legislation, or the way that legislation is applied, directly affect customer demand for certain vehicle types or our ability to generate income from Aftersales. | Climate change | Deliver full potential on all our revenue streams | ↑ |
| 15 | Failure to comply with laws and regulations leads to material financial penalty or reputational damage. | | Deliver full potential on all our revenue streams | → |
| 16 | Failure to attract, retain and develop our people leading to knowledge drain and operational inefficiency. | Climate change | Deliver full potential on all our revenue streams | → |
| 17 | Failure to optimise our existing portfolio leads to impact on profitability and inefficient capital allocation. | | Invest to accelerate growth | NEW |
| 18 | Increasing electrification of the drivetrain reduces demand for our OEM partner product leading to a reduction in revenue. | Climate change | Deliver full potential on all our revenue streams | → |

Key
Become the OEM partner of choice
Deliver full potential on all our revenue streams
Invest to accelerate growth
Lead in customer experience

### Climate change
Climate change is not included as a standalone risk as in itself it is not a direct risk to the business. Our intention and ambition to be an environmentally and ethically responsible business is covered throughout the Annual Report and Accounts including the CSR Report on pages 33 to 35. However, the impact of climate change is regarded as a 'trigger event' that underpins other risks that do appear on the principal register and as such this is how we consider the risk as a Group.

Climate change impacts a number of risks, in particular risks on pages 45 to 51 as indicated with a .

## Strategic risks – Risks which are mitigated directly by the implementation of our Ignite strategy

### Loss of one or more Distribution contracts which, individually or together, account for a material part of the Group's revenue or profits

**Impact:** High | **Likelihood:** Low | **Trend** →

**Description**

Distribution contracts are fundamental to our business model, and our ability to attract and execute future business development is also dependent on the quality of our OEM relationships. The focus to 'Become the OEM partner of choice' is a core part of our strategy designed to improve, develop and nurture these partnerships to mutual benefit.

Any event which has a negative impact on these relationships, or could lead to them being cancelled, will have a significant impact on revenue and profit, as well as future growth opportunities.

The underlying factors which could contribute to this risk may include:

- Failure to deliver a sufficiently attractive value proposition to OEM partners.
- Consistent failure to deliver to targets or standards (including compliance with the terms of Distribution agreements) in major markets or across multiple markets.
- Failure to deliver on growth strategy or defend our business model against new entrants.
- Major fraud, bribery, data security or other systemic compliance failure.

**Impact**

- Non-renewal of, or removal of, Distribution contract.
- Squeeze on franchise margin impacts profitability.
- Reduced OEM support further impacts our ability to achieve targets or objectives.

**Mitigating actions**

- Develop our customer experience to deliver and surpass our OEM's standards for our shared customers.
- Prioritise OEM relationships at all management levels to become OEM partner of choice.
- Focus on delivering to volume expectations and improving our business operations.
- Leverage our global scale through Partner Development Teams to improve relations, and solve common issues, with each OEM globally.
- Use global scale to drive operational efficiencies and demonstrate value to our partners.
- Develop new and strengthen existing OEM relationships through M&A, creating mutual value and diversifying our OEM partner relationships.
- Strong focus on legal and regulatory compliance.
- Comprehensive risk management framework and continued development of risk/compliance/controls activity.

**2019 Update**

**This risk has been re-articulated to add clarity.**

### Failure to achieve sufficient return on investment through our acquisition strategy leads to higher leverage, reduced EPS and/or deterioration of our relationship with our OEM partners

**Impact:** High | **Likelihood:** Medium | **Trend** →

**Description**

Inchcape complements its organic growth agenda by pursuing inorganic growth through acquisition.

We have made several successful acquisitions since the inception of the Ignite strategy and are continuing to pursue further opportunities.

Many of those opportunities are in developing markets, or in markets that are new to us and often comprise businesses that are less mature than our own with less sophisticated processes.

Failure to identify appropriate targets, acquire them on the right terms, or to efficiently integrate new businesses into our operation will adversely impact our ability to deliver the benefits expected from those acquisitions.

**Impact**

- Inefficient capital allocation.
- Higher leverage leads to volatility in EPS.
- Failure to realise growth objectives.
- Damage to relationship with OEM partner if acquisition does not yield expected benefits.
- Overpayment for acquisition impacts on profitability.
- Exposure to unknown/misunderstood risks in unfamiliar markets.

**Mitigating actions**

- Top down and bottom up approach to target identification.
- Dedicated business development team to project manage M&A.
- Strong M&A governance process through M&A Committee and Board.
- Partnering with OEM where appropriate to align expectations and requirements.
- Robust valuation and comprehensive due diligence process supported by external advisors.
- Codified, regionally driven integration strategy developed, supported by Group functions.
- Intensive performance focus for newly acquired businesses.
- Roll out of Minimum Control Framework (MCF) in each new business.
- Internal Audit focus within six months of acquisition.

### Growth in new mobility solutions leads to reduction in personal vehicle ownership and reduces overall UIO through greater vehicle utilisation

**Impact:** Medium | **Likelihood:** Medium | **Trend** →

**Description**

Technological advances have enabled the rapid growth of on-demand mobility services.

As mobility as a service becomes a more common mode of transport, personal vehicle ownership will likely reduce and vehicle utilisation will increase, leading to a reduction in revenue. At the same time, dedicated providers for mobility fleet servicing, repair and maintenance may emerge and win future business in this area to the detriment of ourselves.

The impact of these services will vary by market but provide both opportunity and threat to our businesses, particularly in major cities and advanced city states.

In the long term, advances in autonomous vehicles have the potential to completely transform urban and extra-urban mobility through the removal of a vehicle driver.

Climate change impact: a trend towards lower overall vehicle ownership due to increasing environmental concerns among customers leading to ride sharing, increased use of public transport or other changes to vehicle ownership models.

**Impact**

- Volume and margin are adversely impacted across our markets.
- Adverse impact on value of retail sites due to falling demand.
- Long-term change in vehicle ownership model may jeopardise the familiar automotive value chain, and potentially result in disintermediation.

**Mitigating actions**

- Continually seeking to understand how best to deploy our core capabilities to position ourselves in the changing automotive model (e.g. capacity for fleet management services and network infrastructure, charging, maintenance, storage).
- Close monitoring of developments across industry and local market, including monitoring possible disruptors and likely timeframe for entry into the market.
- Pilot with Toyota and Grab to develop ultra efficient fleet servicing.
- Partner with Comfort DelGro in Singapore to understand autonomous fleet requirements for distribution and servicing.
- Vehicle telematics proposition pilots in Colombia (Hino) and Singapore (Toyota).

**2019 Update**

**This risk was previously reported under a more generic risk related to 'disruptive trends'. The risk has been articulated at a more granular level to enable a more effective response. The revised risk scoring presents a more accurate reflection of the risk over a three to five-year time horizon.**

### Increased digitisation of the customer relationship threatens our position in the value chain as new entrants, OEMs and/or existing competitors provide alternative, digitally based, routes to market

**Impact:** High | **Likelihood:** High | **Trend** →

**Description**

The way that people communicate and the way that they buy, and use, goods and services, continues to develop.

Technologies that allow for real time processing of vast amounts of data, and the development of networks connecting people, service providers and appliances (including vehicles) will allow those developments to continue and accelerate.

The digitisation of the customer journey, and growth of online customer platforms, presents the opportunity to improve the customer offering, and at the same time presents new risks around data protection, maintenance of standards and customer engagement through, for example, social media.

Digital platforms may also allow our OEM partners, and others, to reach out to our customer base directly, which in the longer term may threaten our position in the value chain.

**Impact**

- Volume and margin are adversely impacted.
- Adverse impact on value of retail sites as demand is fulfilled online.
- Reduced ability to drive demand/margin as online consumers are no longer geographically dependent – driving competitive price reductions.
- Lower customer retention rates impact Aftersales profits.

**Mitigating actions**

- Digitisation strategy driving investment in seamless, omni-channel brand experience and a best in class digital platform.
- Group and market level use of the internet and social media as a communications channel for our customers.
- Group and market level monitoring and management of social media presence.
- Focus on data analysis to identify opportunities to monetise data and build market level digital capabilities such as targeted marketing, online service booking, digital walk around check and e-commerce (parts and accessories).

**2019 Update**

**The articulation of this risk has been refined to identify more precisely the nature, and source, of the risk. The impact and likelihood ratings remain unchanged which reflects the Board's view that this is the most pressing risk facing the business.**

| Failure to optimise our existing portfolio leads to impact on profitability and inefficient capital allocation | Impact: Medium | Likelihood: Low | Trend NEW |
|---|---|---|---|

**Description**

As a global Retailer we hold a significant portfolio of operational assets, many of which we have held for some time.

In recognition of the pressures which continually face our industry, we acknowledge that the risk inherent in holding retail only assets compared to the value we expect them to generate is increasing, and therefore our ongoing portfolio strategy is focused on more attractive and less capital intensive Distribution operations.

A failure to dispose of assets when maximum value creation has been achieved, or before anticipated internal or external factors lead to a sustained underperformance, may also lead to inefficiency and impact on profit.

**Impact**

- Inefficient capital allocation.
- Failure to realise growth objectives.
- Unproductive assets negatively impact profitability.
- Failure to realise maximum value from assets.

**Mitigating actions**

- Continual monitoring of portfolio and disposal of assets where necessary.
- Regular impairment reviews undertaken.
- Disposal of non-strategic, higher risk retail assets in progress.
  - UK: 3 Audi & 4 VW sites sold in H1 2019; disposal of non-core fleet business.
  - Australia: 6 Trivett sites sold in H2 2019.
  - Asia: Disposal of Chinese Retail operation.

**2019 Update**

**This is a new risk added by the Board in 2019 to reflect increasing pressure on the value and contribution of our retail assets. Whilst there could be a moderate and localised impact of holding on to non-productive assets, the Board believes the likelihood of any significant Group impacts to be low.**

| Increasing electrification of the drivetrain reduces demand for our OEM partners, products and leads to a reduction in revenue | Impact: Medium | Likelihood: Low | Trend → |
|---|---|---|---|

**Description**

Regulatory, environmental and customer pressures are forcing OEMs to invest to lower their fleet emissions. As a technology to achieve this, Electric Powertrains (both Hybrid and BEV) are currently receiving significant attention and investment from our OEM partners.

Predictions for EV penetration vary considerably but could account for up to 40% of the fleet in developed markets within the next decade, which presents both a threat and a real opportunity, dependent on the availability of competitive EV products in certain markets.

A greater penetration of electric vehicles may squeeze margins through the value chain due to the required investments and may also have an impact on our Aftersales business as EVs require less frequent servicing, though this is a long term threat.

Climate change impact: there is a risk that the industry shifts towards electric and hybrid, away from internal combustion engines.

**Impact**

- Volume and margin are adversely impacted across our markets.
- Adverse impact on value of retail sites due to falling demand.
- Uncompetitive product line up leads to a long-term loss of sales.
- Opportunity for increased market share where OEM product line up is strong.

**Mitigating actions**

- Diversification of OEM partnerships across different vehicle types and technologies.
- Regular liaison with OEM partners to match pipeline and product planning to emerging technologies and support demand.
- Initiatives to monetise data such as targeted marketing, predictive maintenance and recall management.
- Preparation of Aftersales business in line with OEM EV strategy.

**2019 Update**

**This risk was previously reported under a more generic risk related to 'disruptive' trends. The risk has been articulated at a more granular level to enable a more effective response. The revised risk scoring presents a more accurate reflection of the risk over a three to five-year time horizon.**

## Managed risks – Risks over which we are able to exert considerable influence on the impact or likelihood of occurrence

| Major loss or misappropriation of confidential or sensitive data results in financial penalty and/or reputational damage | | Impact: High | Likelihood: Medium | Trend → |
|---|---|---|---|---|
| **Description** | **Impact** | **Mitigating actions** | | |
| We hold, and process, a significant amount of data belonging to a range of stakeholders including our OEM partners, our customers, our employees, and our suppliers.<br>Cyber-attacks are on the increase and data is an ever more valuable commodity. Increasingly sophisticated attacks are being perpetrated by a wide range of well-resourced threat actors.<br>A major cyber security incident, or data breach, which leads to a compromise or misuse of confidential, business critical or sensitive information could not only interrupt our business, but also lead to civil or criminal penalties and significant reputational damage. | – Impact on customer and/or OEM relationship and erosion of reputation.<br>– Adverse financial impact as a result of civil or criminal action.<br>– Regulatory intervention leads to impact on financial performance (fine) or business operations. | – Data Management minimum standards issued.<br>– Global Information Security and data management policies and procedures developed and implemented.<br>– Information assets defined, and security controls benchmarked to ensure best practices.<br>– Global vulnerability and risk scanning in place to enhance likelihood of early response and intervention.<br>– Cyber awareness training deployed to all relevant staff globally.<br>– Investment in advanced network threat detection and malicious communications filters.<br>– Physical and logical security measures control access to key infrastructure, and subject to regular penetration testing.<br>– Encryption of valuable and sensitive data. | | |

| Major systems failure or other service interruption impacts on ability to service customers and/or operational efficiency | | Impact: Medium | Likelihood: Low | Trend → |
|---|---|---|---|---|
| **Description** | **Impact** | **Mitigating actions** | | |
| Our business performance, and our ability to service our customers and our OEM partners, depends upon the ability of our systems to deliver a very high degree of operational reliability.<br>We have a diverse, and reasonably complex, IT landscape with multiple potential points of failure and must ensure that suitable redundancies are built into our infrastructure to enable continuity of operations should there be a large-scale interruption to our business.<br>Many of our core services are held on, or reliant on, cloud based services provided by third parties. As we currently lack internal capability to support and maintain these services, we are increasingly reliant on third parties to provide resilience.<br>Our iPower programme is intended to standardise and energise the core systems infrastructure that supports our business, and we must ensure that controls and processes are maintained across all of our systems infrastructure whether iPower or legacy. | – Business continuity interruption, leading to lost sales opportunity and adverse reputational impact. | – Built in resilience and security in place with active monitoring for core systems.<br>– Minimum Control Framework including manual back-ups in place.<br>– SLA assurances and relevant accreditations from major systems infrastructure providers.<br>– Business Continuity plans in place in all markets, and regularly tested.<br>– Business interruption insurance purchased.<br>– Close management of iPower implementations and period of post implementation 'hyper care'.<br>– Develop internal support capabilities for major hosted systems. | | |

**2019 Update**

**This risk was previously reported under a more generic risk of cyber security and systems resilience. The risk has been articulated at a more granular level to enable a more effective response. Our assessment of the level of risk remains unchanged.**

| **Failure to safeguard our customers and employees by not consistently applying EH&S standards across the Group** | **Impact: Medium** | **Likelihood: Low** | **Trend** → |
|---|---|---|---|

**Description**

Inchcape employs more than 17,000 people across the globe. We are committed to the health, safety and security of our people as well as that of our customers and other visitors to our sites.

Our businesses are subject to a wide range of laws and regulations which vary significantly in stringency from country to country depending on the prevailing culture. Our OEM partners also have their own health and safety standards that they apply.

Wherever in the world they may happen, though, the consequences of failing to prevent accidents can lead to employee injury, business interruption, significant fines, criminal consequences for directors and senior managers and reputational damage.

Climate change impact: there is a risk to the safety of our people and customers with more frequent weather events and natural catastrophes such as flooding etc.

**Impact**

- Injury to customers, employees or third parties.
- Serious incident leading to lost time.
- Unlimited fines.
- Personal sanctions (including prison) for officers.
- Damage to reputation following injury to, or death of employees or customers.
- Civil or criminal action.

**Mitigating actions**

- Appointment of Group Health, Safety & Environment Director.
- Global audit of H&S practices and standards in all markets.
- Global Community of Practice implemented.
- HSE strategic plans developed in all markets.
- Global and Local Health & Safety policy rollout compliant with local legislation, and Inchcape Standards of Safety.
- Qualified Health & Safety practitioners in major markets and at Group level.
- Basic training offered to staff with more advanced training for higher risk roles and first responders.
- Clear 'Ways of working' displayed in prominent areas in the riskiest areas (e.g. workshops).
- Accidents, hazards and near misses monitored on a regular basis with corrective actions tracked.
- Insurance package includes independent H&S assessments for some markets.
- Roll out of a Global HSE system to facilitate management of all safety operational requirements.

| **Fraud or error of sufficient scale to materially affect financial performance or reputation** | **Impact: Medium** | **Likelihood: Medium** | **Trend** → |
|---|---|---|---|

**Description**

We continue to see an increased incidence of fraud or attempted fraud perpetrated from both within and outside the business, especially in Emerging Markets where our growth plans are focused. In particular the risk of cyber fraud is a growing trend.

Strong internal controls and processes underpin our operations. Without them we would fail to protect the value we create and undermine our growth potential.

**Impact**

- Significant fraud with financial and reputational consequences.
- Significant error or financial misstatement.
- Procedural breakdown with consequences for efficiency and/or business interruption.

**Mitigating actions**

- Code of Conduct refreshed to set out overarching standards of behaviour and compliance globally.
- Minimum Control Framework (MCF) sets an unambiguous global controls standard.
- Review and refresh of Fraud Management and Whistleblowing policies.
- Delegation of authorities policy in place to ensure that decisions are undertaken within approved authority limits and parameters.
- Cyber security programme in place.
- Central Internal Control Team created to oversee implementation and development of MCF.
- Clear management accountability for internal controls.
- Automation of control through iPower implementation reduces the possibility of error or oversight.
- Fraud and other major control incidents monitored by the Group Audit Committee.
- Close monitoring of MCF compliance by Group Internal Audit.
- Speak Up! whistleblowing hotline available in all markets.

**2019 Update**

**This risk has been re-articulated to draw focus to the increasing risks associated with fraud.**

| Major cyber incident leads to loss of confidential or sensitive data, fraud or business interruption | Impact: Medium | Likelihood: High | Trend → |
|---|---|---|---|

**Description**

As we invest in our digital capability, gather and hold more data and rely ever more heavily on technology and mobile devices we simultaneously open up more opportunities for cyber attackers and therefore we recognise that this risk is increasing.

Far from being simply an IT issue, cyber crime is a business risk, with malicious actors continuously developing new and innovative ways to commit fraud, access data and interrupt systems, many of which are based on manipulation or exploitation of our people.

Attacks can be aimed at accessing confidential data, extracting money, or causing business interruption

**Impact**

- Business continuity interruption, leading to lost sales opportunity and adverse reputational impact.
- Impact on customer and/or OEM relationship and erosion of reputation.
- Adverse financial impact as a result of civil or criminal action.
- Regulatory intervention leads to impact on financial performance (fine) or business operations.
- Fraud leading to loss of monies and or assets.

**Mitigating actions**

- Information Security policy developed and rolled out.
- Encryption and access standards applied.
- Investment in advanced network threat detection and malicious communications filters.
- Best practice physical and logical security measures control access to key infrastructure, and subject to regular penetration testing.
- Encryption of valuable and sensitive data.
- Collaboration with OEMs and vendors to identify emerging threats.
- Global vulnerability and risk scanning in place to enable early response and intervention.
- Cyber awareness training deployed to all staff.
- Cyber incident response plans in place.

**2019 Update**

**This is a new risk which was previously reported under a more generic risk of cyber security and systems resilience. The risk has been articulated at a more granular level to call out the increasing likelihood/impact of cyber attacks and to enable a more effective response.**

| Failure to comply with laws or regulations leads to material financial penalty or reputational damage | Impact: Medium | Likelihood: Medium | Trend → |
|---|---|---|---|

**Description**

The Group, and its businesses, are subject to a wide range of laws and regulations across a range of environments from those where strong ethical standards are not yet established to highly regulated markets.

The consequences of a failure to comply with those laws and regulations can vary from small fines, and orders to take remedial actions, to significant financial consequences, reputational damage and even imprisonment of directors and officers.

**Impact**

- Financial impact of fines/sanctions.
- Regulatory intervention leads to business. interruptions or other inefficiency.
- Adverse reputational impact affecting OEM partner relationships.

**Mitigating actions**

- Creation of Group Legal Community to facilitate knowledge sharing.
- Nominated legal representative and/or retained counsel in major markets to monitor existing and emerging legislation.
- Code of Conduct refreshed to set out overarching standards of behaviour and compliance globally.
- Code of Conduct training undertaken by all staff
- Local training programmes in place for relevant staff to raise awareness and confirm expectations.
- Online legal/compliance training solution to be implemented globally.
- Market level policies and procedures supplemented by Group policies and procedures for higher risk areas.

| Failure to attract, retain & develop our people leading to knowledge drain and operational inefficiency | Impact: Medium | Likelihood: Medium | Trend → |
|---|---|---|---|

**Description**

Inchcape employs over 17,000 people across 33 different territories, in various roles including Sales, Aftersales, and back office functions.

The fragmented nature of the automotive sector, coupled with remuneration strategies which typically reward short-term performance, mean that the industry is characterised by inherently high turnover rates, especially in retail businesses.

Our Ignite strategy, as well as the impact of disruptive trends and emerging technologies in the automotive industry, mean that the skills and capabilities needed to succeed are constantly changing. Not having the right talent succession plans, and diversity at all levels, may compromise our ability to deliver the Ignite strategy.

Climate change impact: there is a risk that we are not seen as an environmentally responsible organisation and therefore do not attract high calibre employees.

**Impact**

- Loss of core knowledge and experience.
- Business interruption or operational inefficiency.
- Failure to deliver strategic objectives.

**Mitigating actions**

- Global Talent Strategy to ensure resources are aligned to strategic requirements.
- Talent review pipeline to maximise the value-add of our people.
- Recruitment, induction and continuous development policies in all markets.
- Drive5 behaviours underpin development process.
- Employee Experience measurement in all markets to identify and address issues/risks.
- Performance related pay structure calibrated to incentivise and drive talent retention.
- Key policies, procedures and other documentation to facilitate handovers.
- Restructuring where necessary to right-skill the business.
- Launch of career development online tools to support internal progression and aid retention.

## Inherent risks

The Board recognises that there are some risks over which Inchcape's influence is somewhat limited, and the impact and likelihood of the risk are more heavily affected by external factors. The Board ensures that, as far as possible, actions are taken to address these risks according to its risk appetite but recognises and accepts an inherent level of risk as a natural part of doing business.

| Risk | Comments | Impact | Likelihood | Trend |
|---|---|---|---|---|
| Significant retrenchment of credit available to customers and/or our independent dealers leads to a reduction in demand for New vehicles | Global economic uncertainty may ultimately lead to a reduction in readily available, affordable credit, fundamental to our customers' ability to buy, and to our, and our dealers' ability to operate. Whilst we have various local initiatives in place to help our customers and dealers access appropriate finance, we are also reliant on our banking and OEM partners to provide suitably attractive options. Therefore we largely accept this risk. | Medium | Medium | → |
| **2019 Update** The Board has re-assessed the likelihood and impact of this risk to better reflect our experience. The likelihood has been increased, but the potential impact reduced as the Board feels it would likely be limited to a localised impact. | | | | |
| Material damage to OEM brand or product reputation, or a major interruption to OEM operations or product supply negatively impacts vehicle sales | As a Distributor and Retailer, our performance is correlated with that of our OEM partners. We work closely with them to foresee and address issues in our role as representative of their brand, but ultimately we have only very limited control over their performance. Our brand diversity acts as a natural hedging strategy to further minimise this risk.<br>Climate change impact: risk that demand for product falls as environmentally aware customers shift their preferences to less polluting models. | High | Medium | ↑ |
| **2019 Update** The Board has increased the likelihood of this risk crystallising reflecting recent events which have affected the reputation of certain OEM partners or their product. | | | | |
| Fluctuations in exchange rates with negative impact on financial performance | As a global organisation we accept the risk that, outside of normal hedged transactions, we are exposed to currency fluctuations. These can be both positive and negative and our geographical diversity provides a certain amount of natural hedging. | Medium | High | → |

| Risk | Comments | Impact | Likelihood | Trend |
|---|---|---|---|---|
| Political and social instability leads to economic uncertainty, market interruption and/or threat to safety | We accept that there is a risk of social and political instability globally and that certain political and social issues could have a destabilising effect on the global economy. In addition rising eco-activism could impact the automotive industry in the future.<br>We recognise that there is little we can do to prevent such risks, but instead ensure we have plans in place to respond quickly and decisively if they do occur. | Medium | High | ↑ |

**2019 Update**
**The reference to regulatory instability has been removed as it is covered in risks 14 and 15. The increase in impact and likelihood reflects the scale of recent events in Hong Kong, Chile, Ethiopia and Ecuador.**

| Risk | Comments | Impact | Likelihood | Trend |
|---|---|---|---|---|
| Changes in legislation or the way that legislation is applied directly affects customer demand for certain vehicle types or our ability to generate income from Aftersales | We accept that demand for vehicles is heavily impacted by prevailing legislation. There is little we can do to influence that legislation in our favour. Instead we implement processes to foresee and prepare for its impact (alongside our OEM partners), our geographic and OEM diversity also providing a natural hedge.<br>Climate change impact: environmental concerns are a key driver of legislation aimed at limiting vehicle usage in certain areas, making car ownership less economical which will shift demand to less polluting vehicles. | Medium | High | ↑ |

**2019 Update**
**The potential impact of this risk has been increased to reflect the increasing reach, and pace of change in environmentally focused legislation, across many of our markets.**

## Brexit

The UK has now left the European Union and is in a transition period which is due to end on 31 December 2020. There are still significant uncertainties surrounding the terms of the UK/EU relationship after that date, which is now dependent on the outcome of the trading negotiations between the UK government and the EU. In the absence of agreement, trading between the two parties will be based on WTO rules from 1 January 2021.

Our exposure to this risk is principally in our UK Retail business where we are the Retailer for the major German brands including BMW, Mercedes-Benz, Volkswagen, Audi and Porsche. We also import certain Toyota models which are manufactured in the UK into Greece, Belgium and the Balkans, and JLR and Mini into our Northern Europe operation.

Considering the content of the withdrawal agreement and political declaration and given that the UK and EU have a transition period of at least 11 months to negotiate and conclude the future relationship, we consider that a 'no deal' Brexit is now significantly less likely than previously.

However, all scenarios remain plausible, and therefore our assessment of the potential impacts of the risks remains unchanged. In the absence of agreement, we would anticipate three broad impacts:

- Loss of freedom of movement in goods, services, capital and people;
- Divergence of regulation between the EU and the UK; and
- Macroeconomic instability, principally in the UK.

The Board has considered these in detail and, given the nature of our business and the actions that we and our partners have already taken, does not foresee significant impacts related to the loss of freedom of movement in services, capital or people, or caused by the divergence of regulation (except in so far as this might have an effect on the product mix offered by our OEM partners in the UK).

Some uncertainty however remains around the impact of tariffs and non-tariff barriers, in particular related to the impact on the supply chain for new vehicles and parts. Given the nature of our business, much depends upon the actions taken by our OEM partners in response to those impacts and we continue to work closely with those partners in order to make the necessary preparations to mitigate the potential impact.

The medium-term macroeconomic impact on the UK economy also remains uncertain. This is naturally very difficult to forecast, and will no doubt change as trading negotiations progress, but we stand ready to act to reduce our cost base should circumstances so dictate.

The Board and Group Executive Committee continue to actively monitor the situation and, as the outcomes of the trading negotiations become clearer, we will continue to take appropriate action as and when necessary.

## Viability statement

The Group's business model and strategy are outlined on pages 7 and 22 and the long-term viability of Group is intrinsically linked to the 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 with OEM partners, 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 as a 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 this 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. As part of this, the impact of climate change has been considered on each of the principal risks as noted on pages 43 to 51.

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 this purpose are:

- Loss of global Distribution contract with major brand partner;
- Increased digitisation of the customer relationship threatens our position in the value chain as new entrants, OEMs and/or existing competitors provide alternative, digitally based, routes to market; and
- Material damage to OEM brand or product reputation, or a major interruption to OEM operations or product supply, negatively impacts vehicle sales.

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 in our largest market and the impact of increased digitalisation and/or a major interruption to OEM operations or product supply which negatively impacts vehicle sales.

For 2021, the Board has also considered the impact of a "no deal" Brexit and incorporated this as a scenario to model an interruption to product supply. In addition, the risk of a liquidity/credit shock, has been modelled as a sensitivity on top of these risks to understand the combined financial impact.

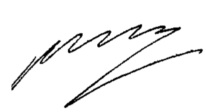
The Group is considered to be viable if the interest cover covenant is maintained within the prescribed limit and there is available debt headroom to fund operations.

The Group's committed facilities, provided by 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 and the interest cover covenant is not breached.

On the basis of an assessment of the principal risks, and on the assumption that the principal risks set out on page 42 to 51 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 2022.

## Directors' approval of the Strategic Report

Our 2019 Strategic Report, from pages 2 to 52, has been reviewed and approved by the Board of Directors on 26 February 2020.



**Stefan Bomhard**
Group Chief Executive


# VW Group

Inchcape has a retail-only partnership with VW Group and represents the core VW and Audi brands as well as the performance marque Porsche. Our VW Group relationship extends to over 30 years and we are present today as a Retail operator in the UK and Russia, following the divestment in 2019 of our retail sites in China and Australia.

Locations

**Retail**
UK, Russia

# A governance culture

**Nigel Stein**
Chairman

Dear Shareholder

**I am pleased to present the Corporate Governance Report for the year ended 31 December 2019. The next few sections explain how the Board and its Committees have discharged their duties throughout the year and I hope you find it informative.**

## Board changes

As mentioned in my letter at the beginning of the Annual Report and Accounts, Stefan Bomhard has decided to leave the Group to take up a new role with Imperial Brands PLC. We are disappointed to lose Stefan at this time, but have always recognised that an Executive of his calibre might be recruited into an equivalent role at a larger organisation. He has done a great job at Inchcape and we wish him every success. Inchcape has an excellent strategy and a strong management team driving it forward. The Board is determined that the considerable momentum now being seen will be maintained. We will carefully select Stefan's successor from both internal and external candidates, ensuring we maintain Inchcape's record of high quality leadership in executing the Ignite strategy.

Nigel Northridge and Coline McConville retired from the Board after serving over nine years and six years respectively. Richard Howes resigned as Chief Financial Officer in August 2019. I would like to thank them for all their hard work and dedication over the years. Succession planning is a key activity for the Nomination Committee, with Board membership consistently under review. We were pleased to recruit two high calibre directors, Gijsbert de Zoeten who joined as the new Chief Financial Officer in August 2019 and more recently Alex Jensen who was announced as a Non-Executive Director in January 2020.

Gijsbert de Zoeten was, until 2018, CFO at LeasePlan Corporation NV, an international fleet management and mobility services company. He joined LeasePlan in 2016 and was integral to the significant transformation of the business, following its sale by VW Group. Previously, he had a successful 27-year career at Unilever plc where he had a range of senior financial and operational roles leading to his six-year position as the CFO of Unilever Europe. Gijsbert brings a wealth of business integration, operational and financial experience, and knowledge of the automotive industry to the Board which will further enhance the development of the strategy and strengthen the decision-making process.

Alex Jensen brings complementary skills, including digital experience gained in her executive roles at BP plc as well as a good understanding of the global automotive industry. She will be a valuable addition to the Board during a period of significant change in the industry.

## 2019 performance

The Board, and the executive team led by Stefan, spend much of their time focusing on delivering the Group's strategy for performance and growth, and planning for the future. We have made further progress to grow our business through the acquisition of BMW distribution businesses in Lithuania and Kenya, the acquisition of Autolider, distributor of Daimler brands in Uruguay and Ecuador and the Mercedes-Benz passenger vehicle distribution contract on Colombia. This brings the total of new Distribution businesses to 12 since we launched Ignite in 2016.

Continuing our move to a more distribution focused business we divested parts of our Retail-only business where we are seeking to achieve improved profitability and performance. We recently agreed the sale to our core partner Toyota of Inchcape Fleet Solutions ("IFS"), which is one of a number of similar businesses in the market and not one that we would be able to invest in significantly enough to grow to a market leading position. We are delighted that Toyota's European fleet management business agreed to buy IFS, and we wish both them and our former colleagues the very best in their new endeavour.

## Section 172 and the UK Corporate Governance Code

The Board has always considered the wider interests of internal and external stakeholders during the decision-making process and the additional reporting requirements introduced in 2019 aim to improve disclosure in this area. This includes a requirement for Boards to demonstrate how they have discharged their obligations in Section 172 of the Companies Act 2006 ("S172"). The Board's S172 statement is given on page 3 of the Strategic Report, however the Annual Report as a whole aims to demonstrate how the interests of stakeholders are considered during the year by providing information on all our stakeholders and how the Ignite strategy is linked to their interests. To provide an example of how the Board considers various stakeholders when making key decisions, case studies on the sale of IFS and the acquisition of Autolider, being two key strategic decisions taking during the year, are given on page 61 and in the capital allocation policy on page 22. The Board considers maintaining high standards of business conduct integral to the long-term success of the Group and is demonstrated through the approach to developing the desired culture within the Group via the Code of Conduct, policies and practices.

## Engaging with stakeholders

The key stakeholders and the processes in place to engage with them are given on page 16. The Board receives reports from the Group Executive Committee on the outcomes of stakeholder engagement throughout the year at the Board and Committee meetings. The Board also engages with stakeholders in a variety of other ways. For example, guest speakers from OEM brand partners are invited to attend the Annual Strategy Day, to give their views on the industry from an OEM perspective which allows the Board to gain a broader view of the long-term impacts to the Ignite strategy.

Our major shareholders were consulted during the review of the new remuneration policy and their views were invaluable in helping formulate the policy. See page 77 for further details. The Company's brokers also meet the Board to give the views of investors and the market generally. Establishing dialogue with investors is important to ensure that they understand and support the Group's strategic objectives which in turn provides them with a sustainable return via the Group's capital allocation and dividend policy. See page 22 for further details.

Engagement with employees is important to the Board as it gives insight into the culture and behaviours of the organisation. This engagement takes the form of the Employee Experience Consultation, see page 33 of the CSR Report and page 75 of the CSR Committee report for further details. The annual overseas Board visit also allows the Board to speak to employees directly, gaining insight into the culture and values of the organisation. The Board can also judge how the Ignite strategy is being embedded locally. In October, the Board visited the Toyota business in Belgium. See page 59 for further information.

I would like to take this opportunity to pay tribute to our most important asset, our people. It is a great privilege to be able to travel to our markets, to meet the people who make Inchcape the business it is today. I found their expertise and their enthusiasm for the brands they represent infectious. The Ignite strategy is fully embedded within the Group and the employees have a strong sense of shared purpose. It is this passion that brings to life the strategic decisions made by the Company's management and creates the resilience to manage challenges and drive performance in the future.

I thank you for your support during 2019 and look forward to the coming year.

NM Stein

**Nigel Stein**
Chairman

## Compliance with the 2018 UK Corporate Governance Code

The 2019 report has been structured in accordance with the 2018 UK Corporate Governance code and details how we have applied the principles accordingly:



**Statement of Code compliance**

The Company was compliant with the provisions of the 2018 UK Corporate Governance Code throughout the year.

*THE CODE CAN BE FOUND ON THE FRC'S WEBSITE WWW.FRC.ORG.UK*

*THE INFORMATION REQUIRED UNDER DTR 7 IS GIVEN ON PAGES 54 TO 102 AND FORMS PART OF THIS REPORT.*

# Board of Directors

**The Board is collectively responsible for agreeing, developing, and continually reviewing the Ignite strategy to ensure that it delivers long-term sustainable success. The Board is also responsible for ensuring that the appropriate people are employed to deliver the Ignite objectives and that they have adequate financial resources in order to do so. Underpinning this, the Board must ensure that there is the right people development and training in place to support Ignite, along with the necessary controls, processes and procedures to drive a strong ethical culture to facilitate the delivery the Ignite goals.**


**Nigel Stein**


**Stefan Bomhard**


**Gijsbert de Zoeten**


**Jerry Buhlmann**


**Rachel Empey**


**Jane Kingston**


**John Langston**


**Till Vestring**

*FULL BIOGRAPHIES, INCLUDING PAST EMPLOYMENT HISTORY, CAN BE FOUND ON* WWW.INCHCAPE.COM

## Nigel Stein

Chairman

**Appointed**
October 2015

**Skills and experience**
Nigel was Chief Executive of GKN plc until his retirement in December 2017. 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 sectors.

Nigel is a chartered accountant.

**Committee membership**
Chair of the Nomination Committee and member of the Remuneration and CSR 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 has held a number of senior positions at Cadbury Plc, Unilever PLC, Diageo plc, Burger King and Procter & Gamble.

**Other appointments**
Non-Executive Director of Compass Group PLC.

## Gijsbert de Zoeten

Chief Financial Officer

**Appointed**
August 2019

**Skills and experience**
Gijsbert was CFO at LeasePLan Corporation NV, the international fleet management and mobility services company.

Previously, Gijsbert has held a range of senior financial and operational roles at Unilever plc over 27 years, including his six-year position as the CFO of Unilever Europe.

**Other appointments**
Gijsbert is also a member of the supervisory board of Technical University Delft.

## Jerry Buhlmann

Non-Executive Director

**Appointed**
March 2017

**Skills and experience**
Jerry has over 30 years' experience in the media and advertising industries. He was CEO of Dentsu Aegis Network from 2013 until 2018. Prior to its acquisition by Dentsu Inc, Jerry was the CEO of Aegis Group PLC.

Jerry is also Non-Executive Chairman of Croud, a global digital marketing agency, Senior Advisor for OC&C's TMT Practice and a director of Madison Sports Group.

**Committee membership**
Audit, Remuneration, CSR and Nomination Committees.

## Rachel Empey

Non-Executive Director

**Appointed**
May 2016

**Skills and experience**
Rachel was appointed Chief Financial Officer of Fresenius SE & Co. KGaA, a top healthcare company listed on the DAX index, in August 2017.

Previously Rachel was Chief Financial and Strategy Officer of Telefónica Deutschland Holding AG.

Rachel is a chartered accountant.

**Committee membership**
Audit and Nomination Committees.

## Jane Kingston

Non-Executive Director

**Appointed**
July 2018

**Skills and experience**
Jane served as Group Human Resources Director for Compass Group PLC from 2006 until her retirement in 2016. Jane also held senior positions at Enodis PLC, Blue Circle PLC (now Lafarge SA) and Coats Viyella PLC. Jane has significant remuneration experience and is Remuneration Committee Chair of Spirax-Sarco Engineering plc.

**Committee membership**
Chair of Remuneration Committee and member of Nomination Committee.

## 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.

## Till Vestring

Non-Executive Director

**Appointed**
September 2011

**Skills and experience**
Till is an Advisory 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.

Till is also a Non-Executive Director of Keppel Corporation.

**Committee membership**
Chair of CSR Committee and member of Remuneration and Nomination Committees.

## Purpose and strategy

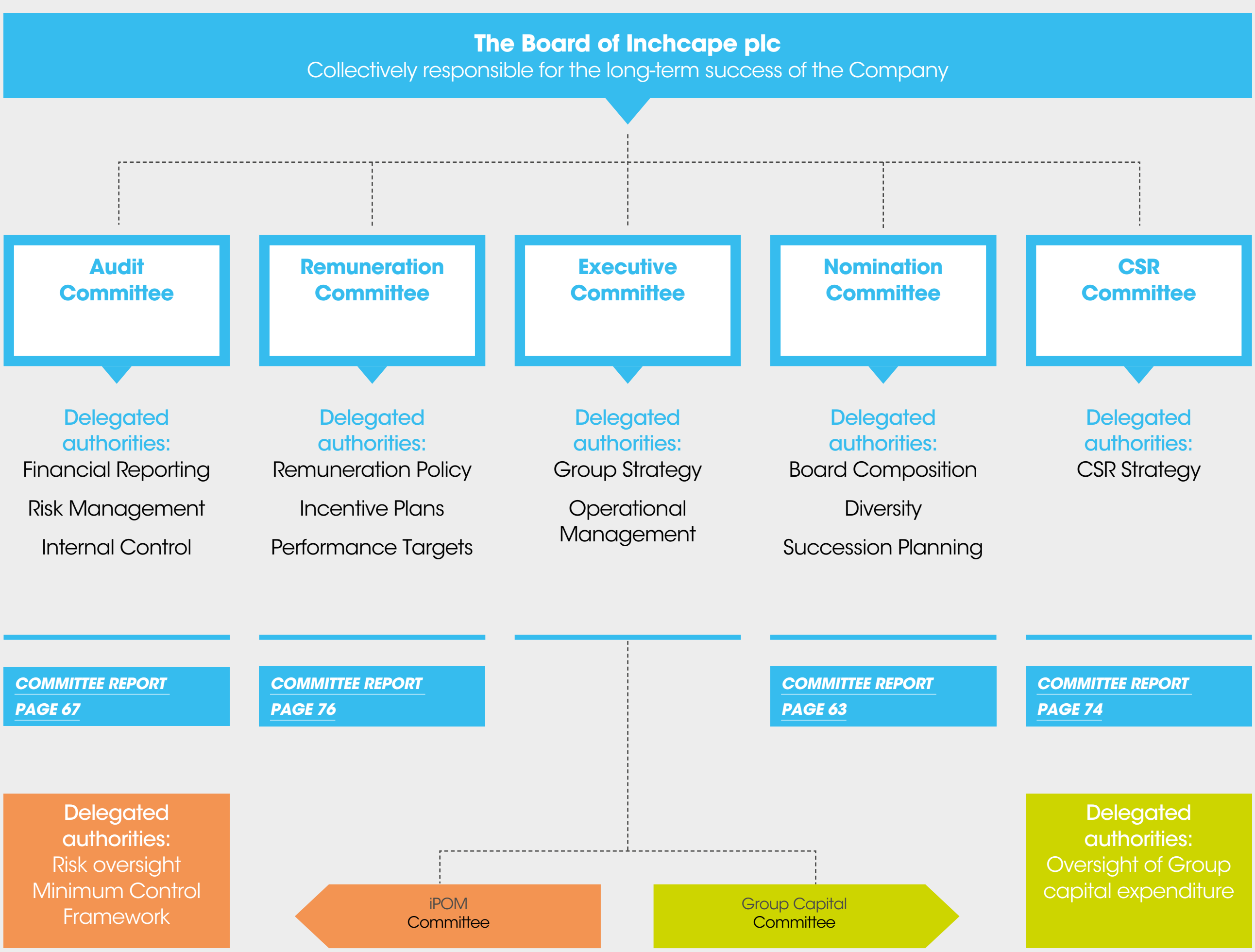
Details of how the Company generates value for shareholders and contributes to wider society is given in the description of the business model, value chain, Ignite strategic achievements and direction, and the CSR Report. Our ambition is to bring the best loved automotive brands to customers and consumers throughout the world. The 2019 Ignite achievements are set out in pages 18 and 19.

Part of the Ignite strategy is to take advantage of acquisition opportunities, with a focus on Distribution, and to consider the disposal of any non-core assets. Key to understanding the long-term benefit for the Group is to consider the risks associated with M&A and the Board's risk appetite when entering or exiting markets. Careful consideration is given to these risks throughout the decision-making process in order to balance the risk and reward for the Group.

The Annual Strategy Day provides the forum to assess the Ignite strategy and how the delivery of the strategy generates and preserves value over the long term. The Board considers risks and opportunities which could disrupt the business model in the medium and long term, including future trends such as electrification, connected cars and shared ownership, during the strategy planning process. Having robust governance processes in place drives the desired culture to support the Ignite strategy and creates a shared sense of purpose throughout the organisation which brings the Ignite strategy to life.

The Board regularly reviews operational policies and practices, to ensure they are driving the right behaviours throughout the organisation. The Board also considers the development of our people which will drive the Ignite strategy in the long term. Further information is given on page 33 of the CSR Report. The Remuneration Committee considers remuneration policies and practices to ensure they are consistent with the Company's values and support its long term sustainable success. Other policies are considered in conjunction with the review of risk, the internal control framework including financial controls, delegated authorities policies and HR & remuneration policies. The Group also operates an externally hosted whistleblowing line, details of which are given in the Audit Committee Report on page 71.

## Governance structure



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** | **CSR Committee** |
|---|---|---|---|---|---|
| Name | Scheduled/attended | Scheduled/attended | Scheduled/attended | Scheduled/attended | Scheduled/attended |
| Stefan Bomhard | 6/6 | – | – | – | 2/2 |
| Jerry Buhlmann | 6/6 | 3/3 | 2/2 | 2/2 | 2/2 |
| Gijsbert de Zoeten | 2/2 | – | – | – | – |
| Rachel Empey | 6/6 | 4/4 | – | 2/2 | – |
| Richard Howes* | 4/4 | – | – | – | – |
| Jane Kingston | 6/6 | | 2/2 | 2/1 | |
| John Langston | 6/6 | 4/4 | – | 2/1 | – |
| Coline McConville* | 4/4 | – | 1/1 | 1/1 | 1/1 |
| Nigel Northridge* | 3/3 | 1/1 | 1/1 | 1/1 | – |
| Nigel Stein | 6/6 | – | 2/2 | 2/2 | 2/2 |
| Till Vestring | 6/6 | – | 2/2 | 2/2 | 2/2 |

* Nigel Northridge left on 23 May 2019, Coline McConville left on 23 July 2019 and Richard Howes left on 31 August 2019. Gijsbert de Zoeten joined on 27 August 2019.

John Langston and Jane Kingston were unable to attend the November Nomination Committee meeting due to prior engagements. A full briefing on the business discussed was given to the Directors by the Chairman.

## Board activities

### Overseas Board visit

The annual overseas Board visit took place in Belgium at the Group's Toyota business. Visiting the overseas operations is a key annual activity for the Board as it gives the Non-Executive Directors an opportunity to meet the local teams and to see the Ignite strategy in action. These interactions give an indication of the Group's culture and values and enables the Board to mix with colleagues informally.

During the visit, the Board toured the Toyota and Lexus dealership at Zaventem meeting various teams including technicians and sales teams. After which, they arrived at the Inchcape Belgium Head Office and received regional updates from the CEO of Continental Europe, the Managing Director of Belux, the Lexus Distribution & Retail Director, the Belux Sales Director and the Network Development Director for Belux. The Board was also invited to tour the Toyota Parts Centre in Diest. This opportunity allowed the Board to gain first-hand experience of our longest OEM partner's European wide supply and distribution centre which distributes over 205,000 parts daily.

The Board found that engaging with local teams to discuss the unique challenges and opportunities in their region gives the Directors invaluable insight into the business and the opportunity to learn more about our OEM partner's business provides a greater understanding of the Group's position in the value chain.

The Chairman ensures that there is a culture of openness and transparency on the Board to facilitate constructive debate on all matters considered during the year. The Directors provide feedback on how the Board operates, its culture and effectiveness during the evaluation process. Further details can be found on page 66. There is a schedule of formal matters reserved for the Board which can be found at www.inchcape.com/governance.

| Focus in 2019 | What we achieved | Our priorities in 2020 |
|---|---|---|
| **Stakeholder engagement** | During the year, the Remuneration Committee carried out a consultation with shareholders on the proposed remuneration policy. Further details are given on page 77.<br><br>The Employee Experience Consultation was rolled out to 13,500 employees. Further details can be found in the CSR Report on page 75.<br><br>Further information on stakeholders are given on page 16. | Engagement with investors and OEM partners on environmental, social and governance factors |
| **Ignite strategy** | The Board continued to focus on the Ignite strategy which continued to deliver value in 2019 with the acquisition of exclusive distribution for BMW Lithuania and Daimler passenger cars and trucks in Uruguay and Ecuador.<br><br>The focus on core Distribution activities also led to the Board's decision to dispose of certain Retail businesses during the year in the UK, China and Australia in addition to the fleet business, Inchcape Fleet Solutions.<br><br>The digital strategy further evolved with the launch of the omni-channel customer journey in Subaru Melbourne and the introduction of reputation.com to measure and improve customer experience.<br><br>Further information can be found on pages18 and 19.<br><br>Capital allocation is an important part of the Board's decisions and during 2019, a further £100m was returned to shareholders by way of a share buyback. Further information on the capital allocation framework can be found page 22. | Global industry and market trends<br><br>Disruptive and future trends<br><br>Strategy development |
| **Risk** | The Board undertook a review of its risks this year, particularly in respect of the entry into new markets in Central America and the Board's risk appetite in these areas. Further details are given in the Risk Management Report on pages 39 to 52. | Annual review of principal risks and mitigating actions<br><br>Annual review of risk appetite<br><br>Brexit impact |
| **Financial reporting and business performance** | The Board reviews the performance of the business on a regular basis and challenges management on the assumptions made and the judgements used, with assurances provided by both external and internal sources to ensure the information communicated to stakeholders is fair, balanced and understandable. | Approval of annual operating plan<br><br>Review of delegated authorities policy and capital expenditure processes |
| **Leadership** | The Board reviews succession, talent development and diversity and inclusion annually. Focus during 2019 has been on building the Group's approach to diversity & inclusion. Further details are given in the people section of the CSR Report on page 33. | Group Chief Executive succession planning<br><br>Talent pipeline |
| **Governance and culture** | The 2018 UK Corporate Governance Code came into effect from 1 January 2019. The Board considered its obligations under the new Code and the S172 reporting requirement. The S172 statement is given in page 3 and two case studies demonstrating how the Board had regard for stakeholders are given on page 61. | The Board will continue to focus on ESG factors impacting the Group and its business model to improve internal understanding and external reporting in this area. |

**Key decision**

## Sale of Inchcape Fleet Solutions

The Inchcape Fleet Solutions ("IFS") business provides fleet solutions and fleet management services to business customers. While a successful business, the Board considered IFS to be neither part of its core Distribution activities nor meaningfully synergistic with its UK Retail dealership business. The Board therefore considered that it was in the best long-term interest of members to dispose of this business to the mobility division of Toyota, its largest OEM partner. The disposal, combined with the divestment of certain of its Retail assets, would allow the Group to continue to focus its capital allocation on its core Distribution business in alignment with its strategic goals.

Toyota intends to use the business as a platform to grow its mobility services business in the UK market. The Board therefore took confidence that the interests of its employees would be safeguarded and that the acquisition by Toyota would lead to enhanced growth opportunities for them. In reaching its decision, the Board had particular regard to maintenance of the accrued and future pensions benefits of its transferring employees.

Following the disposal, our UK Retail business will continue as a business partner to the Toyota Fleet Solutions business and this will help to further cement the relationship between the Group and one of its key OEM partners.

SEE PAGE 5 FOR FURTHER DETAILS

**Key decision**

## Acquisition of Autolider

In November 2019, the Group acquired Autolider, a distributor of Daimler passenger and commercial vehicle brands in Uruguay and Ecuador. The acquisition adds two new markets to the Group's Latin America businesses and represents its first Distribution contract with Daimler brands.

In reaching its decision, the Board considered that the acquisition is consistent with its long-term strategic goals of investing to grow and becoming the OEM partner of choice.

The Board took into account the interests of its strategic partner, Daimler, noting the desire of Daimler to consolidate its distribution network in Latin America. This acquisition, together with the announced acquisition of the Daimler passenger vehicle distribution business in Colombia, represents a significant milestone in progress towards that shared goal.

The Board also considered the country specific risks of entering these two new markets noting, in particular, risks relating to political instability and compliance with laws. The Board has taken steps to understand those risks and ensure that relevant controlling and mitigating actions are in place including the roll out of the Group's Code of Conduct and compliance programme.

When acquiring a new business, the impact on employees is a key priority during the Board's decision-making process. An on-boarding team is deployed to ensure that the integration of the business goes well and that transferring employees are quickly made to feel a part of the Inchcape Group. Being part of a large international organisation will give rise to development opportunities.

Finally, the Board noted that the Group's financial stability will give renewed confidence in the business to suppliers, to customers and to Daimler, thereby providing a platform for future growth.

SEE PAGE 5 FOR FURTHER DETAILS

# Roles of the Board

**Nigel Stein**
Chairman

Nigel Stein, as Chairman, is responsible for leading an effective Board, ensuring timely, accurate and relevant information is received by Board members, planning the composition of the Board and is Chair of the Nomination Committee.

The Chairman sets the Board's agenda and ensures that appropriate time is allocated to discuss each agenda item. He is also responsible for ensuring there is a culture of openness and debate and that constructive relationships exist between the Non-Executive Directors and Executive Directors.

Nigel Stein was considered independent upon appointment.

**Jerry Buhlmann**
Senior Independent Director

Jerry Buhlmann 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.

His role is to act as a sounding board for the Chairman and to serve as an intermediary to other members of the Board.

**Stefan Bomhard**
Group Chief Executive Officer

Stefan Bomhard, as Group Chief Executive Officer, 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.

## Non-Executive Directors

The Non-Executive Directors are appointed to offer a wide range of skills and experience which enable them to advise, support and constructively challenge management, to provide strategic guidance and independent judgement on the Board's discussions. Explanatory notes on their contribution to the business are given in the Notice of Meeting for the 2020 Annual General Meeting to accompany the resolution to re-appoint each Director. All Non-Executive Directors are considered independent in accordance with the UK Corporate Governance Code. None of the Directors or their connected persons have, or have had, a material relationship with the Company and its subsidiaries. Non-Executive Directors receive a fee only and do not participate in share award schemes or the pension scheme. There are no cross directorships. The Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office and at the AGM.

The Non-Executive Directors are required to allocate sufficient time to the Company to discharge their responsibilities and 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. The Board's policy on multi-board appointments requires Directors to obtain prior approval from the Nomination Committee and the Board before taking on another directorship.

The Non-Executive Directors met in 2019 without the presence of Nigel Stein 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 2019.

## Executive Directors

The Board understands that the Executive Directors can gain valuable business experience as a Non-Executive Director of another company. The Board's policy is to limit Non-Executive Directorships within a FTSE 100 company to one appointment only. The policy requires Directors to obtain prior approval from the Nomination Committee and the Board before taking on another directorship. Stefan Bomhard is also a Non-Executive Director of Compass Group PLC. Details of the fees paid to him are given on page 97 of the Directors' Report on Remuneration.

The Group Company Secretary supports the Board by providing advice, including access to independent advice, and ensuring that the Board has the appropriate policies, information, time and resources in order the function effectively.

# Nomination Committee report



**Nigel Stein**
Chair of Nominations Committee

## Dear Shareholder

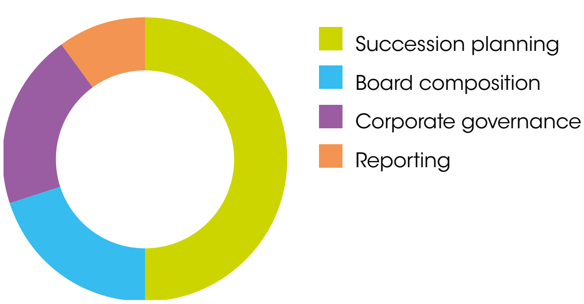
**I am pleased to present the report of the Nomination Committee for the year ended 31 December 2019.**

### Committee members and attendance at meetings

| | Scheduled / attended |
|---|---|
| Nigel Stein | 2/2 |
| Jerry Buhlmann | 2/2 |
| Rachel Empey | 2/2 |
| Jane Kingston | 2/1 |
| John Langston | 2/1 |
| Till Vestring | 2/2 |

* Jane Kingston and John Langston were unable to attend one Committee meeting during the year due to prior commitments.

### Allocation of time spent




The Committee reviews its terms of reference annually. The terms can be found at www.inchcape.com

Board succession planning continues to be the main focus of the Committee as it is essential to ensuring that an experienced and capable board is in place to lead the Group. 2019 saw several changes with the departure of Nigel Northridge, Coline McConville and Richard Howes and the appointment of Gijsbert de Zoeten and Alex Jensen. In February 2020, Stefan Bomhard announced his resignation and the recruitment of a new CEO will be the key focus for the Committee.

Nigel Northridge served on the Board for over nine years and I would like to thank him for his valuable service during this time. As disclosed last year, Jerry Buhlmann became the Senior Independent Director following Nigel's departure. Coline McConville left the Board in July 2019. During her tenure, Coline successfully led the 2017 remuneration policy review which was overwhelmingly supported by shareholders. I am pleased that Jane Kingston became Remuneration Committee chair following Coline's departure and after serving 12 months as a member of the Remuneration Committee.

Further details of the appointment of Gijsbert de Zoeten and Alex Jensen are given on page 64.

The Committee spends time evaluating the composition of the Board, reviewing skills, experience and diversity to ensure that the appropriate Directors are appointed to lead the business. The review of our individual and collective attributes is paramount to this planning. As a Board we have agreed not to set specific diversity targets as we believe that all appointments should be made on merit and in the context of the skills and experience needed for the Board to be effective. However we aim to achieve the guidelines set out in both the Hampton-Alexander Review and the Parker Review and work with recruitment consultants to ensure that the Board is informed of the broadest possible range of candidates for consideration. Further details are given on page 66.

The Board carries out a formal evaluation each year and, in addition, I meet with each Director to discuss his or her performance. These meetings allow Board members to discuss any issues they might have and also to consider the contribution of individuals to the decision-making process. To accompany the resolution to re-appoint each Director at the Annual General Meeting we have given reasons why we believe each Director should be re-elected. The Notice of Meeting is available at www.inchcape.com/notice.

N M Stein

**Nigel Stein**
Chairman

| Focus for 2019 | What we achieved in 2019 | Priorities for 2020 |
|---|---|---|
| **Board succession planning** | Appointment of Chief Financial Officer<br><br>Recruitment process for Non-Executive Director | Appointment of Group Chief Executive Officer |
| **Governance** | Review of policy on multiple board appointments to avoid 'overboarding' | Consideration of the guidelines set out in the Parker Review |
| **Board composition** | Review of skills, experience and diversity to identify potential gaps in light of the Company's Ignite strategy | Review matrix following new appointments |
| **Committee evaluation** | The Committee evaluated its performance during the year | External evaluation in 2020 |

## Board composition and succession

The Board is comprised of five independent Non-Executive Directors and two Executive Directors, whose biographies are given on page 57. Non-Executive Directors are appointed for an initial three-year term with a further two three-year terms permitted subject to satisfactory performance. After each three-year period, the performance of the Director is reviewed by the Chairman and the Nomination Committee. Any further terms are put to the Board for approval. All appointments are subject to annual re-election at the AGM.

The succession planning process works around these timelines, planning ahead for departing Directors as they reach a tenure of nine years. There are always situations where a Director will leave the Company before they have completed a full nine years, and the Committee continually updates its list of potential candidates taking into account the Ignite strategy in the short, medium and long term, the business needs of the Group and Board's diversity policy. Should a situation arise when a Director departs unexpectedly, the recruitment can begin immediately. Till Vestring will complete this nine-year service during 2020, therefore succession planning is focused on appointing a new Non-Executive Director to fulfil the vacancy when he departs, in addition to the recruitment of a new CEO.

## Skills, experience and diversity

The review of skills, experience and diversity is carried out by the Committee annually by way of an assessment completed by the Board members. The 2019 review identified digital/technology as an area which could be further strengthened on the Board. Digital is a rapidly evolving area for the automotive industry and as such is a key consideration for succession planning.

The experience of the Board members covers a wide range of sectors and industries and in addition we also have several Board members from outside the traditional UK plc background and this diversity of thought adds to our decision making. However, we recognise that this is a constantly evolving environment and ensuring that we have the right mix of individuals to support and challenge management, to avoid group think and to make the right decisions to facilitate the long-term success of the Group remains paramount. This assessment assists with the search for suitable candidates and forms part of the recruitment process.

## Appointment process

The Lygon Group were appointed to assist with the search for Directors during the year. Lygon have worked with the Group for several years and are familiar with the current Board's skills set and the skills mix needed to support the future strategic direction. 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. The Lygon Group are a signatory to the Voluntary Code of Conduct for Executive Search Firms and do not have any other connection to the Company or any individual Director.

**Appointment of Chief Financial Officer**

The search for a new Chief Financial Officer commenced in May 2019. The Committee considered what attributes and skills would be needed to grow the global finance function as the Group delivers the Ignite strategy. Gijsbert de Zoeten was appointed in August 2019, and the Board believes his extensive operational experience will be invaluable in ensuring that the finance and control environment is able to support the Group as it moves towards a Distribution focused model and enters into new markets.

**Appointment of Senior Independent Director**

The Chairman led the recruitment process for the new Senior Independent Director and met with a broad range of candidates. The Committee believes that Jerry Buhlmann recent CEO and international board experience is an asset and he has the skills and capability to perform the role effectively. As Senior Independent Director, Jerry will provide invaluable support to both myself and other Board members in this role. He will also be responsible for holding annual meetings with Non-Executives, without the Chairman present, to appraise the Chairman's performance, and will be available as an alternative point of contact for investors.

**Appointment of Non-Executive Director**

As part of the ongoing Non-Executive Director succession planning process, the Committee spent time considering key skills which would complement the direction of the Ignite strategy over the longer term. Several candidates were considered to join the Board and during this process the potential candidates meet with both the Chairman and Chief Executive Officer, after which the preferred candidates met with the other Non-Executive Directors. The Committee discusses the merits of each individual which, in addition to the skills and experience required, will also include an assessment of personal attributes to ensure that they will be able to contribute effectively. After a successful recruitment process Alex Jensen was appointed in January 2020.

**Induction process**

### The Inchcape framework

The first step in the induction is making sure that the Director has all the information and support to enable them to carry out their duties. This includes Board processes, Group structures, strategy, Code of Conduct, other policies and procedures,and risk footprint.

### Meet key management / advisors

Meeting key management and advisors allows the Directors to gain a broader understanding of the day-to-day operations and head office functions such as legal, compliance, treasury, and finance.

### Visit the businesses

Visiting the businesses gives the Directors a unique opportunity to see the Ignite strategy in action, meet colleagues and seek their views on the business and to understand the culture of the Group.

**Gijsbert de Zoeten**

The initial induction schedule focused on Inchcape ways of working and provides an introduction to the Group's culture and values. The induction process for all new employees includes online training for the Code of Conduct within the first 30 days of joining.

Gijsbert also spent time with the Company Secretary to discuss the role of the Board and its Directors in a UK plc, including legal, governance and regulatory responsibilities.

The Chairman and Group Chief Executive also spent time with Gijsbert reviewing the Board agenda, the matters reserved for the Board, the short, medium and long-term strategic priorities and the risk and control environments.

Gijsbert has direct responsibility for the Finance, Internal Audit, Tax, Treasury, Procurement and Investor Relations functions. Individual meetings were held with the heads of each of these functions along with team meetings with the UK finance function, Internal Audit, legal and IT teams.

One on one meetings took place with each of the Executive Committee members to provide a deep dive into the operational aspects of the business, how the Ignite strategy is being implemented and to provide an overview of the unique challenges facing each business area and market.

Several meetings were also held with the Audit Committee chair, John Langston to enable Gijsbert to deepen his knowledge on both the relationship between the Audit Committee, management and the auditors and to also understand the views of the Committee on the Group's control and risk environment.

Key advisors included in the induction process are the Group's brokers, external auditors, and bankers.

Gijsbert met with the Company's key investors to gain an understanding of their view of the business and the external market generally.

Following the UK induction process, Gijsbert spent time in Africa, where we operate as the Distributor and Retailer for Toyota, Daihatsu, Komatsu and New Holland in Ethiopia and are the distributor for Jaguar Land Rover in Kenya; and Hong Kong and Singapore, where we are the exclusive Distributor for Toyota, Lexus, Land Rover, Jaguar, Daihatsu and Hino Trucks.

He also visited Colombia where we operate as Distributor and Retailer across a number of OEM partners; Costa Rica where we operate as a Distributor and exclusive Retailer for Suzuki, and Belgium and Greece, where we distribute Toyota and Lexus.

## DIVERSITY POLICY STATEMENT

The Committee recognises the benefits of having a diverse Board and sees this as an essential element in delivering the Group's strategic objectives. We value diversity of skills and industry experience as well as background, race, age, gender, educational and professional background as we believe this adds fresh perspectives which enrich our decision making and the aim of the policy is to reflect this ethos.

The Board's policy on diversity is a verbally agreed principles-based policy. It is clearly understood by our recruitment consultants and is taken into account when considering succession planning and external hires. The Board considers all aspects of diversity to be relevant and all Board appointments are made on merit and in the context of the skills and experience needed for the Board to be effective. The Board has not set specific targets, as it believes that all appointments should be made on merit and in the context of the skills and experience needed for the Board to be effective, however aims to achieve the recommendations set out in the Hampton-Alexander and Parker Reviews.

With the appointment of Alex Jensen in January 2020, the Board has 33% female representation on the Board as required under the Hampton-Alexander Review.

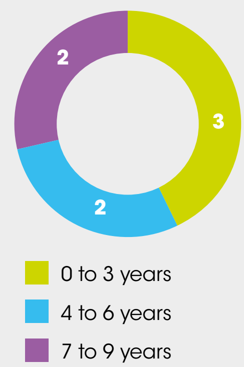
The Board philosophy on diversity is also reflected throughout Inchcape where we employ a diverse workforce across 33 countries. We value the unique contribution that each person brings to Inchcape and we aim to employ people who reflect the diverse nature of society, regardless of age, sex, disability, sexual orientation, race, colour, religion, ethnic origin and political belief.

The Committee's terms of reference can be found at www.inchcape.com/governance.

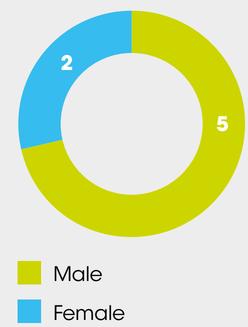
### Group Executive Committee and its direct reports:

| | Male | Female |
|---|---|---|
| Group Executive Committee | 8 | 1 |
| Direct reports | 47 | 22 |

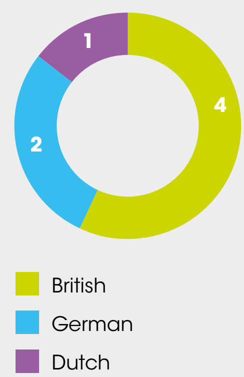
Length of service



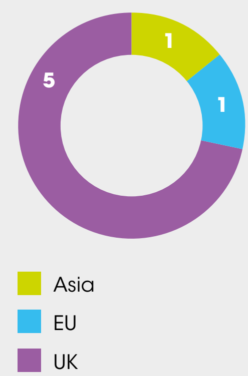

Gender




Nationality




Residence




### Board evaluation

An evaluation of the Board is carried out each year with an external review every third year. In 2019, the Board evaluation was an internal review which consisted of an online questionnaire. The review in 2020 will be an external review.

The questionnaire consisted of sections on Strategy, Board effectiveness, knowledge and contribution, Succession planning, Risk Management and the Committees. The Directors are invited to give further comment when answering the questions to provide further insight into the effectiveness of the Board. The results of the questionnaire are collated into a report which was discussed by the Board to agree actions for the coming year as set out in the table below.

The Board also considered the actions from the previous evaluation which it agreed had been addressed appropriately, with improvement in the talent development process for senior management and a more in-depth review of skills, experience and diversity carried out by the Nomination Committee during 2019. The Nomination Committee also updated its terms of reference following the evaluation to ensure that they are in line with best practice.

| Area of focus | Actions |
|---|---|
| **Board** | Consider opportunities for further management engagement |
| **Nomination Committee** | Greater focus on ethnic diversity at Board and senior management level |
| **Remuneration Committee** | Improved reporting on the wider reward landscape |
| **CSR Committee** | Improved stakeholder engagement programme and greater focus on ESG issues |

# Audit Committee report



**John Langston**
Chair of the Audit Committee

Dear Shareholder

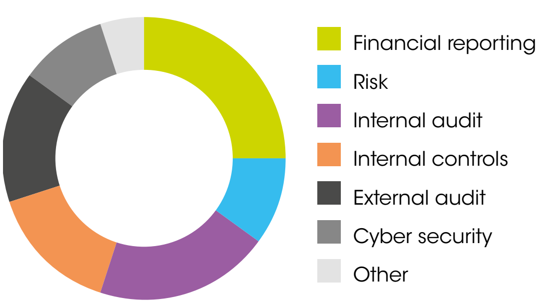
**I am pleased to present the report of the Audit Committee for the year ended 31 December 2019.**

## Committee members and attendance at meetings

| | Scheduled / attended |
|---|---|
| John Langston – Chair | 4/4 |
| Jerry Buhlmann* | 3/3 |
| Rachel Empey | 4/4 |
| Nigel Northridge* | 1/1 |

* Nigel Northridge retired, and Jerry Buhlmann joined the Committee on 23 May 2019.

## Allocation of time spent




I am pleased to welcome Gijsbert de Zoeten, who was appointed as the Chief Financial Officer in August 2019. Gijsbert brings a wealth of operational financial experience and will be key in improving controls and processes globally.

The Group has also appointed a new Head of Internal Audit, who joined in late 2019. Further information on Internal Audit is given on page 71.

The aim of the report is to provide an overview of how the Committee has discharged its responsibilities during the year, and to highlight the significant issues considered by the Committee. The Committee considers also whether the Annual Report and Accounts, when taken as a whole, is considered fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy. Further details can be found on pages 2 to 52.

The viability statement is given on page 52. The Committee considered the length of time used to assess the Company's viability and is of the view that three years remains appropriate given the nature of the business.

**Financial Reporting Council ("FRC") letter**
In 2019, we received a letter from the Conduct Committee of the FRC following a review of the goodwill disclosure in last year's Annual Report and Accounts. The FRC stated it would be incorporating some of our goodwill impairment disclosures, as examples of better disclosures, in their thematic review of companies' disclosures of non-financial assets which was published in October 2019, however they requested further clarification on:

- The allocation of intangible assets with indefinite useful lives (distribution agreements) to cash generating units;
- The measurement basis used to determine the recoverable amount of cash generating units containing goodwill; and
- The key assumptions used and associated sensitivities.

The Company responded to the FRC, providing full explanations in respect of the matters and, where appropriate, indicated that we would clarify the disclosures in this year's Annual Report and Accounts. Further details are given in the financial statements on page 112 to 187.

**Audit Quality Review**
The FRC's Audit Quality Review team carried out a review of Deloitte LLP's audit of the financial statements for the year ended 31 December 2018. The AQR review team sent their findings to the Committee in December 2019 and I am pleased to report that their assessment of the audit was good with only limited improvements required.

The review covered:

- How work was scoped, instructions to, involvement with and evaluation of component auditors and their work and how issues reported were followed up and resolved;
- How Deloitte dealt with certain aspects of ethics, independence, quality control and completion relevant to the audit;
- Communication with the Audit Committee;
- Group auditor's involvement in goodwill impairment, pensions and acquisition accounting and at UK level revenue recognition and inventory.

These reports are a key source of external evidence for the Committee when assessing audit quality and effectiveness. The Committee discussed the issues raised with the auditor at the meeting.

J.Langston.

**John Langston**
Chair of the Audit Committee

The Audit Committee consists of three independent Non-Executive Directors. John Langston and Rachel Empey 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 Officer, Chief Financial Officer, Group Financial Controller and Group Head of Internal Audit attend the Committee meetings along with the external auditor. Other senior executives, such as the Group Tax Director and Group General Counsel, attend during the year to present to the Committee.

The Committee regularly meets with the auditor without the presence of management to discuss any areas of concern they might have. John Langston also meets with the Chief Financial Officer and Head of Internal Audit at one-to-one meetings which enable him to fully understand the key issues ahead of Committee meetings.

The Committee reviews its terms of reference annually. The terms can be found on www.inchcape.com.

| Our 2019 objectives | What we achieved | Priorities for 2020 |
|---|---|---|
| **Annual Report and Accounts including financial statements and accounting judgements** | The Committee considered all key audit issues, accounting treatment and judgements in relation to the financial statements. This includes challenging management on the assumptions used and the judgements that have been applied, with assurances given from both external and internal sources.<br>The information supplied allows the Committee to assess key disclosures to ensure adequacy, clarity and completeness. The Committee carried out an assessment of whether the Annual Report and Accounts were fair, balanced and understandable. See page 70 for further details.<br>Key disclosures include the viability statement on page 52, going concern, which can be found on page 102, and goodwill, which can be found on page 146. | Review of key assumptions used by management on key accounting standards |
| **Deloitte independence and objectivity** | The Committee considered the report from the auditor in relation to the financial statements and the 2018 Annual Report and Accounts as a whole and assessed the auditor's approach to, and findings in relation to the audit to assess independence and objectivity. | Continuous assessment of audit quality and effectiveness |
| **Deloitte 2019 audit plan** | Committee discussed the audit plan and agreed materiality, scope and fees. | Review of the effectiveness of the external audit |
| **Internal Audit Report** | The Committee reviewed and monitored:<br>– progress against the 2019 plan throughout the year;<br>– the status of open audit issues;<br>– any internal control failings; and<br>– the appropriateness of mitigation actions put in place by management.<br>The Committee also reconfirmed the Internal Audit Strategy and the Internal Audit Charter and approved the 2020 Internal Audit Plan. | Monitor progress against 2020 plan, resolving open issues and improvement plans in relation to identified internal control gaps |
| **Risk Management Report** | The Committee consider the risk management environment, major whistleblowing reports and any mitigating plans implemented by management throughout the year. Progress against plans is monitored closely and management are challenged appropriately on areas where a satisfactory outcome is not evident. Further details can be found on pages 39 to 52. | Monitoring of whistleblowing cases and actions implemented to resolve issues |
| **Non-Audit Services Policy and review of non-audit services** | The Committee reviewed the non-audit services supplied by the external auditor to ensure that they are in line with the Group's Non-Audit Services Policy and best practice guidelines. Further details can be found on page 73. | Review of non-audit services supplied<br>Application of the Non-Audit Services Policy |
| **Tax update and litigation update** | The Committee reviewed the Group's tax costs, tax risks, efficiency and effectiveness of tax policies along with updates on tax audits. It also reviewed any significant litigation issues. | Monitor the tax strategies within markets and at Group level<br>Monitor the level, frequency and type of litigation within the Group |
| **Cyber security** | The Committee received updates on cyber security during the year in which they discussed principal cyber risks to the Group, the regional cyber security projects implemented during the year, common cyber security incidents, the Group's cyber incident response plans, business continuity and incident management and the results of cyber security testing. | A review of the Group's cyber security risks, mitigation plans, and incidents will be carried out annually |
| **Committee evaluation** | The Committee carried out an evaluation of its performance during the year. | External evaluation in 2020 |

## Significant issues

### Goodwill impairment

Goodwill and other indefinite life intangible assets are allocated to groups of cash generating units (CGU groups). In 2018, the Group recognised a goodwill impairment charge of £175m in respect of the UK Retail CGU group following a reassessment of short and medium-term forecasts in the light of a decline in the New car market and an elevated level of pre-registration activity which resulted in pressure on New and Used margins. The challenging trading conditions in the UK continued in 2019 and management have provided the Committee with detailed reports outlining the assessment made in relation to UK Retail goodwill, goodwill attributable to CGU groups and indefinite life intangible assets. These assessments included the valuation methodology used, the key drivers of cash flow forecasts and the basis for the key assumptions used.

The Committee has challenged management on the forecasts and assumptions used and considered the sensitivity of the impairment assessments to changes in the forecasts and assumptions. The Committee has also reviewed the disclosures in the financial statements to ensure that they were appropriate.

After considering all the available information, and making any additional enquiries relating to the issues, and reviewing the findings and supporting evidence of the Group's auditor, Deloitte, the Committee concluded the application of the accounting principles to be appropriate.

Further information can be found in note 11 on page 146

### Adoption of new accounting standards: IFRS 16 Leases

The Group adopted IFRS 16, Leases, with effect from 1 January 2019 on a fully retrospective basis. As in 2018, a significant amount of management and Committee time was spent during the year considering the adoption of the new standard. Management conducted a thorough review of lease arrangements across the Group against the requirements of the new standard during 2018 and 2019 in preparation for the adoption of the new standard. As part of this review, management was required to exercise judgement in relation to the discount rates to be used, lease extension options, whether certain contractual arrangements contained a lease and the classification of sub-leases. The Committee received regular updates from management outlining the impact of the new accounting standard, including the judgements and key assumptions used in determining the impact on the Group's balance sheet at adoption.

Management's processes, assumptions and calculations have also been subject to separate challenge by the Group's auditor, Deloitte.

After considering all the available information, and making any additional enquiries relating to the issues, and reviewing Deloitte's assessment of management's approach, the Committee concluded the application of the accounting principles and the adoption of the new accounting standard to be appropriate.

Further information can be found in note 33 on page 175.

### Financial statements presentation

The Committee gave consideration to the presentation of the financial statements and, in particular, the presentation of certain matters as exceptional items in accordance with the Group accounting policy. This policy states that certain items are presented as exceptional items within their relevant consolidated income statement category in order to provide additional useful information regarding the Group's underlying business performance. In 2019, management have reported exceptional items in relation to the disposal of businesses, the consequent costs of restructuring operations and associated impairments, and costs associated with acquiring and integrating new businesses.

The Committee received detailed reports from management outlining the judgements applied in relation to the disclosure of exceptional items. This was an area of focus for the Committee which was cognisant of the need to ensure that the classification and disclosure was appropriate given the significance of the aggregate value (£78m) and the relevant guidelines on the use of alternative performance measures.

After considering all the available information, and disclosure of the matters reported as exceptional items, the Committee concluded the judgements to be appropriate.

Further information can be found in note 2 on page 133.

### Acquisition accounting

The Group has established a process for acquisition accounting which incorporates the identification of the fair values of the assets acquired and liabilities assumed, including separate identification of intangible assets using external valuation specialists where required, and the allocation of acquired businesses to CGU groups for the purpose of testing goodwill and other indefinite life assets for impairment. During the year, the Committee received reports from management on the accounting for the BMW business in Lithuania acquired in January 2019 and the Daimler businesses in Uruguay and Ecuador acquired in December 2019. The Committee reviewed the reports and discussed with management the judgements made in relation to the identification of acquired intangible assets, the methodology and assumptions used to fair value the assets and liabilities and the allocation of acquired businesses to CGU groups for the acquisitions completed in 2019.

The Committee concluded that it was satisfied with management's valuations of these assets and liabilities, including the degree to which such valuations are supported by professional advice from external advisors, and that the acquisitions had been accounted for appropriately in line with the principles set out in IFRS 3, Business Combinations.
Further information can be found in note 29 on pages 171 to 172.

### Disposal accounting and disposal groups held for sale

During the year the Group disposed of several retail sites in the UK, China and Australia. It also disposed of its fleet business, Inchcape Fleet Solutions, in the UK. The Committee received reports from management outlining the accounting for the disposals and the judgements applied in relation to the classification and measurement of disposal groups held for sale at the end of the year. The Committee noted that the classification and measurement of disposal groups held for sale in accordance with IFRS 5, Non-current assets held for sale and discontinued operations, required a degree of judgement.

After considering all the available information, and making any additional enquiries relating to the issues to management and Deloitte, the Committee concluded the application of the accounting principles to be appropriate.

Further information can be found in the notes to the accounts on page 155.

### Financial reporting

The role of the Committee in relation to financial reporting is to review with both management and the external auditor the appropriateness of the half year and annual financial statements taking into account:

- The quality and acceptability of accounting policies and practices;
- Material areas in which significant judgements have been applied or where significant issues have been discussed with the external auditor;
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including the Code;
- Any correspondence from regulators in relation to the Group's financial reporting; and
- Reviewing assumptions and providing assurance to support the long-term viability statement.

### Fair, balanced and understandable

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects in the Annual Report and Accounts, the interim financial statements and the trading updates. The Board considers the weight given to published information to ensure that it is of equal weight and there are no omissions. The Board also ensures that narrative reporting is consistent with the financial statements.

The Audit Committee also carries out its own assessment of the financial statements, and the Annual Report as a whole, and is satisfied that it provides the necessary information for shareholders. The Committee considered whether the information given in the financial statements is a true reflection of the narrative reporting throughout the Annual Report and Accounts, whether the key performance indicators give a true indication of the health of the business and if the issues considered of significant risk by both the external auditor and the Committee are aligned.

The processes and procedures in place to satisfy the Board of the integrity of the financial and narrative statements include a robust disclosure verification process, monthly financial performance updates, and meetings with the internal and external audit functions without the presence of management.

A statement of the Directors' responsibilities is set out on pages 101 to 102. The going concern statement is set out on page 102 and the strategy and business model are set out on pages 7 to 22.

## Risk management

The Board carries out a robust assessment of principal and emerging risks, which include those that would threaten the business model, future performance, solvency and liquidity, and is responsible for reviewing and agreeing the Group's principal risks and for considering its risk appetite in relation to those risks. Each risk is considered in the context of the Ignite strategy with a focus on:

- The description of the risk;
- The current risk footprint showing gross risk, net risk and the target position;
- Background information that underpins the risk;
- Key mitigation actions; and
- The risk appetite statement for each of the risks.

The Audit Committee has delegated responsibility for ensuring that:

- There is an appropriate mechanism in place to identify the risks the Group faces;
- Management teams have the correct focus on those risks and the action plans in place to mitigate or respond to those risks;
- A compliance programme is in place in all markets 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 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 Audit Committee considers the risk management framework, any internal control issues which have arisen and all whistleblowing reports, and the mitigating actions, at each meeting. The reports provided to the Committee give an insight into the culture within the organisation and allow the Committee to assess progress against and effectiveness of any mitigation plans implemented by management.

Further information on risk management and the Group's principal risks can be found in the Risk Management Report on pages 39 to 52.

## Internal control

Our internal control framework encompasses all controls, including those relating to financial reporting processes, preparation of consolidated Group accounts, operational and compliance controls, and risk management processes. At the heart of our control environment is our Minimum Control Framework ("MCF"), covering not just financial, but operational and IT processes. The MCF has been rolled out globally across the organisation and has been designed to enable management to establish, assess and enhance strong and consistent risk and control governance. The framework is regularly reviewed and updated in line with emerging Group risks, in response to emerging internal audit issues and also following any investigation activity. The central and regional Internal Controls team support the business by providing the framework, tools and training and ongoing support to embed the MCF across the business which in turn enables management to monitor the effectiveness of controls in the business and to implement actions plans where improvement is required.

The main elements of the internal control framework are:

- Group policies, standards and structures that provide the basis for carrying out internal control across the organisation supported by Inchcape's Code of Conduct and training. Oversight from the Board and regular review and monitoring of compliance.
- The Group's Minimum Control Framework, supporting review by policies and procedures. Business units self-assess against the MCF annually and remediate and control gaps. Compliance is independently assessed during the internal and external audit process.
- The Group's Delegated Authority policy in addition to market specific delegated authority policies.
- Clear regional, functional and market accountability for establishing effective financial controls and for keeping them under continuous review to ensure they remain effective.
- Group Internal Control function responsible for continuous development of the internal control framework including automation, development of standards and policies, training and reviewing implementation efforts across the Group.
- Comprehensive and regularly reviewed Policy and Procedure Framework including Group Tax and Treasury.
- Risk management policies and procedures in place to identify potential events that may affect the organisation, manage the associated risks and opportunities and provide reasonable assurance that our Company's objectives will be achieved.
- Independent whistleblowing line 'Speak Up!', with supporting governance and investigations as appropriate.

The Audit Committee assesses the effectiveness of the internal control and risk management systems throughout the year by receiving regular reports from the Head of Internal Audit, the Head of Corporate Assurance and the external auditor, in addition to reports from the General Counsel and the Group Tax Director. The information provided gives details on any control gaps or significant risk areas and the mitigation plans in place to address the issues. The Committee monitors the progress against plans and challenges management if it believes the issues are not being addressed appropriately.

The reports are available to all Board members to allow them to keep informed, and other Board members are also able to attend any Committee meetings should they wish. However, the Audit Committee also provides an update on the control and risk environment to the full Board following each Committee meeting.

The risk management and internal controls processes are 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 misstatement 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 confirms that these systems were in place during 2019 and up to the date of this report.

The Directors are satisfied that the Group's risk management and internal control systems accord with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

## Whistleblowing

Speak Up!, the Group's externally hosted whistleblowing line, 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. The Head of Corporate Assurance reports to the Committee at each meeting on fraud and whistleblowing claims that have been received since the last Audit Committee meeting, and significant currently open issues. The new and open cases which are reported to the Committee are those of sufficient significance to warrant attention, however a list of all reports is also provided to the Committee along with a breakdown by market, report type and source.

The Audit Committee chair reports to the Board on any significant issues following each meeting. All Directors have full access to the whistleblowing reports and other Audit Committee papers.

## Internal Audit

The aim of the Internal Audit function is to provide independent and objective risk based assurance for the Group by bringing a systematic and disciplined approach to evaluate the effectiveness of risk management, governance and control. An annual programme of audit activity is approved by the Audit Committee; this is flexed if required throughout the year in accordance with the risk profile of the organisation and any subsequent amendments are discussed in detail and agreed by the Committee.

The function carries out audits across a selection of Group businesses, functions and programmes which include the management of risks and controls over financial, operational, IT and other compliance areas such as GDPR and anti-bribery and corruption. 2019 has seen strengthening of the audit function following introduction of the Regional Audit Model in 2018 and a refreshed methodology. In addition a new Group Head of Internal Audit joined the Group in December 2019.

The Internal Audit function, led by the Group Head of Internal Audit, consists of appropriately qualified and experienced employees with an in-depth understanding of the business culture, systems, and processes. The Group Head of Internal Audit reports to the Audit Committee and has direct access to, and has regular meetings with, the Audit and Committee Chair, preparing formal reports for Audit Committee meetings on the activities and key findings of the function and progress against mitigation plans. The purpose, authority and responsibility of Internal Audit are defined in the Internal Audit Charter, which the Committee reviews annually.

During the year the Internal Audit function carried out 70 audits which included a Group review of anti money laundering, data privacy audits in Central Europe, Asia and Australia and sales processes audits across South America. The team also carried out a number of IT general controls reviews across the Group. Key issues noted in the period include the need to better retain supporting information for key transactions and to further improve control compliance across a number of our smaller and newly acquired businesses.

In addition to undertaking a full programme of audit the function also provided a number of advisory engagements (where risk and control systems and processes have recently been introduced) and participated in investigation activities where appropriate.

**Internal Audit effectiveness review**
The Audit Committee agreed that a review of the effectiveness of the Internal Audit function should take place in 2019, which was carried out by the Company Secretary.

At present Internal Audit effectiveness is self-assessed as follows:

- results of customer feedback from satisfaction surveys sent at the end of each audit;
- self-evaluation of compliance against the Global Internal Audit Methodology; and
- the Audit Committee's regular monitoring process.

The internal effectiveness review carried out in 2019 consisted of a series of face-to-face and telephone interviews, an online questionnaire and a review of Internal Audit documents and processes including Audit Committee reports, IA methodology, the IA charter, the IA strategy, audit reports covering operational, compliance and risk based audits and feedback from the businesses. Key stakeholders who participated in the review included the Head of Internal Audit, Chief Financial Officer, Audit Committee Chair, IA team members, external auditor team members, regional Finance Directors and functional department heads.

The results of the review were presented to the Audit Committee and the findings discussed with management. Overall, the Internal Audit team is considered independent and objective and has a professional approach. It is considered to be an evolving function which has improved significantly over the last 18 months.

The Audit Committee agreed that an independent external review will be carried out once the new Head of Internal Audit has settled into her role.

## External audit

Following an audit tender process during 2017, Deloitte LLP was appointed as the Group's auditor. Deloitte assumed responsibilities from PwC in May 2018 following shareholder support for the appointment at the Annual General Meeting. Anna Marks is the lead audit partner and has been in position since the appointment of Deloitte LLP.

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

**Auditor effectiveness, independence and objectivity**
Ensuring that the external auditor provides a high quality audit is a key activity of the Audit Committee as a high quality audit provides stakeholders with assurance that the financial statements give a true and fair view. The Committee carries out its assessment on an ongoing basis by considering its interactions with the auditor, its observations of the auditor and the relationship between the Audit Committee, the auditor and management.

The Committee encourages a culture of open communication and debate and the Committee believes that it is able to ask questions on key issues and to challenge when it feels more information is needed. The Committee also looks at how management responds to requests from the auditor and carefully reviews the auditor's findings and recommendations. When the auditor supports management's approach, the Committee considers the evidence supplied by the auditor to support its decision to ensure that the auditor is not compromised and remains objective.

The auditor also meets with the Committee without the presence of management on a regular basis, usually following each meeting. This gives the auditor an opportunity to confirm its view that management are addressing any issues raised appropriately or to raise any concerns they may have.

External evidence of the quality of the audit is also vital in assisting the Committee in its review of the effectiveness of the audit. In December 2019, the FRC's Audit Quality Review team carried out a review of the audit of the financial statements for the year ended 31 December 2018, which concluded that the audit quality was good with only limited improvements required.

When evaluating the external audit the Committee considers:

- Mindset and culture – the ethical and professional principles adhered to by the auditor; whether the auditor has any personal or commercial interests in the Group; and how they have demonstrated high standards of independence, integrity and objectivity throughout the year.
- Skills, character and knowledge – the auditing skills of the audit team; level of knowledge of the automotive distribution and retail industry possessed by the audit team; the auditor's understanding of its obligations to users of the financial statements; and ability to challenge where appropriate whilst maintaining strong relationships
- Quality control – the processes the auditor has in place to identify and address risks to the audit.

The above attributes support the auditor in making reliable and objective judgements and the Committee continually seeks to assure itself that they are in place.

The auditors' report to the Committee sets out the audit plan, materiality, scoping, the risk assessment process, significant risks, other areas of focus, the purpose of the report and responsibility statement. The Committee reviews at each stage of the audit to ensure that it is satisfied that the audit plan is appropriate, if the auditor is meeting its obligations, and to agree any changes to the audit if they arise.

Deloitte continually monitor their independence and ensure that appropriate safeguards are in place including but not limited to the rotation of senior partners and staff and the involvement of other partners and staff to carry out reviews of the work performed and to otherwise advise if necessary.

After considering all of the above elements, the conclusion of the Committee is that the auditor carried out their audit effectively and that the auditor is independent and objective.

## Non-audit services

Implementing a Non-Audit Services Policy (the "Policy") is also key to ensuring the independence of the external auditor. The Policy for non-audit services sets out the permitted and non-permitted non-audit services as well as the approval levels required by the Audit Committee and 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 Group's Policy on non-audit services to be provided by the Group's auditor defines two types of non-audit services that may be performed:

- Statutory and audit related services, which are services undertaken as auditor or reporting accountant which are outside the scope of the statutory audit but which are consistent with the role of statutory auditor; and
- Permitted non-audit services, which are services that the auditor may be permitted to undertake subject to the appropriate level of approval.

The aggregate fees incurred for permitted non-audit services relative to the audit fee should not exceed 70% of the average audit fee over the previous three years, with such cap applicable to both Group and UK audit fees.

The provision of permitted non-audit services will only be approved by the Audit Committee if:

- Engagement of the auditor to provide the services does not impair the independence or objectivity of the external auditor;
- The skills and experience of the external auditor make it the most suitable supplier of the non-audit service;
- The auditor does not have a conflict of interest due to a relationship with another entity; and
- The aggregate fees incurred for permitted non-audit services relative to the audit fee do not exceed 70% of the average audit fee over the previous three years.

Permitted non-audit services above a certain level are approved on a case-by-case basis by the Audit Committee.

In 2019, the fees for permitted non-audit services largely relate to dealer benchmarking services provided by Deloitte in Australia and the Group remains within the Audit Committee approved ratio of audit to non-audit fees.

The following non-audit fees incurred with Deloitte were:

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Permitted non-audit services | **171** | 355 |

The ratio for audit/non-audit work for the year ended 31 December 2019 is 0.05:1. Full details are shown in note 3d of the notes to the financial statements.

## Audit Fees paid to the Auditor

Fees paid for services provided by Deloitte (three year average) were:

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Audit fees | **3,149** | 2,817 |
| Audit-related fees | **121** | 101 |

# CSR Committee report


## Dear Shareholder

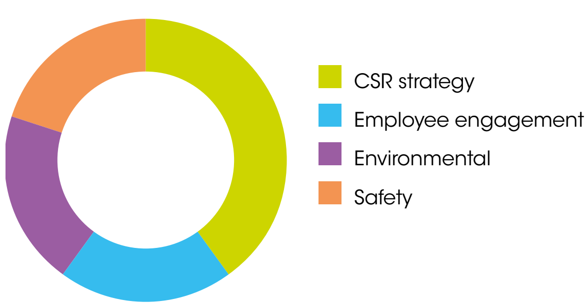
**I am pleased to present the report of the CSR Committee for the year ended 31 December 2019.**

### Committee members and attendance at meetings

| | Scheduled / attended |
|---|---|
| Till Vestring | 2/2 |
| Jerry Buhlmann | 2/2 |
| Stefan Bomhard | 2/2 |
| Alison Clarke | 2/2 |
| Coline McConville* | 1/1 |
| Nigel Stein | 2/2 |

* Coline McConville left on 23 July 2019.

### Allocation of time spent




During the year the Committee considered the progress being made on the Group's CSR agenda which, for the last few years, has focused on people, health & safety and the environment.

When looking at CSR in the context of our people, we have agreed an ambitious people agenda and are moving forward on diversity & inclusion. We have also considered how our employee policies and practices support an inclusive culture, whether our learning culture supports our people to optimise their performance in their role and to realise their potential and whether our social culture empowers our people and communities to collaborate, share and work together.

The health & safety agenda has progressed well with the appointment of a Group HSE Director and we are on track to achieve our goal of achieving zero safety incidents. The Group HSE Director visited all of the Group's markets in 2019, carrying out 450 health & safety audits globally. The Group now has a clear understanding of the health & safety environment globally and the HSE Director will present his findings to the Board during 2020. The creation of a pan-market Group HSE Community of Practice supports the Group's commitment to health & safety. This allows the markets to build a consistent approach through shared best practice and leveraged scale. The primary function of the HSE Community of Practice is to develop a single direction for Inchcape's health & safety culture across all our businesses.

We have also strengthened our $CO_2$ data collection processes to ensure that our greenhouse gas emissions data is robust. Further details are given in the Directors' Report on page 100. We are committed to making continuous improvement in our emissions however we are also considering whether, in light of our broad regional spread, adopting a more 'science-based' target would be appropriate. We are still working closely with the Carbon Trust to improve in this area and are focused on delivering effective energy management in all our sites.

In addition to monitoring our energy and emissions we have also participated in the CDP (previously the Carbon Disclosure Project) for the last two years after receiving feedback from investors and customers who are encouraging their stakeholders to engage as climate related issues rise in importance for everyone. We will continue to participate annually and will endeavour to manage our impact on the environment effectively. Our score remained the same in 2019, however there was an improvement in our climate-related risk assessment analysis which will continue to be a focus for 2020.

We also discussed ESG factors which we agreed would be a focus for 2020 as this is a growing area of interest for investors. We also added articulation on climate change impact to our principal risks. See page 43 for further details.

## 2018 Corporate Governance Code

As reported last year, and in accordance with the Code, I have assumed the role as the designated director for workforce engagement. During 2019, the Committee considered how to approach this requirement to ensure that it is productive for both the Board and for colleagues. The Committee agreed the following processes:

- Dedicated 'director-only' town hall meetings to listen to the views of the workforce – this is the opportunity for colleagues to discuss the results of their region's engagement scores without the presence of management. It is an important opportunity to ascertain whether the results presented to the Board are reflective of the thoughts and attitudes of the workforce and to discuss any action plans put in place by management and whether these are having the desired impact.
- Oversight of the 'people dashboard' to monitor progress against KPIs – the dashboard was introduced during 2019 and will provide valuable data on metrics which give a clear indication on engagement, inclusion and culture.
- Bi-annual analysis of the Employee Experience Consultation – see below for further details. Significant employee-related reports to Speak Up! – whistleblowing reports can often be an indicator of the culture within an organisation. By receiving regular updates and monitoring the outcome of any investigations, we can report to the Board on any issues of concern.
- Monitoring management's action plans to address workforce concerns – once action plans are in place it is important to measure progress against objectives to ensure that changes are being made. The Committee's oversight will ensure that management are held to account.

**Employee Experience Consultation**

The consultation was rolled out across the Group during the latter half of 2018 and 2019. Over 13,500 colleagues completed the survey showing a good level of engagement throughout the business especially during a year of change for some regions with new acquisitions being incorporated into the Group and several disposals in certain markets.

In addition, the first consultation for the senior leader population was completed in 2019. This consultation went into greater depth on how well the management teams understand and agree with the Ignite strategy and the direction the Group is taking. The survey focused on three key areas:

- Organisation: the business as a whole, what Inchcape means to people, how they experience change and the big strategic drivers
- Leadership: how people experience the way in which the business and regions are managed, what they understand by 'leaders'
- Individual: our people's responses to their roles, relationships with their managers and how they are rewarded and developed

The outcomes from the survey were discussed by the Committee which considered the strengths and weaknesses identified and management's plans for turning the insights into action. The Board receives an update following each meeting.

The results of the consultation also give an indication of the culture within the organisation and the metrics given on page 33 of the CSR Report give an indication of the level of employee satisfaction. The Committee will monitor the employee performance metrics at each meeting and will be able to develop a clear understanding of the people culture within the business.

While much remains to be done, I am excited by the level of engagement and commitment amongst the Group Executive Committee and our employees around the world.

**Till Vesting**
Chair of the CSR Committee

| Focus for 2019 | Progress made | Priorities for 2020 |
|---|---|---|
| **CSR strategy** | Review of three core pillars<br>– People - review of the Group's culture including diversity & inclusion statement, global strategy to create continuous learning and growth and an overview of the Employee Experience Consultation<br>– H&S - review of the health & safety strategy and functional capabilities<br>– Emissions and sustainability - discussion on target setting and participation in CDP | Designated director / workforce engagement programme rolled out<br>A review of ESG issues and engagement programme |
| **Modern Slavery Statement** | Review of progress against previous year and approval of 2019 statement | Review of progress and action plans to improve disclosure |
| **Employee Engagement Consultation** | Review of data gathered during consultation process, insights gained and strategy to improve engagement | Review of progress against plans and monitor relevant KPIs |
| **Committee evaluation** | The Committee carried out an evaluation of its performance. See page 66 for further details | External evaluation in 2020 |

# Directors' Report on Remuneration

**Jane Kingston**
Chair of the Remuneration Committee

## Dear Shareholder

**On behalf of the Board, I am pleased to present the Directors' Report on Remuneration ("DRR") for the year ended 31 December 2019, my first year as the Chair of the Remuneration Committee of Inchcape.**

### Membership

| | Number of meetings held / attendance | Ad hoc meetings held / attendance |
|---|---|---|
| Jane Kingston | 2/2 | 2/2 |
| Jerry Buhlmann | 2/2 | 2/2 |
| Nigel Stein | 2/2 | 2/2 |
| Till Vestring | 2/2 | 2/2 |
| Coline McConville* | 1/1 | – |
| Nigel Northridge* | 1/1 | – |

* Coline McConville and Nigel Northridge left Inchcape and the Committee on 23 July and 23 May respectively.

### Allocation of time


It has been a busy year for the Committee with important management changes to execute in addition to updating the remuneration policy and the implementation of 2018 Code requirements.

### Director changes and business performance

2019 and the start of 2020 has been a period of change for the Group with Gijsbert de Zoeten joining as our new Chief Financial Officer ("CFO") in August 2019 and the recent announcement that Stefan Bomhard will be departing as Chief Executive Officer ("CEO").

The global automotive industry is also undergoing a period of significant change and against this challenging backdrop we are pleased with the Group's financial performance, reliably delivering results that are in line with expectations. The Group delivered sales of £9.4bn, operating profit before exceptional items of £373.1m, EPS of 59.9p (adjusted) and ROCE of 22%. Furthermore, we are delighted with the significant strategic progress which has been made through the implementation of the Ignite strategy, and the focus on our Distribution business.

### Resulting performance outcomes

Inchcape's performance resulted in 40% of the 2017 performance share plan ("PSP") and the 2017 co-investment plan ("CIP") vesting for Stefan Bomhard and a 2019 annual bonus payment of 23.7% of salary for Gijsbert de Zoeten. The Committee considered the salary increase for Gijsbert de Zoeten effective from 1 April 2020 and approved an increase of 3% of salary which is in line with the average increase across the Group. Stefan Bomhard was not eligible to receive a 2019 bonus or a 2020 salary increase given his resignation.

The Committee is satisfied that the total remuneration received by Executive Directors in 2019 appropriately reflects the Company's performance over the year, is in line with policy and is consistent with the approach taken for other employees. The Committee is also satisfied that the approach to setting remuneration underpins the effective and proper management of risk by rewarding fairly for sustainable profit growth and long-term returns for shareholders. The Committee did not exercise any discretion on reward outcomes for 2019.

### Proposed revisions to the remuneration policy (the "Policy")

The Committee reviewed the Group's current remuneration policy, approved at the 2017 AGM, and its implementation. The review covered all aspects of the current arrangements to ensure it (i) remains fit-for-purpose, (ii) reinforces the business strategy, (iii) enables the motivation, retention and attraction of talent, and (iv) aligns executives' and shareholders' interests.

During the review, the Committee also considered recent developments in market practice, the applicability of alternative long-term incentive arrangements, and the range of performance measures available to Inchcape. Our review also took into account the latest developments in remuneration governance and investor expectations.

Our conclusion from the review is that the current policy is broadly working well, and therefore we are not proposing to make any significant revisions. However, we are proposing to update a few areas to help ensure the Policy, and its implementation, continue to accelerate our strategy and follow good remuneration and corporate governance practices. The proposed changes to the Policy include:

- Limiting pension contributions for new Executive Directors to 10% of salary (the UK employee average).
- Introducing a post-exit shareholding requirement which will apply to PSP and CIP awards granted to Executive Directors after 1 January 2020. In reality, this will apply to all awards made to the CFO and will apply to all awards made to the new CEO once appointed.
- Given the significant market uncertainty, it became clear to the Committee that the importance of reaching critical short-term targets needed to be reinforced. The Committee considered market practice and concluded that increasing the bonus target opportunity from 40% to 50% of maximum achieved this objective, whilst remaining in line with FTSE market norms. No change will be made to the maximum opportunity which remains at 150% of salary for Executive Directors and targets will continue to be set to support annual business objectives. Upon approval, this change will be applied throughout the Group as appropriate.
- Expanding the circumstances in which malus and clawback provisions could be applied.
- Inclusion of discretion on the number of shares which vest under the PSP to ensure it is a fair reflection of the Group's underlying performance.

The Committee also reviewed whether to retain the CIP alongside the PSP. After much consideration the Committee concluded that the CIP continues to be highly valued by participants and encourages share ownership. The Committee strongly believes that the CIP is a critical tool to retain and motivate the management team. Therefore, the Committee proposes to maintain the CIP. It should be noted that the measures and targets between PSP and CIP will continue to be consistent, aiding simplicity and ensuring that the management team is focused on the same goals, whether they participate in the CIP or not.

The Committee also considered the operation of the Policy, in particular the measures and target ranges used for the PSP and CIP, and is proposing to make the following changes for awards made after January 2020:

- Incorporating a free cash flow measure
- Targets to be based on three-year average cash conversion and will account for up to 20% of the award (with the remaining 80% split equally between EPS and ROCE). The Committee concluded that a three-year cash conversion target was appropriate as it supports Inchcape's disciplined capital allocation policy. The cash conversion range for the 2020 awards is 55% to 70%. In line with the EPS and ROCE performance measures, 25% of this element of the award will vest for threshold performance with full vesting for exceptional performance.
- Use of a three-year cumulative EPS range.
- The Committee reviewed the existing EPS range and concluded that a cumulative EPS range would reward more effectively the maximisation of EPS performance for every year during the current difficult market climate. The proposed EPS range for 2020 awards is 169p to 191p and reflects over the next three years our current expectations of our global markets and disposals of some of our operations relative to 2019. Performance against targets will continue to be neutralised for share buybacks.
- ROCE will continue to be measured as a three-year average.
- The proposed ROCE range for 2020 awards is 16.5% to 20.5% which is the same range used for the 2019 and 2018 awards on an IFRS 16 basis.

The targets for all three measures will be reviewed annually ahead of every award cycle taking into account forecasted growth, broker forecasts and broader market expectations.

The Committee also reviewed the pension contributions for Executive Directors' recognising the need to lower pension contributions to closer align with that of the UK employee average. Following shareholder feedback, the Committee agreed with Stefan Bomhard that a reduction to 10% of salary over the course of the new Policy period was appropriate. Given his recent resignation, the Committee is proposing to maintain the glide path as if he were to remain in the role for the next three years; therefore, his pension contribution will be reduced by 6.7% to 23.3% of salary upon approval of the Policy and will be maintained at this level until his departure. His successor will have a pension contribution in line with the UK employee average of 10% of salary, which is considered the appropriate rate for any newly appointed Executive Director.

Further details on these changes, including rationale, can be found in the remuneration policy and in the annual report on remuneration.

## Shareholder consultation

During the course of the remuneration policy review we consulted with 20 of our largest shareholders, representing over two-thirds of our issued share capital, as well as proxy advisors. I would like to thank all our shareholders who responded for their constructive advice and suggestions and support for the Group and its management.

In general, shareholders gave us positive feedback that our overall remuneration structure is fit for purpose and pay is well aligned with performance. They were pleased that no increases to the maxima of any schemes had been proposed and understood the rationale for increasing target bonus opportunity from 40% to 50% of maximum for the wider management team.

Whilst acknowledging that the combination of a CIP and PSP was less common now, many shareholders were pleased to hear that the CIP was very much valued by participants. Overall, shareholders were positive about this aspect of our structure, as it promotes high levels of share based rewards aligning our participants with shareholders' interests.

Shareholders were also pleased to see the introduction of a post-exit shareholding requirement.

Shareholders were also universally pleased to see that the pension contribution for newly appointed Executive Directors would be fully aligned with the UK average of 10% of salary and had been applied to the recent appointment of Gijsbert de Zoeten as CFO. We discussed openly with our shareholders the challenges of dramatically reducing the fixed pay of Stefan Bomhard and listened to the advice from shareholders and proxy agencies. Our initial approach was a slower glide path but as a result of our shareholder discussions, the Committee agreed with Stefan to reduce his pension down to that of the UK employee average over the next Policy period.

The Committee recognises the vote on the Remuneration Report at the 2019 AGM was lower than in previous years and has considered the reasons why shareholders voted against the Remuneration Report, which included the level of disclosure given in the Report. This year, the Committee has reviewed all its disclosures in detail to ensure they meet the standards required by shareholders. The Committee will continue to keep an open dialogue with shareholders to help ensure support for remuneration decisions is strong.

## UK Corporate Governance Code

The 2018 UK Corporate Governance Code came into effect from 1 January 2019, and the Committee considered this in developing the revised Policy, incorporating a post-exit shareholding policy and aligning pension contributions of newly-appointed Executive Directors to the UK employee average. The Committee, as part of its annual agenda, reviews wider remuneration and the alignment of reward with culture. The Committee also has discretion to adjust the annual bonus outcomes and can also adjust the number of shares vesting under the PSP to ensure they are reflective of resulting outcomes. The Committee also renewed its terms of reference to ensure alignment with the revised Code. These can be found at www.inchcape.com/governance, and details of the Committee's advisors can be found on page 97.

## CEO pay ratio

The median CEO pay ratio for 2019 was 48:1 which was calculated using methodology C in line with the updated remuneration reporting regulations. Further details can be found on page 95.

The Annual Report on Remuneration has also been updated to reflect other revisions to the reporting requirements, including the disclosure of the use of discretion by the Committee, an additional scenario in the Performance Scenario charts, and a reference in the Single Figure table on the impact of share price appreciation on incentive outcomes.

## Wider remuneration

As a new Chair of this Committee I have been encouraged to see that there is strong and consistent alignment of incentive programmes / targets and outturns throughout the management structure (Executive Directors, the Group Executive Committee and wider senior management), creating strong alignment of purpose throughout the Group.

The Committee already reviews and approves all remuneration arrangements for the Group Executive Committee and also reviews the pay budgets and benefit structures for the wider population, as the necessary context to decisions on pay that we approve for Executive Directors and the Group Executive Committee.

## CFO appointment

Richard Howes left the Group on 31 August 2019. In line with the remuneration policy and his leaving status, Richard Howes did not receive a bonus for 2019 and all his outstanding PSP and CIP awards (i.e. those granted in 2017, 2018 and 2019) lapsed in full. Richard also did not receive any exit payments.

Gijsbert de Zoeten joined on 27 August 2019 with a salary of £485,000, a pension contribution of 10% of salary and incentives and benefits consistent with the remuneration policy, including a relocation allowance. The relocation allowance equates to £264,000 on a gross tax basis and has been calculated taking into account Gijsbert moving with his family from the Netherlands on a permanent basis. In line with the Investment Association guidelines, this amount will be payable for 12 months only. He did not receive any amounts in lieu of awards forfeited at his previous employer. Further details on his remuneration package can be found on page 79. We were delighted that Gijsbert immediately demonstrated his commitment to Inchcape by purchasing 17,500 shares.

The Committee also agreed that the PSP award made to Gijsbert in 2020 would be enhanced to 230% of salary for this year only (versus a regular award of 180%), which is in line with policy. This is in light of the uncertainty following the resignation of the CEO and reflects that no PSP award was granted in 2019.

## 2018 and 2019 PSP/CIP awards targets

As highlighted in the 2018 DRR, the Committee reviewed the impact of the new accounting standard IFRS 16, which was effective from 1 January 2019, on the performance targets for the 2019 incentives as well as the targets for the outstanding 2017 and 2018 long-term incentive awards. The conclusions of our review were that the EPS target ranges for 2017, 2018 and 2019 do not need to be changed nor does the ROCE range for the 2017 awards as it is possible to measure target and actual performance on a consistent basis.

However, to ensure ROCE targets and actual performance are calculated on a consistent basis, the 2018 and 2019 awards target ranges (previously 22% for threshold vesting, to 26% for full vesting) have been revised to 16.5% (for threshold vesting) to 20.5% (for full vesting). This ROCE range will also apply to the 2020 PSP and CIP awards. The change in the ROCE range is due only to the change in the accounting standard and the Committee is satisfied that the revisions do not make the range easier or more difficult. Further details can be found on page 93.

## Looking forward

The Committee is committed to ensuring the remuneration arrangements continue to support the Ignite strategy, align pay with strong performance, the interests of executives and senior management with those of shareholders and good corporate governance.

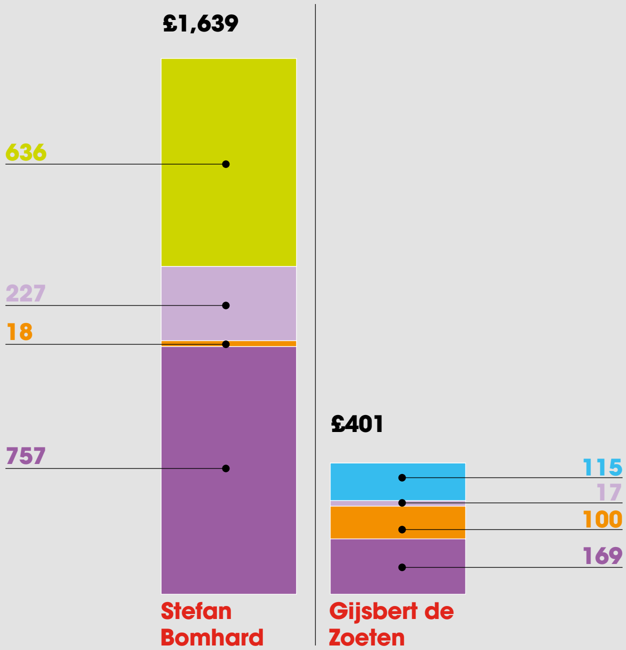
We hope to have your support at the upcoming AGM.

Jane Kingston

**Jane Kingston**
Chair of the Remuneration Committee

# Remuneration at a glance

## What Executive Directors earned during 2019 (£'000)




Base salary · Benefits · Pensions · Annual bonus · LTIP

- 2.0% salary increase in 2019 for CEO; CFO appointed on salary of £485,000
- 30% of salary pension supplement for CEO, 10% for CFO
- Benefits include medical cover, company car and life assurance, and relocation allowance for the CFO
- Bonus payout of 23.7% of salary for CFO
- 40% of the 2017 PSP and CIP vested for the CEO. The LTIP figure for the CEO was based on the average share price from 1 October to 31 December 2019 of 654.2p

*DETAILS OF ACTUAL PERFORMANCE ACHIEVED ARE GIVEN ON PAGES 90 TO 92.*

## Alignment of performance and remuneration for 2019

**Annual bonus**
To motivate and reward the achievement of the Company's strategic and operational objectives

**DRIVE GROWTH**
**KPI: Revenue £9.4bn**

**DRIVE PERFORMANCE**
**KPI: Operating profit £373.1m**

**DELIVER STRATEGY**
**KPI: Annual objectives linked to the progress of Ignite**

**REWARD PAYABLE TO CFO FOR 2019 (PRO-RATED FOR SERVICE)**
**23.7% of salary**

**Long-term incentives**
To motivate and reward performance linked to long-term success

**INCREASE EARNINGS AND RETURNS**
**KPI: EPS 57.7p*** **KPI: ROCE 28.2%***

**LONG-TERM PERFORMANCE PERIOD**
**2017 – 2019**

**REWARD OUTCOME FOR CEO**
**PSP 40%** **CIP 0.8:1 match**

**Proposed changes to the remuneration policy**
Retain the CIP and the PSP for Executive Directors and senior managers

- Introduction of a post-employment share ownership requirement
- Pension contributions for new Executive Directors will not exceed the UK employee average (currently 10% of salary)
- Bonus target opportunity to increase from 40% to 50% of maximum
- Expansion of circumstances in which malus and clawback can be applied

*FURTHER INFORMATION ON ANNUAL BONUS AND LONG-TERM INCENTIVE PLANS CAN BE FOUND ON PAGES 89 TO 93.*

* These are on an IAS 17 basis to ensure targets and performance are measured consistently and therefore differ from those disclosed elsewhere in the Annual Report which are on an IFRS 16 basis.

## Part 1 —
# Directors' remuneration policy

**This section of the report sets out the policy that the Committee will put to shareholders for approval at the 2020 Annual General Meeting to be held on 21 May 2020 and, if approved, will be effective from that date.**

The principal changes to the policy are as follows:

- 75% of salary, or 50% of maximum, being payable in the annual bonus for target performance instead of 60% of salary (40% of maximum)
- Reduction in the maximum cash supplement in lieu of pension from 30% to 10% of salary for newly-appointed Executive Directors
- Inclusion of a post-exit shareholding requirement for two years post-exit, set at the lower of the shareholding on exit and in-post shareholding requirement
- Inclusion of reputational damage and corporate failure as circumstances in which malus and clawback provisions could be applied
- Inclusion of the Committee's ability to adjust the number of shares vesting under the PSP to ensure it is a fair reflection of the Group underlying performance

**Alignment of the remuneration policy**

This section outlines how clarity, simplicity, risk, predictability, proportionality and alignment to culture were addressed when reviewing the remuneration policy and its implementation.

- The Committee believes that the disclosure of the design of remuneration arrangements is transparent with clear rationale provided on maintenance and changes to policy. The Committee remains committed to consulting with shareholders on the policy and its implementation
- The Committee believes the performance measures used in the long-term incentive plans, along with those in the bonus, also aid simplicity due to the clear alignment to Inchcape's strategy
- The Committee has ensured that remuneration arrangements do not encourage and reward excessive risk taking by setting targets to be stretching and achievable, with discretion to adjust formulaic bonus and PSP outcomes and expanding the circumstances in which malus and clawback can be applied
- The link to strategy of the performance measures used and the setting of targets balances predictability and proportionality by ensuring outcomes do not award poor performance in the short and long term. The policy is consistent with Inchcape's culture as well as strategy, therefore driving behaviours which promote the long-term success of Inchcape

## 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.<br>Adjustments to salary will take account of:<br>– Increases awarded across the Group as a whole, and conditions elsewhere in the Group;<br>– Experience and performance of the individual;<br>– Pay levels at organisations of a similar size, complexity and type; and<br>– Changes in responsibilities or scope of the role. | Increases are not expected to exceed the 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 profit. Non-financial measures may include strategic measures directly linked to the Company's priorities.<br>Any annual bonus earned above 100% of salary is paid in shares which are automatically invested in the CIP.<br>Bonus payouts are subject to malus and clawback provisions. | 150% of salary maximum payable for achieving stretch performance against all measures.<br>75% of salary payable for target performance.<br>15% 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.<br>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 PSP awards is based on performance measures linked to the Group's strategic priorities and may vary year-on-year.<br>Vested awards will be subject to an additional two-year holding period.<br>Any dividends paid would accrue over the vesting period and would be paid only on those shares that vest. Dividends can be paid in cash or shares. Current practice is for dividends to be paid as shares.<br>PSP awards are subject to malus and clawback provisions. | Normal PSP opportunities will be 180% of salary.<br>Award levels are subject to an individual limit of 300% of salary.<br>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.<br>A voluntary investment opportunity in return for a performance-based match.<br>Any annual bonus earned 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. | Any bonus earned 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.<br>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.<br>Vesting of the CIP awards is based on performance measures linked to the Group's strategic priorities and may vary year-on-year.<br>For awards granted to the Executive Directors, vested awards will be subject to an additional two-year holding period.<br>Any dividends paid would accrue over the vesting period and would be paid only on those shares that vest. Dividends can be paid in cash or shares. Current practice is for dividends to be paid as shares.<br>CIP awards granted 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.<br>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. | Receive a salary supplement in lieu of pension contributions.<br>In addition and in line with other UK-based employees, Executive Directors are also entitled to participate in the Group's pension scheme, Cash+, which 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. In this scheme, members are required to contribute 7% of pensionable salary. | Newly-hired Executive Directors are entitled to a cash supplement of up to 10% of salary.<br>Executive Directors who were appointed prior to 2019 are entitled to a pension contribution of up to 30% of salary. |
| **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):<br>– Company cars;<br>– Medical care; and<br>– Life assurance premiums. | It is not anticipated that the costs of benefits provided will materially exceed 5% of salary for existing Executive Directors.<br>The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation). |
| **In-post shareholding guidelines** | To encourage share ownership and alignment of executive interest with those of shareholders. | Executive Directors are required to accumulate, over a maximum period of five years from date of appointment, a number of shares equivalent to a shareholding worth 200% of base salary. | n/a |
| **Post-exit shareholding guidelines** | To reinforce long-term alignment of executive interests with those of shareholders post-termination. | A departing Executive Director is required to maintain a shareholding for two years post-termination, set at the lower of the actual shareholding on exit and the in-post shareholding guideline.<br>Enforcement of this guideline will be facilitated through a holding requirement applied to share-based incentive awards granted to Executive Directors from 2020 onwards.<br>The application of this requirement will be at the Committee's discretion (which will be applied only in exceptional circumstances). | n/a |

## 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 mix of strategic measures will continue to be selected each year to reinforce the Group's strategic objectives.

– The Committee believes that EPS and ROCE continue to be suitable measures of long-term performance for the Group. EPS is consistent with the Group's long-term strategy focusing on sustainable growth while ROCE supports the Group's cash initiatives of controlling working capital and capital expenditure. When ROCE is used in combination with EPS, it ensures there is a balance between growth and returns. The new cash conversion measure reflects the criticality of cash generation for Inchcape, which is required to support its continued evolution.

- 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 has considered the use of other performance measures to reinforce the Company's long-term objectives, including relative TSR. However, given the diversity of the Group's operations, it would be difficult to set a relevant and robust comparator group for assessing relative TSR performance and there would be some difficulty in cascading 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 appropriately stretching, set to reward for outperformance of the market and that the maximum will only be achievable for truly outstanding performance. Please see pages 91 to 93 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 ability to adjust the number of shares vesting under the PSP to ensure it is a fair reflection of underlying performance during the performance period.
- 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, reputational damage or corporate failure) 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.

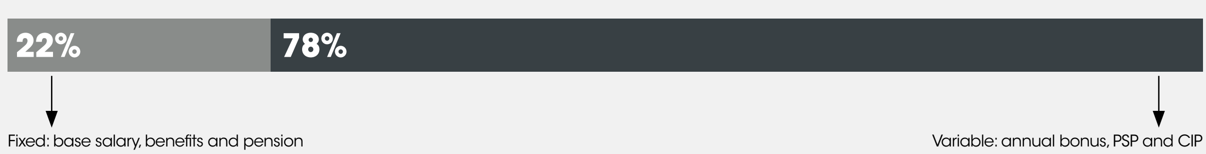
Participants are informed about the malus and clawback conditions on their bonus at the start of each year and are required to confirm acceptance of malus and clawback provisions on their PSP and CIP awards upon grant.

**Composition of remuneration arrangements**

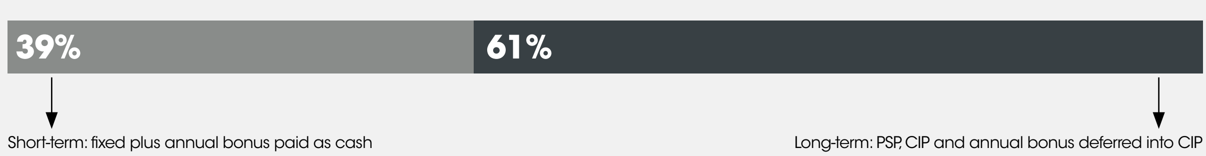
A significant proportion of Executive Directors' pay is variable, long term and remains 'at risk' (i.e. subject to malus and clawback provisions).

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 employees 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 country and 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. 20 individuals). Performance conditions are consistent for all participants while award sizes vary by organisational level. In-post share ownership guidelines apply to Executive Directors.

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. The Group has calculated the average equivalent pension contribution across UK employees to be 10% of salary.

## 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.<br><br>Fee levels are reviewed regularly, with any adjustments effective immediately after the review is approved.<br><br>Additional fees are payable for acting as Senior Independent Director and as Chair of any of the Board's Committees (excluding the Nomination Committee).<br><br>The Chairman's fee is determined by the Remuneration Committee and the fees for other Non-Executive Directors are determined by the Executive Directors.<br><br>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:<br>– increases awarded across the Group as a whole and conditions elsewhere in the Group;<br>– fee levels within organisations of a similar size, complexity and type; and<br>– changes in complexity, responsibility or time commitment required for the role. |

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

**Non-Executive Directors' term of appointment**

The Non-Executive Directors are appointed for an initial three-year term which can be terminated by either party on one month's notice (six months for the Chairman).

| Name | Date of appointment | Notice period |
|---|---|---|
| Jerry Buhlmann | 01 March 2017 | One month |
| Rachel Empey | 26 May 2016 | One month |
| Jane Kingston | 25 July 2018 | One month |
| John Langston | 01 August 2013 | One month |
| Nigel Stein | 08 October 2015 | Six months |
| Till Vestring | 01 September 2011 | One month |

## Consideration of conditions elsewhere in the group

The Committee reviews and approves all remuneration arrangements for the Group Executive Committee and the Company Secretary. The Committee also reviews the pay budgets and benefit structures across the general population which are considered when determining remuneration for 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. This includes the Employee Experience Consultation conducted in all markets in 2019, more detail of which is provided in the CSR Report on page 33.

The remuneration policy is published in the Annual Report and Accounts and is available to all employees for their review. The Remuneration Committee is available to answer any questions employees may have about the policy or to provide clarification on any remuneration matters. Elements of the policy are cascaded down the organisation such as bonus and long-term incentive plans. The new policy also aligns the pension contribution for newly appointed Executive Directors with the UK employee average which is currently 10% of salary.

## Consideration of shareholder views

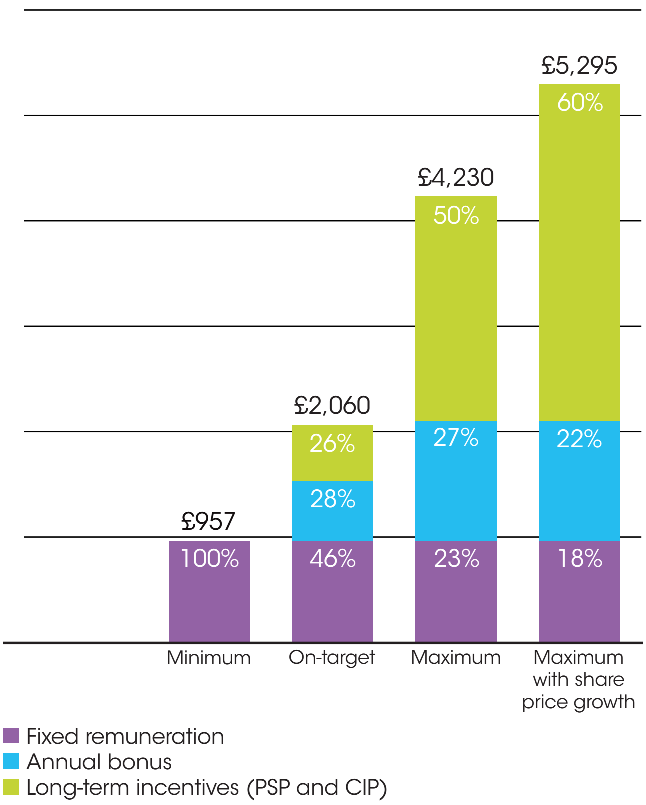
When determining remuneration, the Committee takes into account the guidelines of representative investor bodies and proxy advisors and shareholder views.

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 proposed changes to remuneration policy, as evidenced by our recent consultation with shareholders representing 70% of the Company's issued share capital. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate. Further details on the consultation undertaken as part of the remuneration policy review can be found on page 77.

## Performance scenarios

The charts below show the remuneration that Executive Directors could expect to obtain based on varying performance scenarios. These illustrations are intended to provide further information to shareholders regarding the pay-for-performance relationship. However, actual pay delivered will be influenced by actual changes in share price and the vesting periods of awards. The chart for the CFO has been updated for his 2020 salary. The chart for the CEO uses Stefan Bomhard's current salary combined with the proposed changes in the policy even though he will not be eligible for a bonus or PSP/CIP award in 2020 given his resignation. The scenario 'Maximum with share price growth' is based on the same assumptions as used in the 'Maximum' scenario but also assuming the share price increases by 50%.

**Stefan Bomhard – Group Chief Executive**
Total remuneration (£'000s)




**Gijsbert de Zoeten – Chief Financial Officer**
Total remuneration (£'000s)


**Notes on the performance scenarios:**

| Element | Assumptions |
|---|---|
| **Fixed remuneration** | – Total remuneration comprises base salary, benefits and pensions<br>– Base salary – effective from 1 April 2020<br>– Benefits – as provided in the single figure table on page 88, excluding one-off relocation allowance for CFO<br>– Pension – cash in lieu of pension (23.3% of salary for CEO and 10% of salary for CFO) |

| | | Minimum | On-target | Maximum | Maximum with share price growth |
|---|---|---|---|---|---|
| **Variable pay** | Annual bonus | No payout | Target payout (50% of maximum) | Maximum payout | |
| | CIP | No vesting | Assumes full voluntary investment | | |
| | | | Threshold match of 0.5:1 | Maximum vesting | Maximum vesting + 50% share price growth |
| | PSP | No vesting | Threshold vesting (25% of maximum) | Maximum vesting | Maximum vesting + 50% share price growth |

## 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 and receive a cash supplement on similar terms to Executive Directors appointed after 2019. | 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, life assurance and relocation allowance. | 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'.<br>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.<br>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 employees below Board level are typically no higher than for Executive Directors.

**Non-Executive Directors**

In recruiting a new Non-Executive Director, the Committee will use the policy as set out in the table on page 83. 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 Chair of the Audit, Remuneration and CSR 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 rules of the relevant plans (subject to any Committee 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 and the individual is not serving their notice period. 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.<br>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.<br>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. | At the normal release date (save where the Committee has discretion to determine otherwise or the rules provide otherwise). |
| | 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. | |
| | Change of control. | Any unvested awards will be pro-rated for time and performance. | At the time of change of control. |

## 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 |
| Gijsbert de Zoeten | 27 August 2019 | 12 months | To retirement |

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 following section provides details of how the Company's remuneration policy was implemented during the financial year to 31 December 2019 and how it will be implemented in the financial year to 31 December 2020 (dependent on shareholder approval of the new remuneration policy).**

The Remuneration Committee consists of three independent Non-Executive Directors and the Chairman, who was independent on appointment. 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 Committee reviews its terms of reference on an annual basis. The terms can be found at www.inchcape.com.

The main focus of the Committee during 2019 has been the remuneration policy review and its implementation in 2020. The table below details the decisions the Committee made in 2019 in addition to the policy review and its focus for 2020.

| Focus area | Progress made in 2019 | Priorities for 2020 |
|---|---|---|
| **Bonus scheme** | The Committee reviewed the outcome of the 2018 bonus scheme and set targets for the 2019 bonus scheme. Details are given on pages 89 to 90 | The Committee will review the bonus measures and targets applicable for the 2020 bonus within the framework of the remuneration policy. The Committee will also review the outcomes of the 2019 annual bonus |
| **Long-term incentives** | The Committee reviewed the outcome of the 2016 PSP and CIP awards and agreed the grants for 2019. Details are on pages 91 to 92 | The Committee will review the 2017 PSP and CIP outcomes and agree the grants for 2020 within the framework of the remuneration policy |
| **Executive Directors' remuneration** | The Committee approved the overall 2019 remuneration for the Executive Directors. Further details are given on page 88 | The Committee will set targets for performance-related remuneration and consider appropriate salary levels and other benefits |
| **Group Executive Committee remuneration** | The Committee reviewed the remuneration for senior executives taking into account pay for employees across the Group | The Committee will set targets for performance-related remuneration and consider salary levels and other benefits |
| **Wider remuneration** | The Committee reviewed the wider remuneration in context of executive remuneration | The Committee will review the wider remuneration in context of executive remuneration |
| **Chairman's fee** | The Committee reviewed the Chairman's fee in November and increased the fee by 2% effective from 27 November 2019 | The Chairman's fee will be reviewed every two years |
| **New CFO package** | The Committee determined the appropriate package for the new CFO taking into account the experience of the CFO, prior arrangements and market practice | The Committee will continue to review the package of the CFO to ensure it remains appropriate and competitive |
| **Impact of IFRS 16** | The Committee reviewed the impact of IFRS 16 on existing target ranges for EPS and ROCE for outstanding awards including the 2019 PSP and CIP awards and proposed changes to the ROCE targets | To continue to review the target ranges to ensure that ranges are not more challenging or easier than intended |
| **Share plans** | The Committee reviewed the share plan rules to ensure they comply with best practice, regulation and governance practices | The Committee will continue to review the share plan rules to ensure they comply with best practice, regulation and governance practices |
| **Remuneration trends update** | The external advisors updated the Committee on governance and remuneration trends<br><br>The Committee reviewed and approved the disclosures for the CEO pay ratio, pay scenarios and impact of share price appreciation | The Committee will continue to review and approve the disclosures for the CEO pay ratio, pay scenarios and impact of share price appreciation |
| **Gender pay gap report** | The Committee reviewed the gender pay gap results and the initiatives being introduced to close the gap. The report can be found on www.inchcape.co.uk | The Committee will review the impact of the initiatives and the results of the 2020 gender pay analysis |
| **Committee evaluation** | The Committee evaluated its performance during the year. See page 66 for further details | External evaluation in 2020 |

## Single total figure of remuneration (audited)

The table below sets out the total remuneration received by the Directors for the year ended 31 December 2019:

| | Base salary/fees £'000 | | Taxable benefits (a) £'000 | | Single-year variable (b) £'000 | | Multiple-year variable (c) £'000 | | Pension (d) £'000 | | Other (e) £'000 | | Total £'000 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| **Current Executive Directors** | | | | | | | | | | | | | | |
| Stefan Bomhard | **757** | 739 | **18** | 16 | **0** | 430 | **636** | 1,019 | **227** | 222 | **0** | 4 | **1,639** | 2,430 |
| Gijsbert de Zoeten* | **169** | – | **100** | – | **115** | – | **–** | – | **17** | – | **0** | – | **401** | – |
| **Current Non-Executive Directors (f)** | | | | | | | | | | | | | | |
| Nigel Stein | **321** | 217 | **1** | 1 | **–** | – | **–** | – | **–** | – | **–** | – | **322** | 218 |
| Jerry Buhlmann | **73** | 60 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **73** | 60 |
| Rachel Empey | **60** | 60 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **60** | 60 |
| Jane Kingston | **67** | 26 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **67** | 26 |
| John Langston | **77** | 75 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **77** | 75 |
| Till Vestring | **74** | 70 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **74** | 70 |
| **Former Executive Directors** | | | | | | | | | | | | | | |
| Richard Howes* | **287** | 423 | **2** | 3 | **0** | 284 | **0** | 686 | **86** | 127 | **0** | 31 | **375** | 1,554 |
| **Previous Non-Executive Directors** | | | | | | | | | | | | | | |
| Ken Hanna | **–** | 128 | **–** | 1 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 129 |
| Coline McConville* | **45** | 75 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **45** | 75 |
| Nigel Northridge* | **32** | 81 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **32** | 81 |
| **Total** | **1,962** | 1,954 | **121** | 21 | **115** | 714 | **636** | 1,705 | **330** | 349 | **0** | 35 | **3,164** | 4,778 |

* Gijsbert de Zoeten joined the Group during the year, Richard Howes, Coline McConville and Nigel Northridge left during the year.

a. Taxable benefits comprise car allowance, medical cover and mileage allowance. Gijsbert de Zoeten received a relocation allowance of £92,000 during 2019.

b. Payment for performance during the year under the annual bonus, including amounts paid in shares. Stefan Bomhard and Richard Howes did not receive a 2019 bonus due to being under notice at the payment date or departing during 2019.

c. The 2019 figure for the CEO includes the 2017 PSP and CIP which will vest in May and June 2020 based on performance over the three-year period ended 31 December 2019. These awards will be subject to an additional two-year holding period and therefore will be released in 2022. The figures have been valued using the average share price from 1 October 2019 to 31 December 2019 of 654.2p. Actual performance against targets is given on page 92. For Stefan Bomhard the 2019 value includes a movement of -£152,656 which was due to a reduction in share price over the period. No further discretionary adjustments were made. The 2018 figure for Stefan Bomhard and Richard Howes has been revised from last year's report to reflect the share price on the date of vesting (valued using the market price at the date of vesting of 610p and 636p for the 2016 PSP and CIP awards respectively) and includes dividend equivalent of £74,773 and £50,004 respectively. For Stefan Bomhard and Richard Howes, the 2018 value includes a movement of -£126,077 and -£88,575 respectively. Full details of the awards exercised in 2019 are given on page 94.

d. During the year Stefan Bomhard and Richard Howes received a cash supplement of 30% of base salary in lieu of pension contributions, while Gijsbert de Zoeten received a contribution of 10% of base salary from the date of his appointment.

e. The 2018 figures for Stefan Bomhard and Richard Howes include the value of the 2018 SAYE awards and are based on the embedded value at date of grant. In 2018, Richard Howes received a one-off payment of £28,288 in lieu of a cancelled holiday.

f. The fees of the Chairman, Non-Executive Directors and the Senior Independent Director are given on page 88.

## 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.

The salary for Gijsbert de Zoeten was determined taking into account this benchmarking data, as well as the other factors detailed in the policy table. Stefan Bomhard was not eligible to receive a salary increase for 2020.

The salaries for 2018, 2019 and 2020 are set out below, together with the average increases across the Group.

| Name | 1 April 2018 | 1 April 2019 | 1 April 2020 |
|---|---|---|---|
| Stefan Bomhard | £746,200 | £761,124 – 2.0% increase | £761,124 |
| Gijsbert de Zoeten | – | £485,000 | £499,550 –3% increase |
| Average increase across Group | 2.5% | 2.43% | 3.18% |

## Chairman's and Non-Executive Directors' fees

In November 2019, the Remuneration Committee agreed an increase of 2% p.a. for the Chairman's fee. The fee is currently £326,000 p.a.

The Senior Independent Director receives a fee of £81,000 p.a. The Non-Executive Directors receive a fee of £62,000 p.a. with an additional £15,000 p.a. for the chair of the Audit and Remuneration Committees and an additional £12,000 p.a. for the chair of the CSR Committee.

## Annual bonus

The annual bonus is based on annual financial measures and strategic objectives. The measures are selected to incentivise sustainable growth and the financial matrix is designed to provide a balanced focus between commercial and cash initiatives. The strategic objectives are selected each year to reinforce the Group's strategic priorities and may include personal objectives linked to the delivery of the Ignite strategy.

The principles for setting the framework are such that it:

- Drives the desired behaviours underpinned by our performance drivers
- May be easily cascaded through the organisation to reinforce alignment of our collective goals
- Has clear measures and targets

## 2019 bonus

For 2019, 80% of the bonus was based on financial performance via a matrix of revenue and operating profit with the remaining 20% of the bonus based on strategic objectives, therefore linking an individual's bonus outcome to their contribution to the Ignite strategy.

The maximum opportunity was 150% of salary which is payable for achieving stretch performance against all measures.

In line with the Committee's commitment to disclose bonus targets, the table on page 90 illustrates targets, performance and resulting 2019 bonus outcomes for the Executive Directors.

### The structure of the 2019 bonus

**Up to 80% of total bonus or 120% of salary is earned according to the following matrix of financial measures (%s are of salary):**

| Revenue \ Operating profit | Threshold | Target | Stretch |
|---|---|---|---|
| Stretch | 24% | 72% | 120% |
| Target | 16% | 48% | 96% |
| Threshold | 12% | 36% | 72% |

Up to 20% of the total bonus, or 30% of salary, is earned for the achievement of strategic objectives linked to the Ignite strategy which for Gijsbert de Zoeten is given in the table on page 90.

## Actual performance against bonus targets

**Achievement of financial targets (80% of total bonus or 120% of salary)**

In 2019, revenue performance was between target and stretch and operating profit was between threshold and target on the matrix. This resulted in a bonus of 16.2% of salary for the CFO (as pro-rated for time in role) under this element of the bonus. Stefan Bomhard did not receive a bonus payment for 2019. The table below provides further detail on the revenue and operating profit targets. Actual performance for determining bonus outcomes has been calculated using the same currency rates as used to set the bonus targets, and both targets and performance have been determined on an IFRS 16 basis. This approach helps ensure that the bonus is linked to underlying financial performance.

| | Targets | | | | Outcome for element of bonus |
|---|---|---|---|---|---|
| Measure | Threshold | Target | Stretch | Actual performance | % of salary |
| Revenue | £8,895.9m | £9,364.1m | £9,832.3m | £9,391.0m | |
| Operating profit | £333.4m | £370.4m | £407.4m | £369.2m | 48.5% |

**Adjustments made during the year**

The revenue and operating profit targets for 2019 were adjusted to take into account strategic disposals during the year, to ensure target and performance outcomes were assessed on a like-for-like basis.

**Achievement of strategic targets (20% of total bonus, or 30% of salary)**

Below we provide as much detail as commercially appropriate on the objectives linked to the strategic part of the 2019 bonus and the resulting outcomes. For 2019, Gijsbert de Zoeten had three bonus objectives linked to the Ignite strategy.

| Executive Director | Objective | Weighting (%) | Further details on objectives | Weighted outcomes (%) |
|---|---|---|---|---|
| Gijsbert de Zoeten | Overhead reduction | 10% | To support the continued leveraging of our global scale, this objective focused on the delivery of a meaningful run rate reduction of overheads and securing procurement savings across the Group. Overheads were reduced to c.£7m below plan and procurement savings exceeded the plan by c.7%. The Committee concluded that the requirement under this objective had been exceeded and as a result, this element paid out in full at 5% of salary (pro-rated for time in role). | 10% (equivalent to 5% of salary taking into account pro-rating for time in role) |
| | Capital allocation policy | 5% | On joining, Gijsbert was tasked with reviewing the Group's capital allocation policy in all its elements. This comprised a review of our cash utilisation priorities which included a review of policies governing the following areas: 1) excess cash post capex working capital, 2) dividends, 3) value accretive M&A opportunities and 4) remaining excess FCF distributed through buybacks. Gijsbert's updated policy was agreed by the Board and the Committee concluded that the requirement under this objective had been exceeded. As a result, this element paid out in full at 2.5% of salary (pro-rated for time in role). | 5% (equivalent to 2.5% of salary taking into account pro-rating for time in role) |
| | Optimise free cash flow position | 5% | This objective was centred around the delivery of a free cash flow position exceeding the level targeted in the Annual Operating Plan. However, the level targeted was not achieved and such the Committee concluded that there would be no bonus payable in relation to this objective. | 0 |

As Stefan Bomhard did not receive a bonus for 2019 due to being under notice at time of payment, details on his strategic objectives have not been disclosed.

## Overall 2019 bonus outcome

Taking together the outcomes against the financial and strategic components of the bonus, the Committee approved the overall 2019 bonus for Gijsbert de Zoeten as follows:

| | Payment for financial targets (% of salary) | Payout for strategic targets (% of salary) | Total payment % of salary | Total payment £ |
|---|---|---|---|---|
| Gijsbert de Zoeten | 16.2% | 7.5% | 23.7% | £114,720 |

The Committee concluded that the overall bonus outcome was reflective of the Company's financial and operational performance and therefore did not make any discretionary adjustments.

## Annual bonus for 2020

The maximum annual bonus opportunity in 2020 will remain unchanged from previous years and will be 150% of salary. For the Executive Directors, 80% of the bonus will be based on a financial performance matrix, linked to revenue and profit before tax, and 20% of the bonus will be based on a basket of specific, measurable objectives that relate to the Ignite strategy.

For target performance, the payout will be 50% of the maximum bonus opportunity (subject to shareholder approval at the 2020 AGM). This means the financial performance matrix for the 2020 bonus will be as follows:

| Revenue | | | |
|---|---|---|---|
| Stretch | 24% | 72% | 120% |
| Target | 20% | 60% | 96% |
| Threshold | 15% | 45% | 72% |
| | Threshold | Target | Stretch |
| | | Profit before tax | |

Given the close link between performance targets, the longer-term strategy, and the advantage this may give competitors, the 2020 targets for the Executive Directors are not disclosed in this report because of their commercial sensitivity. The Committee intends to publish the financial targets and provide more details of the strategic measures in next year's DRR.

## PSP and CIP awards vesting in respect of the year

In 2017, Inchcape granted awards under the PSP and CIP schemes which vested dependent on certain performance targets measured over three years to 31 December 2019. These awards are also subject to an additional post-vest two-year holding period.

### 2017 PSP/CIP performance targets

| Three-year EPS growth p.a. (60% weighting) | Vesting % |
|---|---|
| Less than 4% | 0% |
| 4% | 25% |
| 12% | 100% |
| Between 4% and 12% | Straight line basis |

| Three-year average ROCE (40% weighting) | Unexpired term |
|---|---|
| Less than 22% | 0% |
| 22% | 25% |
| 26% | 100% |
| Between 22% and 26% | Straight line basis |

### Vesting of 2017 PSP/CIP awards

Over the 2017-2019 performance period an EPS growth of -1.1% and three-year average ROCE of 28.2% was achieved, which resulted in the following vesting outcomes:

| Award | Performance measure | Wtg. | Vesting outcome (% of element) |
|---|---|---|---|
| PSP | EPS | 60% | 0% |
| | ROCE | 40% | 100% |
| Total (overall vesting outcome of PSP) | | | 40% |

| Award | Performance measure | Wtg. | Vesting outcome (% of element) |
|---|---|---|---|
| CIP | EPS | 60% | 0% |
| | ROCE | 40% | 100% |
| Total (overall vesting outcome of CIP) | | | 40% = 0.8:1 match |

From 1 January 2019, Inchcape was required to adopt a new accounting standard (IFRS 16) relating to lease accounting, replacing the previous standard (IAS 17). As the targets for the 2017 PSP/CIP awards were set under IAS 17, EPS and ROCE performance outcomes were calculated using the IAS 17 basis, to ensure consistency in targets and outcomes.

Stefan Bomhard and Richard Howes were granted PSP and CIP awards in 2017. Upon his departure in August 2019, Richard Howes' awards lapsed in full. Stefan Bomhard is entitled to the following shares on vesting as he has remained in role after the end of the performance period as per the scheme rules at the time of award. These awards are subject to a two-year holding period.

| | Interest held | Vesting % | Interest vesting | Vesting date | Assumed market price (p)[1] | Estimated value |
|---|---|---|---|---|---|---|
| **Stefan Bomhard** | | | | | | |
| PSP | 150,982 | 40% | 60,393 | 26 May 2020 | 654.2p | £395,091 |
| CIP | 92,247 | 40% | 36,899 | 27 June 2020 | 654.2p | £241,393 |

1. As the market price on the date of vesting is unknown at the time of reporting, the value is estimated using the average market share price over the last three months of 2019.

## PSP and CIP awards granted during the year

During 2019, PSP and CIP awards were granted to Stefan Bomhard and Richard Howes. PSP awards were granted at 180% of salary, and under the CIP, Stefan Bomhard invested 50% of salary and was granted a matching award of 100% of salary. In line with the policy, Richard Howes' awards lapsed in full upon his departure in August 2019. Stefan Bomhard's awards will also lapse in full upon his departure.

During 2019, the Committee reviewed the impact of the new accounting standard IFRS 16 (effective from 1 January 2019) on the performance targets on outstanding incentives, using the principle that targets and outcomes should be measured on a consistent basis. The Committee concluded that the EPS range, of 4% to 12% p.a., remains suitable for the 2019 PSP and CIP awards. However, the impact on ROCE of moving to IFRS 16 is more material and, hence, the committee has set the three-year ROCE range to be 16.5% to 20.5%, which is considered to be equivalent to a range of 22% to 26% under the previous IAS 17 accounting standard. Therefore, the performance targets for the 2019 awards are as follows:

### 2019 PSP/CIP

| Three-year EPS growth p.a. (60% weighting) | Vesting % |
|---|---|
| Less than 4% | 0% |
| 4% | 25% |
| 12% | 100% |
| Between 4% and 12% | Straight line basis |

| Three-year average ROCE (40% weighting) | Unexpired term |
|---|---|
| Less than 16.5% | 0% |
| 16.5% | 25% |
| 20.5% | 100% |
| Between 16.5% and 20.5% | Straight line basis |

Threshold level performance will result in 25% of the 2019 PSP and CIP awards vesting.

**Share-based awards granted during 2019:**

| | Date of grant | Share price (p)[1] | Number of shares/options awarded | Face value at grant[2] | Performance period | Exercise period |
|---|---|---|---|---|---|---|
| **Stefan Bomhard*** | | | | | | |
| PSP | 11 April 2019 | 595.0p | 237,192 | £1,411,292 | Jan 2019 – Dec 2021 | Apr 2022 – Apr 2023 |
| CIP | 11 April 2019 | 595.0p | 131,773 | £784,049 | Jan 2019 – Dec 2021 | Apr 2022 – Oct 2023 |
| **Richard Howes*** | | | | | | |
| PSP | 11 April 2019 | 595.0p | 135,253 | £804,755 | Jan 2019 – Dec 2021 | Apr 2022 – Apr 2023 |
| CIP | 11 April 2019 | 595.0p | 75,141 | £447,089 | Jan 2019 – Dec 2021 | Apr 2022 – Oct 2023 |

1. Mid-market share price on date of grant.
2. Face value has been calculated using the share price at date of grant.

* Awards lapsed/to lapse on date of departure.

## 2018 Long-term incentives

The Committee also reviewed the impact of the change to IFRS 16 on the 2018 PSP and CIP targets, which were set under the previous IAS 17 standard. As for the 2019 awards, no change is required to the EPS range, but the ROCE range has been adjusted to 16.5% to 20.5% (previously 22% to 26%) to ensure consistency of targets and outcomes. Therefore, the revised performance ranges for the 2018 PSP and CIP awards are:

**2018 PSP/CIP performance ranges after adjustments to reflect changes in accounting standards**

| Three-year EPS growth p.a. (60% weighting) | Vesting % |
|---|---|
| Less than 4% | 0% |
| 4% | 25% |
| 12% | 100% |
| Between 4% and 12% | Straight line basis |

| Three-year average ROCE(40% weighting) | Unexpired term |
|---|---|
| Less than 16.5% | 0% |
| 16.5% | 25% |
| 20.5% | 100% |
| Between 16.5% and 20.5% | Straight line basis |

## Long-term incentives for 2020

The Committee has considered the performance conditions for PSP and CIP awards granted in 2020 and has agreed that vesting will continue to be based on EPS (as three-year cumulative target measured at constant FX over the period) and a three-year average ROCE (each to be weighted 40%), but will also be partially linked to cash conversion (20% weighting). This approach reflects the criticality of cash generation for Inchcape whilst still ensuring an appropriate balance between sustainable earnings growth and returns. The EPS range reflects over the next three years our current expectations of our global markets and the disposals of some operations relative to 2019.

The performance ranges for each measure have been set taking into account internal and broker forecasts as well as broader market exceptions and are as follows:

| Three-year cumulative EPS (40% weighting) | Vesting % |
|---|---|
| Less than 169p | 0% |
| 169p | 25% |
| 191p | 100% |
| Between 169p and 191p | Straight line basis |

| Three-year average ROCE(40% weighting) | Unexpired term |
|---|---|
| Less than 16.5% | 0% |
| 16.5% | 25% |
| 20.5% | 100% |
| Between 16.5% and 20.5% | Straight line basis |

| Cash conversion (20% vesting) | Vesting % |
|---|---|
| Less than 55% | 0% |
| 55% | 25% |
| 70% | 100% |
| Between 55% and 70% | Straight line basis |

At the beginning of 2020, Stefan Bomhard, CEO, announced his resignation. In light of increased uncertainty surrounding the departure of the CEO and to reflect no PSP award was granted to Gijsbert in 2019, the Committee agreed that the PSP award made to Gijsbert in 2020 would be enhanced on a one-off basis to 230% of salary (versus a regular award of 180%). He will also be invited to participate in the CIP where he can invest up to 50% of salary with a 2:1 match.

## Pension

During 2019 the CEO, Stefan Bomhard, and former CFO, Richard Howes, were entitled to receive a cash supplement of 30% of base salary, while Gijsbert de Zoeten was entitled to receive a cash supplement of 10% of salary. All were eligible to join the Cash+ pension scheme, although none participated in the pension scheme.

For 2020, Stefan Bomhard will receive a pension contribution of 23.3% of salary until his departure. Gijsbert de Zoeten will continue to receive a pension contribution of 10% of salary which is aligned to the UK employee average.

## 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 2019.

| | | Share awards held | | Options held | | | |
|---|---|---|---|---|---|---|---|
| | Shares held at 31 December 2019 | Subject to performance conditions | Subject to deferral | Not subject to performance targets | Subject to deferral | Vested but not yet exercised | Guideline met |
| Stefan Bomhard | 450,651 | 904,512 | 0 | 0 | 3,249 | 0 | Yes |
| Gijsbert de Zoeten | 17,500 | 0 | 0 | 0 | 0 | 0 | No |
| Nigel Stein | 46,834 | n/a | n/a | n/a | n/a | n/a | n/a |
| Jerry Buhlmann | 15,000 | 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 |
| Jane Kingston | 3,500 | n/a | n/a | n/a | n/a | n/a | n/a |
| John Langston | 6,765 | n/a | n/a | n/a | n/a | n/a | n/a |
| Till Vestring | 9,308 | n/a | n/a | n/a | n/a | n/a | n/a |
| Richard Howes* | 182,484 | n/a | n/a | n/a | n/a | n/a | n/a |
| Coline McConville* | 4,736 | n/a | n/a | n/a | n/a | n/a | n/a |
| Nigel Northridge* | 28,391 | n/a | n/a | n/a | n/a | n/a | n/a |

* Shares and awards held by Richard Howes, Coline McConville, and Nigel Northridge on their dates of leaving 31 August, 23 July and 23 May 2019 respectively.

There have been no changes to the number of shares held by the Directors between 31 December 2019 and 26 February 2020.

## Share ownership policies

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 Gijsbert de Zoeten held 421% and 25% of salary respectively as at 31 December 2019, using the share price as at 31 December 2019 of 706p.

## Awards exercised during 2019

Stefan Bomhard exercised the award granted to him under the 2016 Performance Share Plan and Co-investment Plan on 3 May 2019 and exercised the award granted to him under the SB Award on 6 March 2019. He sold sufficient shares to cover costs and tax and retained the remaining shares.

| Plan | Shares exercised | Dividend shares | Share price | Shares sold | Shares retained |
|---|---|---|---|---|---|
| PSP | 89,546 | 7,040 | 607.5p | 45,487 | 51,099 |
| CIP | 62,675 | 4,926 | 607.5p | 31,837 | 35,764 |
| SB Award | 68,375 | 6,129 | 590.2p | 35,758 | 38,746 |

Richard Howes exercised the award granted to him under the 2016 Performance Share Plan and Co-investment Plan on 25 April 2019 and exercised the award granted to him under the RH Award on 26 April 2019. He sold sufficient shares to cover costs and tax and retained the remaining shares.

| Plan | Shares exercised | Dividend shares | Share price | Shares sold | Shares retained |
|---|---|---|---|---|---|
| PSP | 66,485 | 5,227 | 616.2p | 33,773 | 37,939 |
| CIP | 36,262 | 2,849 | 616.2p | 18,420 | 20,691 |
| RH Award | 0 | 849 | 615.0p | 408 | 441 |

## Percentage change in Group Chief Executive remuneration

The table shows the percentage change in Group Chief Executive remuneration from 2018 to 2019 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 2018 to 2019 | |
|---|---|---|
| | Group Chief Executive | Senior management |
| Salary | 2.4% | 3.0% |
| Taxable benefits | 12.5% | 0.0% |
| Single-year variable | n/a | 2.6% |
| **Total** | **-32.6%** | **2.9%** |

Employees representing the most senior executives 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.

## CEO pay ratio

| Financial year | Calculation methodology | P25 (Lower quartile) | P50 (median) | P75 (Upper quartile) |
|---|---|---|---|---|
| 2019 | C | 67:1 | 48:1 | 32:1 |

The 25th, 50th and 75th percentile (P25, P50, P75) employees were determined using calculation methodology C which was to calculate the actual full time equivalent remuneration for all UK employees using the single total figure valuation methodology for the CEO with two amendments: 2018 bonus outcomes as a proxy for 2019 bonus outcomes and the exclusion of the 2019 SAYE grants. It was not possible to include accurate estimates of 2019 bonus outcomes and the SAYE values for 2019 for all UK employees. However, 2018 bonus outcomes were determined to be a good proxy for 2019 bonus outcomes for those eligible and given significant take-up of the SAYE by UK employees, there was little impact on its exclusion in the selection of the P25, P50 and P75 employees. Inchcape chose this method as it is in line as much as possible with methodology A which is the government's preferred approach taking into account operational constraints. The total remuneration for 2019 of the three employees identified as P25, P50 and P75 were then calculated using the same methodology as used to calculate the single total figure for the CEO including the 2019 bonus instead of the 2018 bonus and the 2019 SAYE values (if applicable). The P25, P50 and P75 UK employees were selected from the UK employee population as of January 2020 to ensure all commissions paid in 2019 are taken into account in the selection process. The Committee is satisfied that the selected employees are representative.

The table below sets out the remuneration details for the individuals identified:

| Salary | CEO | P25 | P50 | P75 |
|---|---|---|---|---|
| Basic salary (£'000) | £757 | £15 | £28 | £28 |
| Total remuneration[1] (£'000) | £1,639 | £24 | £34 | £52 |

1. Total remuneration has been calculated using the single figure valuation methodology includes basic salary, annual bonus paid in 2019, pension, travel or car allowance, the cash value of employee benefits plus the value of any long-term incentives received under the 2017 PSP and/or CIP.

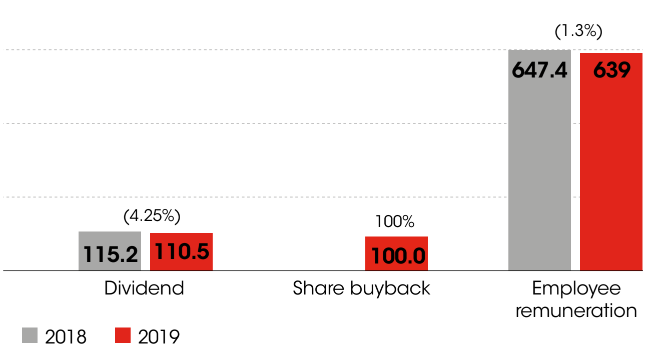
As this is the first year of reporting the CEO pay ratio using the above methodology, there is no comparative data against which to compare the pay ratios above. The Committee will consider the median pay ratio of 48:1 in the context of the ratios reported in future years.

The Committee is satisfied that the overall picture presented by the 2019 pay ratios is consistent with the reward policies for Inchcape's UK employees. The CEO pay ratio is based on comparing the CEO's pay to that of Inchcape's UK-based employee population, a large proportion of whom are in customer-facing roles in retail outlets with remuneration which is commission-driven. Therefore the ratios are likely to be volatile from one year to the next, largely driven by the CEO's incentive outcomes which are dependent on Group-wide results whereas employee pay variability will be driven by pay increases and commissions which are driven largely by UK market conditions. The Committee takes into account these ratios when making decisions around the Executive Director pay packages, and Inchcape takes seriously the need to ensure competitive pay packages across the organisation.

## 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 buybacks) from 2018 to 2019.

**Relative importance of spend on pay (£M)**




The Directors are proposing a final dividend for 2019 of 17.9p per share (2018: 17.9p).

## 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 2019 | 399m |
| All schemes – 10% over 10-year rolling period | 40m |
| Remaining headroom for all schemes | 21m |
| Executive schemes – 5% over a 10-year rolling period | 20m |
| Remaining headroom for executive schemes | 7m |

## Pay for performance

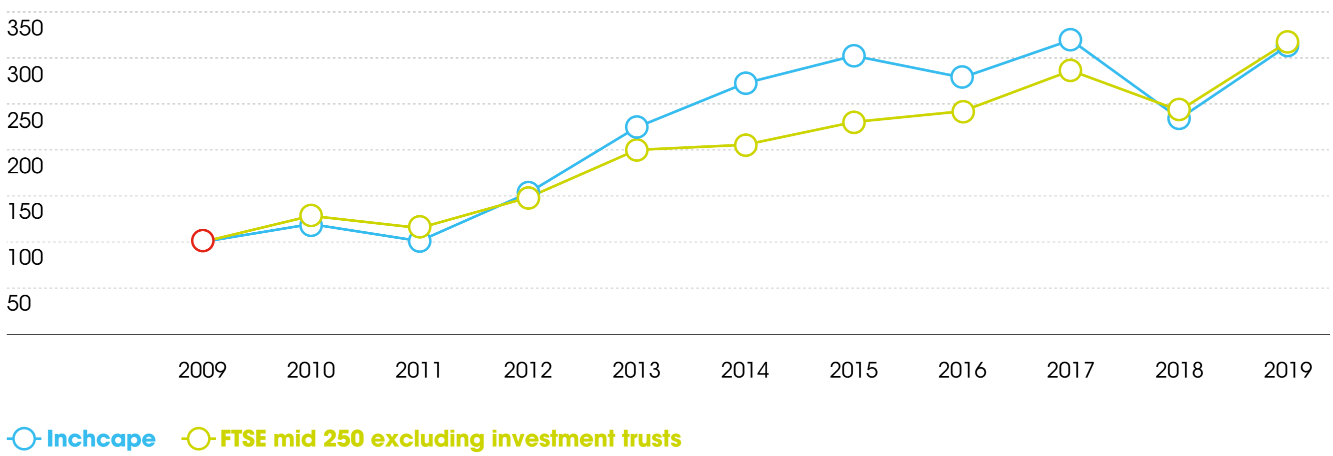
The graph below shows the Total Shareholder Return (TSR) of the Company over the 10-year period to 31 December 2019.

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 10 years to 31 December 2019.

### Value of £100 invested at 1 January 2010




| | Group Chief Executive | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CEO single figure of remuneration (£'000) | André Lacroix | 1,984 | 2,993 | 2,165 | 4,400 | 5,265 | 294[1] | n/a | n/a | n/a | n/a |
| | Stefan Bomhard | n/a | n/a | n/a | n/a | n/a | 2,906[2] | 1,403 | 3,006 | 2,430 | 1,639 |
| Annual bonus outcome (% of maximum) | | 100% | 52% | 68% | 48% | 100% | 56.8% | 40.3% | 67.6% | 38.5% | n/a[6] |
| LTI vesting[3] outcome (% of maximum) | | 0% | 100% | 100% | 66% | 68% | n/a[4] | n/a[5] | 79.6% | 58% | 40% |

1. The amount for André Lacroix reflects remuneration received until he left the Group in March 2015.
2. The amount for Stefan Bomhard is pro-rated for time in role and includes relocation allowance and the share award made in lieu of his 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.
6. Stefan Bomhard did not receive a bonus for 2019 due to his resignation from the Group.

## Shareholder context

The table below shows the advisory vote on the Remuneration Report at the 2019 AGM:

| | Total number of votes | % of votes cast |
|---|---|---|
| For (including discretionary) | 305,184,935 | 85.41% |
| Against | 52,151,283 | 14.59% |
| Total votes cast (excluding votes withheld) | 357,336,218 | 100% |
| Votes withheld[1] | 9,941 | |
| (Total votes cast including votes withheld) | 357,346,159 | |

The Committee recognises the vote on the Remuneration Report at the 2019 AGM was lower than in previous years and has considered the reasons why shareholders voted against the Remuneration Report. Reasons for voting against include the level of disclosure in the Report. This year, the Committee has reviewed all its disclosures in detail to ensure they meet the standards required by shareholders. The Committee will continue to keep an open dialogue with shareholders to help ensure support for remuneration decisions is strong.

The table below shows the binding vote on the Remuneration Policy at the 2017 AGM:

| | Total number of votes | % of votes cast |
|---|---|---|
| For (including discretionary) | 337,335,918 | 96.79% |
| Against | 11,173,431 | 3.21% |
| Total votes cast (excluding votes withheld) | 348,509,349 | 100% |
| Votes withheld[1] | 408,954 | |
| (Total votes cast including votes withheld) | 348,918,303 | |

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

## Exit payments during the year

None.

## Payments to past Directors

No payments were made to past Directors in 2019.

## 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 and is approved in advance by the Nomination Committee and the Board.

Stefan Bomhard is a Non-Executive Director of Compass Group PLC, for which he received a fee of £86,500 during 2019.

Gijsbert de Zoeten is a member of the supervisory board of Technical University Delft, for which he received a fee of €15,800 during 2019.

## Advisors to the committee

Mercer|Kepler, a brand of Mercer (and part of the MMC group), acted as the independent remuneration advisor to the Committee during the year. Mercer|Kepler attends Committee meetings and provides advice on remuneration for executives, analysis of the remuneration policy and regular market and best practice updates. Mercer|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). Mercer|Kepler was appointed by the Committee in 2010 after a comprehensive tendering process carried out by the Committee.

Mercer also supplied unrelated services to the Group in relation to IAS 19. None of the individual Directors have a personal connection with Mercer. The Committee is satisfied that the advice it receives from Mercer|Kepler is objective and independent and that Mercer|Kepler does not have any connection with the Company that may impair its independence. Mercer|Kepler's fees are charged at an hourly rate in accordance with the terms and conditions set out in the engagement letter. Mercer|Kepler was paid fees of £124,149 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 Jane Kingston on its behalf.

Jane Kingston

**Jane Kingston**
Chair of the Remuneration Committee

# Directors' Report

The Directors' Report for the year ended 31 December 2019 comprises pages 98 to 102 of this report (together with sections incorporated by reference). Information required in the Management Report under DTR 4.1.8R can be found in the following sections:

- A review of the business and future developments – pages 2 to 32
- Principal risks and uncertainties – pages 42 to 51.

A description of the Group's internal control framework is given on page 71.

A description of the Board's activities and the structure of its Committees is given on pages 54 to 97.

## Corporate governance statement

The statement of compliance with the 2018 UK Corporate Governance Code is given on page 55. The Code is published on the Financial Reporting Council's website www.frc.org.uk. Information required under DTR 7 is given in the Corporate Governance Report on pages 54 to 97.

## 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
Jerry Buhlmann
Gijsbert de Zoeten – joined 27 August 2019
Rachel Empey
Richard Howes – left 1 September 2019
Alexandra Jensen – joined 29 January 2020
Jane Kingston
John Langston
Coline McConville – left 23 July 2019
Nigel Northridge – left 23 May 2019
Till Vestring

In accordance with the 2018 UK Corporate Governance Code, all Directors will stand for election or re-election at the Annual General Meeting (AGM) on 21 May 2020.

The Chairman has reviewed the performance of each Director and is satisfied that each continues to be effective and demonstrates commitment to the role.

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

Subject to the Articles, the UK Corporate Governance Code and relevant legislation, the business of the Company is managed by the Board which 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 conflicted 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.

## 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 2019 and until the date of approval of this report.

## Results and dividends

The Group's audited consolidated financial statements for the year ended 31 December 2019 are shown on pages 112 to 187. The level of distributable reserves is sufficient to pay a dividend. The Board recommends a final ordinary dividend of 17.9p per ordinary share. If approved at the 2020 AGM, the final ordinary dividend will be paid on 19 June 2020 to shareholders registered in the books of the Company at the close of business on 15 May 2020. Together with the interim dividend of 8.9p per ordinary share paid on 4 September 2019, this makes a total ordinary dividend for the year of 26.8p per ordinary share (2018: 26.8p).

The Company may, by ordinary resolution, declare a dividend not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends when the financial position of the Company, in the opinion of the Board, justifies its payment. See page 22 for more information on the dividend policy.

## Share capital

As at 31 December 2019, the Company's issued share capital of £39,913,273.60 comprised 399,132,736 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 on 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 23 May 2019, the Company was authorised to make market purchases of up to 41,512,745 ordinary shares (representing approximately 10.0% of its issued share capital).

In the year ended 31 December 2019, the Company purchased for cancellation,16,070,070 ordinary shares of 10.0p each at a cost of £100m, representing 4.02% of the issued share capital as at that date, as part of the Board's commitment to return additional surplus cash to shareholders under the share buyback programme.

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.

## 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 | Date notified | Percentage notified |
|---|---|---|---|
| BlackRock Inc | Below 5% | 05/11/2019 | Below 5% |
| Polaris Capital Management, LLC | 12,202,311 | 21/08/2019 | 3% |
| Standard Life Aberdeen plc | 40,682,271 | 02/10/2019 | 10.07% |

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

## Restrictions on voting rights

There are no restrictions on voting rights.

## 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 2019, the Trust's shareholding totalled 861,589 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, including family interests, in the ordinary shares of the Company of the persons who were Directors at 31 December 2019 is shown in the Directors' Report on Remuneration on page 94.

There have been no changes to the number of shares held by Directors between 31 December 2019 and 26 February 2020.

## 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 apart from certain of the Group's third party funding arrangements which would terminate upon a change of control of the Company, such as the Group's revolving credit facility agreement. Further details are given in note 23 of the financial statements on page 158.

The Group's relationships with its OEM brand 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 2019, or was entered into during the year for any Director and/or connected person (2018: 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 | 96 (TSR graph) |
| 4 | Details of long-term incentive schemes | 91-93 |
| 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 waiver of dividends | 99 |
| 13 | Shareholder waiver of future dividends | 99 |
| 14 | Agreements with controlling shareholders | Not applicable |

## Greenhouse gas emissions

As a Distributor and Retailer Inchcape has no manufacturing footprint to minimise, however we collect data for all material emissions for which we deem ourselves to be responsible and look for ways in which to minimise our footprint. Data is collected for three key performance indicators:

- Energy – our global gas and electricity usage.
- Transport – the movement of cars and parts from the point of ownership (which means legal and contractual ownership) to the point we cease to have legal ownership.
- Travel – the movement of our people.

### Methodology

The methodology used the calculate the Group's greenhouse gas emissions is based on the GHG Protocol Corporate Accounting and Reporting Standard, and Mandatory Greenhouse Gas Reporting in line with HM Government guidance. The methodology uses conversion factors as published by the Department for Business, Energy and Industrial Strategy in 2018 and international electricity emission factors as published in the International Energy Agency's 'CO2 Emissions from Fuel Combustion (2018 edition)'.

**Data collection and reporting period**
Data has been collected for all markets from 1 January 2019 to 31 December 2019. The level at which we report is by business unit for each market. This covers our Retail operations, Distribution operations and business service operations, which fall within our operational control boundary.

## Total greenhouse gas emissions in 2019

**GHG emissions**

| | Total emissions (tonnes $CO_2e$) | | |
|---|---|---|---|
| Scope 1 and 2 emissions | **Year ended 31 Dec 2019** | Year ended 31 Dec 2018* | Change in emissions |
| Scope 1 (Direct emissions from combustion of fuels and operation of facilities) | **10,744** | 10,954 | -2% |
| Scope 2 (Electricity, heat, steam and cooling purchased for own use) | **46,629** | 43,037 | +8% |
| Total Scope 1 and 2 emissions | **57,374** | 53,991 | +6% |
| Operational emissions intensity | | | |
| Intensity metric – total revenue (£m) | **9,391** | 7,838 | +20% |
| Total Scope 1 and 2 emissions (tonnes $CO_2e$) | **57,374** | 53,991 | +6% |
| Scope 1 and 2 emissions per £m ($tCO_2e$/£m) | **6.1** | 6.9 | -11% |

The 2018 figures have been restated following the correction of an error in the data supplied by the Singapore market.

**Intensity ratio**
The Group's intensity ratio is revenue per tonne of $CO_2e$. This allows for a fair comparison over time of $CO_2e$ emissions given the growth trajectory envisaged for the Group and cyclical variations in business activity.

## Employees and employee involvement

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.

Our performance and talent framework, DRIVE5, sets performance expectations, behaviours and values for our people. It was developed using inputs from colleague and customer focus groups and incorporates our OEM brand partners' existing frameworks of skills and behaviours to ensure that we can deliver against our stakeholders' expectations in support of our ambition to be the world's most trusted Distributor and Retailer.

The Company has various employee policies in place covering a wide range of issues such as family friendly policies, employment rights and equal opportunities. Policies are implemented at a local level and comply with any relevant legislation in that market. All policies are available on the Group's intranet and compliance is monitored at local level.

The Group's bonus and long-term incentive schemes are designed to encourage involvement in the Company's performance. UK employees are eligible to join the SAYE scheme, which is offered annually. Further details can be found in the Directors' Report on Remuneration on pages 76 to 97.

## Employee communication

Town Hall meetings are held in each market on a regular basis and also following the release of any financial updates by the Company. The Town Hall meetings provide employees with information on the Group's performance and provide an opportunity for consulting employees on new initiatives or other matters that concern them. The Group's global intranet, iConnect also provides a means of communicating important issues to employees.

The Employee Experience Consultation is the primary tool for obtaining the views of employees and the results of the survey are reported to the CSR Committee on an annual basis. The chair of the CSR Committee is the designated director for communicating the views of employees to the Board and he reports the findings to the Board following each meeting.

The consultation enables the Board to gain an understanding of how the employee experience is perceived and what actions can be taken to enhance this experience so employees feel challenged, excited, engaged and supported in their roles.

Further details can be found in the CSR Report on pages 33 to 35.

## 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 2019 is as follows:

| | | Male | | Female | Total |
|---|---|---|---|---|---|
| Board | 6 | 75.0% | 2 | 25.0% | **8** |
| Senior management | 64 | 83.1% | 13 | 16.9% | **77** |
| All employees | 12,892 | 74.4% | 4,435 | 25.6% | **17,327** |

The Nomination Committee is responsible for succession planning on the Board and as such considers the recommendations of the Hampton-Alexander Review and Parker Review as part of the recruitment process. The Board has decided not to set targets and has achieved the recommendation of 33% female representation by 2020 as recommended by the Hampton-Alexander Review.

The Nomination Committee ensures that a broad mix of suitable candidates are put forward for consideration for vacancies. Management are also focusing on diversity as part of the talent planning process to strengthen diversity within the talent pipeline. The Diversity Policy Statement is given on page 66.

## Principal financial risk factors

These risks are shown on pages 42 to 51.

## 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 24 to the financial statements on pages 160 to 167.

## Branches outside the UK

The Company does not have any branches outside the UK.

## Events after the reporting period

None.

## Political donations

The Company did not make any political donations in 2019 and does not intend to make any political donations in 2020.

## Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and parent company 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 parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Board of Directors, confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the principal risks and uncertainties that it faces.

The Directors considered the key messages contained in the Strategic Report along with the disclosures made throughout to ensure that they are consistent, transparent and a true reflection of the business. The Directors also reviewed supporting documentation which addresses specific statements made in the report and the evidence to support those statements.

Following this review, the Directors consider, when taken as a whole, that the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

## Business relationships

Having positive relationships with our OEM brand partners, our main suppliers, and our customers is imperative for the long-term success of the Company. Our OEM brand partner relationships are key to every part of our value chain and the length of these relationships, which are given on page 15 is testament to their strength. Engagement with the OEMs is given on page 16 and the 'OEM partner of choice' Ignite objective is given on page 18.

The customer relationship is also extremely important, and we have undertaken a comprehensive project to understand the customer journey in order to improve their experience. Further details of the Ignite strategy to 'Lead in customer experience' are given on page 18, a response to changing customer needs now and in the future.

## Culture

The Board monitors the culture of the Company by reviewing reports received from the whistleblowing line, Speak Up!, via reporting to the Audit Committee, reviewing the employee voice via the results of the Employee Experience Consultation, which is monitored by the CSR Committee, and reviewing the number of employees who have undertaken the Code of Conduct training. The Board also carries out an annual global talent and leadership review as part of its succession planning activities which enable the monitoring of key metrics such as internal promotions and development programmes. The Remuneration Committee considers wider pay and practices when reviewing Executive remuneration and has an annual update on remuneration practices which allows it to assess whether they drive the right behaviours within the businesses in accordance with the DRIVE5 performance drivers, see page 100. Members of the Board also have the opportunity to talk to employees, without the presence of management, during the annual overseas Board trip.

## Going concern

Having assessed the principal risks and the other matters discussed in connection with the viability statement on page 52, the Directors consider it appropriate to adopt the going concern basis of accounting in the financial statements for the next 12 months.

## Auditor and disclosure of information to the auditor

The auditor, Deloitte LLP, has indicated its willingness to continue in office. A resolution to reappoint Deloitte as auditor will be proposed at the AGM.

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.

## Annual General Meeting

The AGM will be held at 11.00 a.m. on Thursday, 21 May 2020 at The Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS. 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 Directors' Report was approved by the Board and has been signed by the secretary of the Company.

**Tamsin Waterhouse**
Group Company Secretary

# Financial statements



**Other information**

# Independent auditor's report to the members of Inchcape plc

## Report on the audit of the financial statements

### Opinion

In our opinion:

- the financial statements of Inchcape plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the accounting policies; and
- the related notes 1 to 35 of the consolidated financial statements and notes 1 to 14 of the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 3 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>– Goodwill impairment assessment<br>– Disposal accounting<br>– Initial adoption of IFRS 16 Leases<br><br>Within this report, key audit matters are identified as follows:<br>Newly identified<br>Similar level of risk<br>Increased level of risk<br>Decreased level of risk |
| **Materiality** | The materiality that we used for the Group financial statements was £16.1 million which was determined on the basis of 5% of profit before taxation and exceptional gains and losses on business disposals, impairments and restructuring costs. |
| **Scoping** | We conducted our work in 19 countries, with 25 reporting units subject to full-scope audit procedures.<br>The reporting units where we conducted our audit work accounted for 88% of the Group's revenue, 95% of the Group's profit before taxation and exceptional items and 89% of the Group's net assets. |
| **Significant changes in our approach** | We have identified Disposal accounting and the Initial adoption of IFRS 16 Leases as new key audit matters in the current year due to the quantum of the disposals and the recognised lease liabilities and right-of-use assets and level of judgement involved in accounting for the disposals and the first time adoption of IFRS 16.<br>In the prior year our key audit matters included acquisition accounting and inventory valuation. In the current year we have concluded that these do not represent key audit matters.<br>In relation to acquisition accounting, the acquisitions in the current year were not as significant as those in the prior year.<br>In relation to inventory valuation, the ageing of the Group's inventory balance has improved and the country specific inventory concerns are not as relevant in the current year. |

## Conclusions relating to going concern, principal risks and viability statement

### Going concern

We have reviewed the Directors' statement in the accounting policies on page 107 of the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

**Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.**

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

### Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 41- 51 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 70 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 52 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 are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

**Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.**

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Goodwill impairment assessment

| | |
|---|---|
| **Key audit matter description** | The Group has recognised goodwill of £215.7 million (2018: £259.8 million) across nine cash generating units ("CGUs") as at 31 December 2019. The UK Retail CGU represents the largest balance at £80.2 million (2018: £90.3 million).<br><br>The UK retail market has continued to face challenging trading conditions in 2019 with industry-wide metrics expecting these conditions to continue in 2020. Management tested the UK Retail CGU for impairment at 31 December 2019 as part of the annual impairment review process. Management concluded that the recoverable amount was higher than the carrying value. Consequently, no impairment charge was recorded in 2019.<br><br>The Group's assessment of impairment in accordance with IAS 36 Impairment of Assets is a judgemental process which requires estimating future cash flows based on management's view of future business prospects, the long term growth rate and the discount rate.<br><br>Our key audit matter focuses on the robustness of the revenue, profit and cash flow forecasts of the UK Retail business. Given the significant level of judgement involved, we identified this key audit matter as a potential fraud risk.<br><br>Refer to page 67 (Audit Committee report) and note 11 to the consolidated financial statements. |
| **How the scope of our audit responded to the key audit matter** | We performed the following procedures in response to the key audit matter identified:<br>– Completed a walkthrough of the impairment process and obtained an understanding of the design and implementation of the relevant controls addressing the accuracy of the revenue, profit and cash flow forecasts;<br>– Met with UK Retail and Group management to understand and critically challenged the key underlying assumptions used in the forecasts that form the basis of the Group's impairment review, through the assessment of contradictory information, including a review of external industry growth forecasts, news articles and competitor announcements;<br>– Assessed the accuracy of previously prepared forecasts; this included reviewing trading performance in 2019 to determine management's ability to forecast accurately and understand the reasons for any material variances;<br>– Ran sensitivities to assess the robustness of the model's headroom, this involved running a variety of downside sensitivities to stress-test the model;<br>– Performed additional sensitivities, including running weighted-probability analyses, to assess the robustness of the model; this involved running combined sensitivities, using industry growth trends, and modelling the potential impacts of Brexit;<br>– Checked the model integrity, including reviewing the model for mathematical and clerical accuracy; and<br>– Assessed contradictory information, including a review of external industry growth forecasts and industry news articles. |
| **Key observations** | Based on the audit procedures performed we are satisfied that the valuation of goodwill at year end is appropriate. |

### Disposal accounting

| | |
|---|---|
| **Key audit matter description** | The Group completed disposals of Retail sites in the UK, Australia and China during the year, generating a net gain on disposal of £108.8 million (2018: Nil). The Group also has assets held for sale at 31 December 2019 of £5.1 million (2018: £8.9 million) and disposal groups held for sale with assets of £144.3 million (2018: Nil) and liabilities of £106.1 million (2018: Nil).<br><br>The key audit matter in relation to disposal accounting was regarding management's judgement in determining assets held for sale and the identification of the relevant assets and liabilities in the calculation of the net gain on disposal.<br><br>Refer to page 67 (Audit Committee report) and notes 20 and 29 to the consolidated financial statements. |

| | |
|---|---|
| **How the scope of our audit responded to the key audit matter** | We performed the following procedures in response to the key audit matter identified:<br>– Completed a walkthrough of the disposal accounting process, including management's process for the classification of assets and disposal groups as held for sale process, and obtained an understanding of the design and implementation of the relevant controls addressing the key audit matter;<br>– Performed enquiries of management and inspected the Board and relevant sub-committee minutes of meetings;<br>– Evaluated the appropriateness of the Group's judgement on the determination of assets and disposal groups held for sale;<br>– Reviewed the disposal share purchased agreements and asset purchase agreements;<br>– Performed audit procedures on the valuation and completeness of material asset and liability balances on the transaction date;<br>– Tested the allocation of goodwill to disposal groups held for sale for accuracy and appropriateness;<br>– Agreed the disposal proceeds to bank statements; and<br>– Tested the mathematical accuracy of management's calculations. |
| **Key observations** | Based on the audit procedures performed we are satisfied that the completed disposals have been appropriately accounted for in the year ended 31 December 2019 and the assets held for sale and the disposal groups held for sale are appropriately classified and valued at year end. |

### Initial adoption of IFRS 16 – Leases !

| | |
|---|---|
| **Key audit matter description** | The Group adopted IFRS 16 on 1 January 2019 when the standard became effective. IFRS 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases.<br>The Group has applied IFRS 16 using the fully retrospective approach, with restatement of the comparative information.<br>As at 31 December 2019, a lease liability of £352.8 million (2018: £460.4 million) and a right-of-use asset of £313.3 million (2018: £415.2 million) was recognised.<br>The challenges of implementing the new standard were primarily due to a combination of the global spread of the Group's operations and the following judgements made by management related to the complexities of IFRS 16:<br>– Identification of leases; and<br>– The determination of the incremental borrowing rate ("IBR").<br>Due to these factors, the initial adoption of IFRS 16 was identified as a key audit matter.<br>Refer to page 67 (Audit Committee report) and notes 13 and 33 to the consolidated financial statements. |
| **How the scope of our audit responded to the key audit matter** | We performed the following procedures in response to the key audit matter identified:<br>– Completed a walkthrough of the lease identification, measurement and disclosure process and obtained an understanding of the design and implementation of the relevant controls addressing the key audit matter;<br>– Verified the accuracy of the underlying lease data by agreeing a representative sample of leases to their original contract and other supporting information;<br>– Tested the reconciliation to the Group's operating lease commitments (disclosed in Accounting Policies) in order to assess completeness of the leases;<br>– Agreed a representative sample of the lease documents and listings to the leases identified under IFRS 16 for completeness;<br>– Inspected the general ledgers for any rental expenses that had not been identified as leases under IFRS 16;<br>– Assessed the appropriateness of the discount rates applied in determining lease liabilities with the involvement of our valuation specialists;<br>– Performed independent recalculations of a representative sample of lease liabilities and right of use assets at 31 December 2019 and 2018; and<br>– Assessed whether the disclosures within the financial statements satisfy the requirements of IFRS 16 – Leases and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. |
| **Key observations** | Based on the audit procedures performed we are satisfied that the IFRS 16 – Leases accounting standard has been appropriately adopted in 2019. |

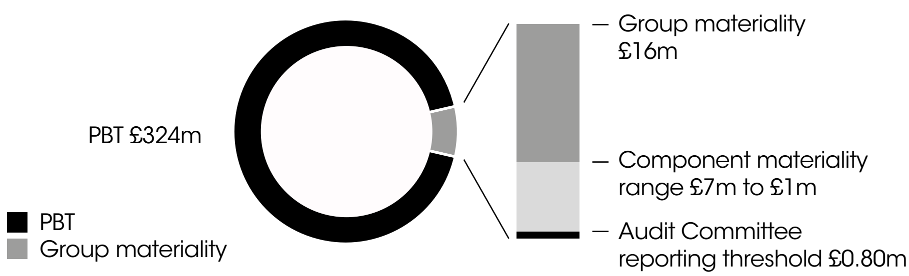
## Our application of materiality

### Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

| | Group financial statements | Parent company financial statements |
|---|---|---|
| **Materiality** | £16.1 million (2018: £18.0 million) | £16.0 million (2018: £17.7 million) |
| **Basis for determining materiality** | Group materiality equals 5% profit before taxation adjusted for other asset impairments, restructuring costs and gains and losses on the disposal of sites and businesses.<br>In the prior year Group materiality was based on 5% of profit before taxation and exceptional impairment, pension and finance costs. | Parent company materiality equals 1% of net assets, which has been capped lower than Group materiality.<br>In the prior year parent company materiality equated to 1% of net assets. |
| **Rationale for the benchmark applied** | The adjusted profit before taxation is considered to be the most relevant benchmark as this provides the most stable and comparable profit metric. | As the parent company of the Group it does not generate significant revenues but instead holds investments and incurs costs such that net assets are an appropriate base to use to determine materiality. |




### Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

a) the quality of the control environment and whether we were able to rely on controls;
b) the low turnover in key management personnel; and
c) the absence of material uncorrected adjustments in the prior year.

## Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.8 million (2018: £0.9 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

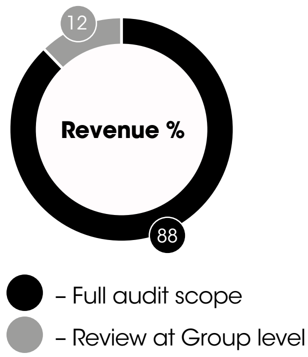
## An overview of the scope of our audit

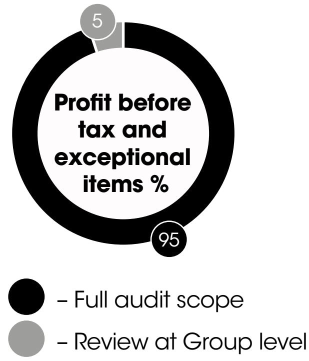
### Identification and scoping of components

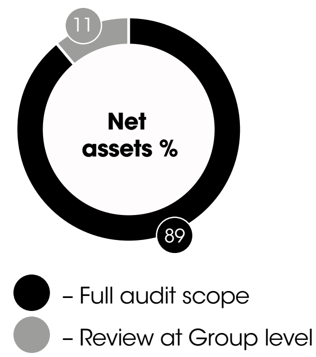
The parent company is audited directly by the Group audit team.

We conducted our work in 19 (2018: 17) countries, engaging 21 (2018: 18) component audit teams with 25 (2018: 26) reporting units subject to full-scope audit procedures.

The reporting units where we conducted our audit work accounted for 88% (2018: 89%) of the Group's revenue, 95% (2018: 93%) of the Group's profit before taxation and exceptional items and 89% (2018: 88%) of the Group's net assets. Our scope has increased to include the newly acquired Lithuanian BMW Distribution business.




**Working with other auditors**

We engaged component auditors from Deloitte member firms to perform procedures at these components under our direction and supervision. This approach also allows us to engage local auditors who have appropriate knowledge of local regulations to perform the audit work, under a common Deloitte audit approach.

The range of component materialities applied, excluding the parent company, is £1 million to £7 million (2018: £7.6 million to £12.6 million). We issued detailed instructions to the component auditors, and directed and supervised their work. Senior members of the audit team visited 10 (2018: 13) countries during the planning and performance stages of our audit. In addition we attended the planning and close meeting calls for all full-scope components, engaged in frequent remote communication and reviewed significant component working papers.

A dedicated member of the Group audit team is assigned to facilitate an effective and consistent approach to component oversight. In addition to the work performed at a component level, at Group level we have audited the consolidation process and carried out analytical procedures over the components not subject to full-scope audits.

At a Group level we also performed audit procedures on centrally held balances including goodwill, lease right of use assets and liabilities, retirement benefit obligations, taxation, treasury, head office costs and litigation.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

## Responsibilities of 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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulation, are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, in house legal council and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: the judgements related to the goodwill impairment analysis, disposal accounting and the valuation of used inventory. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's regulatory solvency requirements and environmental regulations.

## Audit response to risks identified

As a result of performing the above, we identified goodwill impairment and disposal accounting as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- in addressing the risk of fraud in the valuation of used inventory, we corroborated underlying data to third party data sources and recalculated the provision in local markets using location specific industry knowledge, considering market conditions and assessing whether the provision is complete and the vehicles have been recorded at the lower of cost or net realosable value; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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 the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

## Matters on which we are required to report by exception

### Adequacy of explanations received and accounting records

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

We have nothing to report in respect of these matters.

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

## Other matters

### Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the members on 25 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the years ending 31 December 2018 and 31 December 2019.

### Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Anna Marks FCA (Senior statutory auditor)**
For and on behalf of Deloitte LLP
Statutory Auditor
London
26 February 2020

# Consolidated income statement

For the year ended 31 December 2019

| | Notes | Before exceptional items 2019 £m | Exceptional items (note 2) 2019 £m | Total 2019 £m | Before exceptional items 2018 (Restated)[1] £m | Exceptional items (note 2) 2018 (Restated)[1] £m | Total 2018 (Restated)[1] £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 1, 3 | **9,379.7** | **–** | **9,379.7** | 9,277.0 | – | 9,277.0 |
| Cost of sales | | **(8,107.6)** | **–** | **(8,107.6)** | (7,975.7) | – | (7,975.7) |
| **Gross profit** | | **1,272.1** | **–** | **1,272.1** | 1,301.3 | – | 1,301.3 |
| Net operating expenses | 3 | **(899.0)** | **75.5** | **(823.5)** | (902.7) | (223.7) | (1,126.4) |
| **Operating profit** | | **373.1** | **75.5** | **448.6** | 398.6 | (223.7) | 174.9 |
| Share of profit after tax of joint ventures and associates | 14 | **0.3** | **–** | **0.3** | 0.1 | – | 0.1 |
| **Profit before finance and tax** | | **373.4** | **75.5** | **448.9** | 398.7 | (223.7) | 175.0 |
| Finance income | 6 | **24.1** | **–** | **24.1** | 20.1 | – | 20.1 |
| Finance costs | 7 | **(71.2)** | **–** | **(71.2)** | (68.2) | (13.9) | (82.1) |
| **Profit before tax** | | **326.3** | **75.5** | **401.8** | 350.6 | (237.6) | 113.0 |
| Tax | 8 | **(75.6)** | **2.5** | **(73.1)** | (79.1) | 5.5 | (73.6) |
| **Profit for the year** | | **250.7** | **78.0** | **328.7** | 271.5 | (232.1) | 39.4 |
| **Profit attributable to:** | | | | | | | |
| – Owners of the parent | | | | **322.9** | | | 32.4 |
| – Non-controlling interests | | | | **5.8** | | | 7.0 |
| | | | | **328.7** | | | 39.4 |
| Basic earnings per share (pence) | 9 | | | **79.0p** | | | 7.8p |
| Diluted earnings per share (pence) | 9 | | | **78.4p** | | | 7.8p |

1. See note 33.

The notes on pages 126 to 176 are an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

For the year ended 31 December 2019

| | Notes | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|---|
| **Profit for the year** | | **328.7** | 39.4 |
| **Other comprehensive (loss) / income:** | | | |
| *Items that will not be reclassified to the consolidated income statement* | | | |
| Defined benefit pension scheme remeasurements | 5 | **(71.7)** | 36.4 |
| Current tax recognised in consolidated statement of comprehensive income | | **–** | (6.1) |
| Deferred tax recognised in consolidated statement of comprehensive income | 17 | **10.1** | (0.1) |
| | | **(61.6)** | 30.2 |
| *Items that may be or have been reclassified subsequently to the consolidated income statement* | | | |
| Cash flow hedges | | **(25.9)** | 25.4 |
| Exchange differences on translation of foreign operations | | **(98.6)** | (9.6) |
| Current tax recognised in consolidated statement of comprehensive income | | **–** | (0.6) |
| Deferred tax recognised in consolidated statement of comprehensive income | 17 | **7.0** | (5.8) |
| | | **(117.5)** | 9.4 |
| Other comprehensive (loss) / income for the year, net of tax | | **(179.1)** | 39.6 |
| **Total comprehensive income for the year** | | **149.6** | 79.0 |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| – Owners of the parent | | **146.8** | 70.3 |
| – Non-controlling interests | | **2.8** | 8.7 |
| | | **149.6** | 79.0 |

1. See note 33.

The notes on pages 126 to 176 are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

As at 31 December 2019

| | Notes | 2019 £m | 2018 (Restated)[1] £m | 1 January 2018 (Restated)[1] £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 11 | **577.9** | 606.0 | 639.5 |
| Property, plant and equipment | 12 | **695.1** | 821.7 | 787.5 |
| Right-of-use assets | 13 | **313.3** | 415.2 | 393.2 |
| Investments in joint ventures and associates | 14 | **4.3** | 4.3 | 4.2 |
| Financial assets at fair value through other comprehensive income | 15 | **6.9** | 6.6 | 7.3 |
| Trade and other receivables | 16 | **38.7** | 52.4 | 42.3 |
| Deferred tax assets | 17 | **58.3** | 33.3 | 39.9 |
| Retirement benefit asset | 5 | **78.7** | 116.5 | 105.9 |
| | | **1,773.2** | 2,056.0 | 2,019.8 |
| **Current assets** | | | | |
| Inventories | 18 | **1,566.9** | 1,851.9 | 1,768.6 |
| Trade and other receivables | 16 | **512.3** | 512.6 | 462.8 |
| Financial assets at fair value through other comprehensive income | 15 | **0.2** | 0.8 | 0.2 |
| Derivative financial instruments | 24 | **16.2** | 92.1 | 52.4 |
| Current tax assets | | **21.6** | 22.6 | 10.1 |
| Cash and cash equivalents | 19 | **423.0** | 589.3 | 926.9 |
| | | **2,540.2** | 3,069.3 | 3,221.0 |
| Assets held for sale and disposal group | 20 | **149.4** | 8.9 | 13.8 |
| | | **2,689.6** | 3,078.2 | 3,234.8 |
| **Total assets** | | **4,462.8** | 5,134.2 | 5,254.6 |
| **Current liabilities** | | | | |
| Trade and other payables | 21 | **(1,996.4)** | (2,356.6) | (2,234.9) |
| Derivative financial instruments | 24 | **(27.4)** | (13.3) | (21.6) |
| Current tax liabilities | | **(82.4)** | (86.4) | (73.7) |
| Provisions | 22 | **(23.0)** | (20.3) | (22.2) |
| Lease liabilities | 13 | **(56.8)** | (66.3) | (56.4) |
| Borrowings | 23 | **(50.1)** | (417.0) | (532.8) |
| | | **(2,236.1)** | (2,959.9) | (2,941.6) |
| Liabilities directly associated with the disposal group | 20 | **(106.1)** | – | – |
| | | **(2,342.2)** | (2,959.9) | (2,941.6) |
| **Non-current liabilities** | | | | |
| Trade and other payables | 21 | **(77.2)** | (67.3) | (58.9) |
| Provisions | 22 | **(12.9)** | (14.3) | (11.2) |
| Deferred tax liabilities | 17 | **(96.7)** | (92.3) | (73.8) |
| Lease liabilities | 13 | **(296.0)** | (394.1) | (365.9) |
| Borrowings | 23 | **(270.0)** | (210.0) | (360.5) |
| Retirement benefit liability | 5 | **(69.2)** | (34.6) | (33.6) |
| | | **(822.0)** | (812.6) | (903.9) |
| **Total liabilities** | | **(3,164.2)** | (3,772.5) | (3,845.5) |
| **Net assets** | | **1,298.6** | 1,361.7 | 1,409.1 |
| **Equity** | | | | |
| **Share capital** | 25 | **40.0** | 41.6 | 41.6 |
| Share premium | | **146.7** | 146.7 | 146.7 |
| Capital redemption reserve | | **140.6** | 139.0 | 139.0 |
| Other reserves | 26 | **(190.4)** | (75.9) | (83.6) |
| Retained earnings | 27 | **1,141.4** | 1,087.0 | 1,145.0 |
| Equity attributable to owners of the parent | | **1,278.3** | 1,338.4 | 1,388.7 |
| **Non-controlling interests** | | **20.3** | 23.3 | 20.4 |
| Total equity | | **1,298.6** | 1,361.7 | 1,409.1 |

1. See note 33.

The notes on pages 126 to 176 are an integral part of these consolidated financial statements. The consolidated financial statements on pages 112 to 176 were approved by the Board of Directors on 26 February 2020 and were signed on its behalf by:

**Stefan Bomhard,**
Group Chief Executive

**Gijsbert De Zoeten,**
Chief Financial Officer

# Consolidated statement of changes in equity

For the year ended 31 December 2019



| | Notes | Share capital £m | Share premium £m | Capital redemption reserve £m | Other reserves (note 26) £m | Retained earnings (note 27) £m | Equity attributable to owners of the parent £m | Non-controlling interests £m | Total shareholders' equity £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | | 41.6 | 146.7 | 139.0 | (83.5) | 1,183.5 | 1,427.3 | 20.6 | 1,447.9 |
| Adjustment for IFRS 16 | 33 | – | – | – | (0.1) | (38.5) | (38.6) | (0.2) | (38.8) |
| At 1 January 2018 (restated)[1] | | 41.6 | 146.7 | 139.0 | (83.6) | 1,145.0 | 1,388.7 | 20.4 | 1,409.1 |
| Profit for the year (restated)[1] | | – | – | – | – | 32.4 | 32.4 | 7.0 | 39.4 |
| Other comprehensive income for the year (restated)[1] | | – | – | – | 7.7 | 30.2 | 37.9 | 1.7 | 39.6 |
| Total comprehensive income for the year (restated)[1] | | – | – | – | 7.7 | 62.6 | 70.3 | 8.7 | 79.0 |
| Share-based payments, net of tax | 4,17 | – | – | – | – | 7.2 | 7.2 | – | 7.2 |
| Net purchase of own shares by the Inchcape Employee Trust | | – | – | – | – | (12.6) | (12.6) | – | (12.6) |
| Dividends: | | | | | | | | | |
| – Owners of the parent | 10 | – | – | – | – | (115.2) | (115.2) | – | (115.2) |
| – Non-controlling interests | | – | – | – | – | – | – | (5.8) | (5.8) |
| **At 1 January 2019 (restated)[1]** | | **41.6** | **146.7** | **139.0** | **(75.9)** | **1,087.0** | **1,338.4** | **23.3** | **1,361.7** |
| Adjustment for IFRIC 23[2] | | **–** | **–** | **–** | **–** | **6.1** | **6.1** | **–** | **6.1** |
| Profit for the year | | **–** | **–** | **–** | **–** | **322.9** | **322.9** | **5.8** | **328.7** |
| Other comprehensive loss for the year | | **–** | **–** | **–** | **(114.5)** | **(61.6)** | **(176.1)** | **(3.0)** | **(179.1)** |
| Total comprehensive (loss) / income for the year | | **–** | **–** | **–** | **(114.5)** | **261.3** | **146.8** | **2.8** | **149.6** |
| Share-based payments, net of tax | 4,17 | **–** | **–** | **–** | **–** | **6.8** | **6.8** | **–** | **6.8** |
| Share buyback programme | 25 | **(1.6)** | **–** | **1.6** | **–** | **(100.0)** | **(100.0)** | **–** | **(100.0)** |
| Net purchase of own shares by the Inchcape Employee Trust | | **–** | **–** | **–** | **–** | **(9.3)** | **(9.3)** | **–** | **(9.3)** |
| Dividends: | | | | | | | | | |
| – Owners of the parent | 10 | **–** | **–** | **–** | **–** | **(110.5)** | **(110.5)** | **–** | **(110.5)** |
| – Non-controlling interests | | **–** | **–** | **–** | **–** | **–** | **–** | **(5.8)** | **(5.8)** |
| **At 31 December 2019** | | **40.0** | **146.7** | **140.6** | **(190.4)** | **1,141.4** | **1,278.3** | **20.3** | **1,298.6** |

1. See note 33.
2. See accounting policies.

The notes on pages 126 to 176 are an integral part of these consolidated financial statements.

Share-based payments include a net tax credit of £0.7m (current tax charge of £nil and a deferred tax credit of £0.7m) (2018 – net tax charge of £0.3m (current tax charge of £0.1m and a deferred tax charge of £0.2m)).

# Consolidated statement of cash flows

For the year ended 31 December 2019

| | Notes | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|---|
| **Cash generated from operating activities** | | | |
| Cash generated from operations | 28a | **445.9** | 581.8 |
| Tax paid | | **(74.1)** | (98.7) |
| Interest received | | **22.0** | 17.9 |
| Interest paid | | **(66.6)** | (64.1) |
| **Net cash generated from operating activities** | | **327.2** | 436.9 |
| **Cash flows from investing activities** | | | |
| Acquisition of businesses, net of cash and overdrafts acquired | 29 | **(41.2)** | (152.7) |
| Net cash inflow from sale of businesses | 29 | **230.4** | 13.4 |
| Net cash inflow from disposal of investments in joint ventures and associates | | **0.1** | – |
| Purchase of property, plant and equipment | | **(44.9)** | (90.8) |
| Purchase of intangible assets | | **(24.7)** | (34.4) |
| Proceeds from disposal of property, plant and equipment | | **15.7** | 25.9 |
| Purchase of financial assets at fair value through other comprehensive income | | **–** | (0.6) |
| Proceeds from sale of financial assets at fair value through other comprehensive income | | **–** | 0.5 |
| Receipt from sub-lease receivables | | **0.6** | 1.0 |
| **Net cash generated from / (used in) investing activities** | | **136.0** | (237.7) |
| **Cash flows from financing activities** | | | |
| Share buyback programme | | **(99.3)** | – |
| Net purchase of own shares by the Inchcape Employee Trust | | **(9.3)** | (12.6) |
| Repayment of Private Placement loan notes | | **(75.4)** | – |
| Net cash (outflow) / inflow from other borrowings | | **(122.0)** | 35.6 |
| Payment of capital element of lease liabilities | | **(65.7)** | (64.0) |
| Equity dividends paid | 10 | **(110.5)** | (115.2) |
| Dividends paid to non-controlling interests | | **(5.8)** | (5.8) |
| **Net cash used in financing activities** | | **(488.0)** | (162.0) |
| **Net (decrease) / increase in cash and cash equivalents** | 28b | **(24.8)** | 37.2 |
| Cash and cash equivalents at beginning of the year | | **463.4** | 416.6 |
| Effect of foreign exchange rate changes | | **(59.4)** | 9.6 |
| Cash and cash equivalents at the end of the year | | **379.2** | 463.4 |
| **Cash and cash equivalents consist of:** | | | |
| – Cash at bank and cash equivalents | 19 | **321.5** | 370.3 |
| – Short-term deposits | 19 | **101.5** | 219.0 |
| – Bank overdrafts | 23 | **(43.8)** | (125.9) |
| | | **379.2** | 463.4 |

1. See note 33.

The notes on pages 126 to 176 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. Inchcape Plc is a public company limited by shares, registered in England and Wales.

## Accounting convention

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income, 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 policies and disclosures

The accounting policies have been applied consistently throughout the reporting period, other than in respect of IFRS 16 and IFRIC 23 which have been newly adopted with effect from 1 January 2019. The other standards that became applicable for the current reporting period did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

### IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessees and lessors. IFRS 16 superseded the previous guidance on leases including IAS 17 *Leases* and the related interpretations when it became effective for the Group's financial year commencing 1 January 2019.

Under IFRS 16, the distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting and replaced with a model where a right-of-use asset and a corresponding liability are recognised for all leases by lessees. As a result, all leases are on balance sheet except for short-term leases and leases of low value assets. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss as the Group has elected to apply the transition exemptions available. Short-term leases are leases with a lease term of 12 months or less.

Right-of-use assets are initially measured at cost and subsequently measured at cost less accumulated depreciation. Lease liabilities are initially measured at the present value of the lease payments. Subsequently, lease liabilities are adjusted for interest and lease payments. Consequently, earnings before interest, tax, depreciation and amortisation (EBITDA) has increased because operating lease expenses previously included in EBITDA are now recognised instead as depreciation of the right-of-use asset and interest expense on the lease liability. However, there is an overall reduction in profit before tax in the early years of a lease because the depreciation and interest charges will exceed the previous straight-line expense incurred under IAS 17. In addition, the classification of cash flows has also been affected because operating lease payments under IAS 17 were presented within operating cash flows, whereas under IFRS 16 the payments are split into a principal and interest portion which are presented as financing and operating cash flows respectively.

For leases in which the Group is a lessor, the Group has reassessed the classification of sub-leases in which the Group is a lessor. When the Group is an intermediary lessor it will account for its interests in the head lease and sub-lease separately. It will assess the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. Cash flows received from the principal and interest on finance lease receivables will be classified as cash flows from investing activities. As required by IFRS 9 an allowance for expected credit losses will be recognised on finance lease receivables where appropriate.

The Group has elected to apply the new standard on a fully retrospective basis to each prior reporting period and has accordingly restated the comparative information for the immediately preceding periods in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Further details of the restatement can be seen in note 33.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.7%.

As at 31 December 2018, the Group had non-cancellable operating lease commitments of £430.2m. When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using incremental borrowing rates applicable at the date of initial application. Differences between the discounted operating lease commitment figure and total lease liabilities recognised relate to transition exemptions available for short-term and low-value leases recognised on a straight-line basis as an expense as well as adjustments as a result of a different treatment of extension and termination options. Additionally, finance lease liabilities of £1.8m recognised as at 31 December 2018 have been reclassified and included in total lease liabilities of £460.4m as at 31 December 2018.

| | £m |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 430.2 |
| Add: adjustments as a result of a different treatment of extension and termination options and additional lease arrangements identified | 188.9 |
| (Less): short-term and low-value leases recognised on a straight-line basis as expense | (3.7) |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | (156.8) |
| Add: finance lease liabilities recognised as at 31 December 2018 | 1.8 |
| **Lease liabilities recognised as at 1 January 2019** | **460.4** |

**IFRIC 23 Uncertainty over income tax treatments**

The Group adopted IFRIC 23 with effect from 1 January 2019 and has applied the interpretation retrospectively with the cumulative effect of adoption being recognised as an adjustment to the opening balance of retained earnings. Comparatives have not been restated. The standard clarifies the accounting for income tax when it is unclear whether a taxing authority accepts the tax treatment. The interpretation requires the Group to determine whether uncertain tax positions are assessed separately or as a group and whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. On adoption, the Group derecognised liabilities totalling £6.1m.

**Standards not effective at the balance sheet date**

The following standards were in issue but were not yet 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 2020:

- Amendments to IAS 1 and IAS 8 – *Definition of Material*;
- Amendments to IFRS 3 – *Definition of a Business*;
- Amendments to IAS 1 – *Classification of liabilities*;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – *Interest rate benchmark reform*; and
- IFRS 17 – *Insurance contracts*

Management are currently reviewing the new standards to assess the impact that they may have on the Group's reported position and performance. Management do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group.

## 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.

## 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, incentives, or amounts collected on behalf of third parties. It is recognised to the extent that the transfer of promised goods or services to a customer has been satisfied 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 obligation to transfer the goods to the customer has been satisfied and the revenue can reliably be measured. The obligation to transfer goods to the customer is considered to have been satisfied when the vehicles or parts are invoiced and physically dispatched or collected.

Revenue from the rendering of services to the customer is considered to have been satisfied 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.

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 possibility of the buyback being exercised is highly likely. 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.

Where a vehicle is sold subject to a buyback commitment and the possibility of the buyback being exercised by the customer is not highly likely as the buyback price set is below the expected market value, revenue is recognised in full when the vehicle is sold. However, an estimate of the value of the buyback payments is deducted from revenue and deferred to the balance sheet. Similarly, an estimate of the value of the vehicles to be returned is deducted from cost of sales and also deferred to the balance sheet. These balances are considered to be contract liabilities.

Where additional services are included in the sale of a vehicle to a customer as part of the total vehicle package (e.g. extended warranty, free servicing, roadside assistance, fuel coupons etc) and the Group is acting as a principal in the fulfilment of the service, the value of the additional services should be separately identified, deducted from consideration receivable, recognised as deferred revenue on the balance sheet and subsequently recognised as revenue when the service is provided, or over the period to which the service relates. These balances are considered to be contract liabilities.

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.

Cost of sales includes the expense relating to the estimated cost of self-insured product 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 credit 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.

The new accounting standard covering uncertain tax positions, IFRIC 23 "Uncertainty over Income Tax Treatments", has been adopted by the Group from 1 January 2019. The Group recognises provisions for uncertain tax positions when it is not probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, in its income tax filings. Uncertain tax positions are assessed and measured using management's estimate of the most likely outcome including an assessment of whether uncertain tax positions should be considered separately or as a group. The Group recognises interest on late paid taxes as part of financing costs, and any penalties, if applicable, as part of the income tax expense.

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.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**Exceptional items**

In order to facilitate comparability with other companies, certain items which are material 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 and is used by management to facilitate internal performance analysis. Examples of events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, acquisition costs, restructuring of businesses, litigation, asset impairments and exceptional tax-related matters.

**Business combinations and goodwill**

The acquisition of subsidiaries is accounted for using the acquisition method (at the point the Group gains control over a business as defined by IFRS 3). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date.

Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of acquiree's identifiable net assets.

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. Cost comprises the 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 eight 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.

### Impairment of non-financial assets

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.

The provision for impairment of receivables is based on lifetime expected credit losses. Lifetime expected credit losses are calculated by assessing historic credit loss experience, adjusted for factors specific to the receivable and company. The amount of the loss is recognised in the consolidated income statement within 'net operating expenses'. When a trade receivable is not collectible, 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 based on an expected credit loss model under IFRS 9. The amount of the provision is the difference between the asset's carrying amount and the expected value of the amounts to be received.

**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 warranties provided as part of the sale of a vehicle and provide assurance to the customer that the product will work as sold. Provision is made for the expected cost of labour and parts based on historical claims experience and expected future trends.

### Leasehold property provision
A leasehold property 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, excluding the lease liability already recognised under IFRS 16. A leasehold property provision is also recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of the obligation which forms part of the Group's unavoidable cost of meeting its obligations under the lease contracts.

### 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 committed to a plan to sell and is actively marketing a business and disposal is expected within one year of the date of classification as held for sale, the assets and liabilities of the associated businesses are separately disclosed in the consolidated statement of financial position as a disposal group. Assets and liabilities 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 and liabilities 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. The accounting policies of the reportable segments are the same as the Group's accounting policies described in this note.

### Financial instruments
The Group classifies its financial instruments in the following categories: measured at amortised cost; measured at fair value through profit and loss; and measured at fair value through other comprehensive income. The classification is determined at initial recognition and depends on the purpose for which the financial instruments are required.

Measured at amortised cost includes non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. Financial assets 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. Financial liabilities are included in current liabilities, except where the maturity date is more than 12 months after the end of the reporting period. They are initially measured at original cost, less amortisation or provisions raised.

Measured 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.

Measured at fair value through other comprehensive income includes derivative financial assets and liabilities, which are further explained below, and available for sale financial assets such as bonds and equity investments. Derivative financial assets and liabilities are included in current assets and liabilities, except where the maturity date is more than 12 months after the end of the reporting period. Financial assets at fair value through other comprehensive income 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.

### 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.

### 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 24 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.

### Financial assets at fair value through other comprehensive income
Financial assets at fair value through other comprehensive income are primarily equity instruments that the Group has elected to recognise the changes in fair value of in other comprehensive income. They are recognised initially at fair value and are re-measured subsequently at fair value with gains and losses arising from changes in fair value recognised directly in equity and presented in the Group statement of comprehensive income. Cumulative gains and losses on equity instruments at fair value through other comprehensive income are not recycled to the Group income statement.

### 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.

### Critical accounting judgements and sources of estimation uncertainty
The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. 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:

### Sources of estimation uncertainty
For the sources of estimation uncertainty below, there is no significant risk that a material adjustment to the carrying amount of assets or liabilities may be required as a result of changes in the assumptions or estimates in the next period.

### Impairment of 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.

### Tax
The Group is subject to income taxes in the jurisdictions in which it operates. 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. 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. Where such issues exist, no single item is expected to give rise to a material adjustment in the following or subsequent years.

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 17). In the event that actual taxable profits are different, such differences may impact the carrying value of such deferred tax assets in future periods or extend the period over which the deferred tax assets are utilised.

### Pensions and other post-retirement benefits – assumptions
Pension and other post-retirement benefit liabilities are determined based on the actuarial assumptions detailed in note 5. A number of these assumptions require estimates to be made, including the rate of inflation 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.

### Pensions – discount rate
The Group's defined benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

### Discount rate applied to leases
In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. To arrive at the incremental borrowing rate the Group applies the respective country's (economic environment) risk free rate for the term corresponding to the lease term, adjusted for the Group's credit risk.

### Impairment of property, plant and equipment, intangible assets and right-of-use assets
Property, plant and equipment, intangible assets and right-of-use 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, 12 and 13).

## Critical accounting judgements

### Right-of-use assets and lease liabilities – extension and termination options
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

## 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 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. Sale of New and Used vehicles in Australia where the Group is also the Distributor of those vehicles, together with associated Aftersales activities of service, bodyshop repairs and parts sales. |
| | UK and Europe | Distribution of New vehicles and parts, together with associated marketing activities, in European markets. Sale of New and Used vehicles in Europe where the Group is also the Distributor of those vehicles, together with associated Aftersales activities of service, bodyshop repairs and parts sales. |
| | 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 and Europe | Sale of primarily New and Used premium vehicles in European 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. |

| 2019 | Distribution<br>Australasia<br>£m | UK and Europe<br>£m | Asia<br>£m | Emerging Markets<br>£m | Total Distribution<br>£m |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Total revenue | **1,036.3** | **1,329.6** | **1,681.9** | **993.5** | **5,041.3** |
| **Results** | | | | | |
| Trading profit / (loss) | **60.8** | **43.7** | **181.9** | **67.8** | **354.2** |
| Operating exceptional items | **–** | **–** | **24.2** | **(0.5)** | **23.7** |
| Operating profit / (loss) after exceptional items | **60.8** | **43.7** | **206.1** | **67.3** | **377.9** |
| 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

| 2019 | Australasia £m | UK and Europe £m | Emerging Markets £m | Retail Total Retail £m | Total pre Central £m | Central £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Total revenue | **306.7** | **3,004.9** | **1,026.8** | **4,338.4** | **9,379.7** | **–** | **9,379.7** |
| **Results** | | | | | | | |
| Trading profit / (loss) | **(1.4)** | **17.5** | **20.0** | **36.1** | **390.3** | **(17.2)** | **373.1** |
| Operating exceptional items | **(18.0)** | **72.7** | **–** | **54.7** | **78.4** | **(2.9)** | **75.5** |
| Operating profit / (loss) after exceptional items | **(19.4)** | **90.2** | **20.0** | **90.8** | **468.7** | **(20.1)** | **448.6** |
| Share of profit after tax of joint ventures and associates | | | | | | | **0.3** |
| Profit before finance and tax | | | | | | | **448.9** |
| Finance income | | | | | | | **24.1** |
| Finance costs | | | | | | | **(71.2)** |
| Profit before tax | | | | | | | **401.8** |
| Tax | | | | | | | **(73.1)** |
| Profit for the year | | | | | | | **328.7** |

Net finance costs of £47.1m 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:

| 2019 | £m |
|---|---|
| UK | **2,808.8** |
| Rest of the world | **6,570.9** |
| **Group** | **9,379.7** |

## 1 Segmental analysis continued

| 2019 | Australasia £m | UK and Europe £m | Asia £m | Emerging Markets £m | Distribution Total Distribution £m |
|---|---|---|---|---|---|
| **Segment assets and liabilities** | | | | | |
| Segment assets | **215.4** | **332.5** | **288.9** | **413.2** | **1,250.0** |
| Other current assets | | | | | |
| Other non-current assets | | | | | |
| Segment liabilities | **(368.1)** | **(305.3)** | **(378.8)** | **(297.9)** | **(1,350.1)** |
| Other liabilities | | | | | |
| **Net assets** | | | | | |

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

| 2019 | Australasia £m | UK and Europe £m | Asia £m | Emerging Markets £m | Distribution Total Distribution £m |
|---|---|---|---|---|---|
| **Other segment items** | | | | | |
| Capital expenditure: | | | | | |
| – Property, plant and equipment | **2.6** | **4.2** | **3.7** | **10.3** | **20.8** |
| – Interest in leased vehicles | **–** | **0.3** | **7.5** | **0.5** | **8.3** |
| – Right-of-use assets | **0.6** | **–** | **9.6** | **4.7** | **14.9** |
| – Intangible assets | **1.5** | **2.6** | **1.9** | **3.0** | **9.0** |
| Depreciation: | | | | | |
| – Property, plant and equipment | **3.0** | **3.4** | **8.8** | **8.5** | **23.7** |
| – Interest in leased vehicles | **0.2** | **–** | **3.9** | **1.4** | **5.5** |
| – Right-of-use assets | **9.7** | **4.5** | **25.3** | **11.8** | **51.3** |
| Amortisation of intangible assets | **3.2** | **2.0** | **2.5** | **1.4** | **9.1** |
| Impairment of goodwill | **–** | **–** | **–** | **–** | **–** |
| Impairment of other intangible assets | **–** | **–** | **–** | **–** | **–** |
| Impairment of property, plant and equipment | **1.8** | **–** | **–** | **–** | **1.8** |
| Impairment of right-of-use assets | **3.8** | **–** | **–** | **–** | **3.8** |
| Impairment of disposal group | **–** | **–** | **–** | **–** | **–** |
| Net provisions charged / (credited) to the consolidated income statement | **0.7** | **4.6** | **(2.4)** | **0.6** | **3.5** |

Net provisions include inventory, trade receivables impairment and other liability provisions.

| 2019 | Australasia £m | UK and Europe £m | Emerging Markets £m | Retail Total Retail £m | Total £m |
|---|---|---|---|---|---|
| **Segment assets and liabilities** | | | | | |
| Segment assets | **30.0** | **647.2** | **163.7** | **840.9** | **2,090.9** |
| Other current assets | | | | | **636.8** |
| Other non-current assets | | | | | **1,735.1** |
| Segment liabilities | **(17.8)** | **(623.6)** | **(93.0)** | **(734.4)** | **(2,084.5)** |
| Other liabilities | | | | | **(1,079.7)** |
| **Net assets** | | | | | **1,298.6** |

## 1 Segmental analysis continued

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

| 2019 | Australasia £m | UK and Europe £m | Emerging Markets £m | Retail Total Retail £m | Total pre Central £m | Central £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Other segment items** | | | | | | | |
| Capital expenditure: | | | | | | | |
| – Property, plant and equipment | **–** | **16.9** | **5.4** | **22.3** | **43.1** | **0.2** | **43.3** |
| – Interest in leased vehicles | **–** | **0.8** | **–** | **0.8** | **9.1** | **–** | **9.1** |
| – Right-of-use assets | **–** | **4.5** | **5.1** | **9.6** | **24.5** | **1.8** | **26.3** |
| – Intangible assets | **2.3** | **0.6** | **0.2** | **3.1** | **12.1** | **13.1** | **25.2** |
| Depreciation: | | | | | | | |
| – Property, plant and equipment | **2.4** | **12.3** | **4.1** | **18.8** | **42.5** | **0.1** | **42.6** |
| – Interest in leased vehicles | **–** | **1.4** | **–** | **1.4** | **6.9** | **–** | **6.9** |
| – Right-of-use assets | **3.2** | **9.0** | **2.3** | **14.5** | **65.8** | **0.5** | **66.3** |
| Amortisation of intangible assets | **–** | **3.4** | **1.4** | **4.8** | **13.9** | **2.1** | **16.0** |
| Impairment of goodwill | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Impairment of other intangible assets | **0.7** | **–** | **–** | **0.7** | **0.7** | **–** | **0.7** |
| Impairment of property, plant and equipment | **–** | **3.0** | **–** | **3.0** | **4.8** | **–** | **4.8** |
| Impairment of right-of-use assets | **4.9** | **–** | **–** | **4.9** | **8.7** | **–** | **8.7** |
| Impairment of disposal group | **–** | **2.8** | **–** | **2.8** | **2.8** | **–** | **2.8** |
| Net provisions charged / (credited) to the consolidated income statement | **(1.4)** | **24.6** | **1.3** | **24.5** | **28.0** | **0.4** | **28.4** |

Net provisions include inventory, trade receivables impairment and other liability provisions.

| 2018 (Restated)[1] | Australasia £m | UK and Europe £m | Asia £m | Emerging Markets £m | Distribution Total Distribution £m |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Total revenue | 1,198.4 | 1,145.5 | 1,687.7 | 956.5 | 4,988.1 |
| **Results** | | | | | |
| Trading profit / (loss) | 89.4 | 34.7 | 172.2 | 86.5 | 382.8 |
| Operating exceptional items | – | (4.5) | – | (1.8) | (6.3) |
| Operating profit / (loss) after exceptional items | 89.4 | 30.2 | 172.2 | 84.7 | 376.5 |
| 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. See note 33.

## 1 Segmental analysis continued

| 2018 (Restated)[1] | Australasia £m | UK and Europe £m | Emerging Markets £m | Retail Total Retail £m | Total pre Central £m | Central £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Total revenue | 382.2 | 3,057.6 | 849.1 | 4,288.9 | 9,277.0 | – | 9,277.0 |
| **Results** | | | | | | | |
| Trading profit / (loss) | (5.8) | 17.7 | 20.2 | 32.1 | 414.9 | (16.3) | 398.6 |
| Operating exceptional items | – | (206.6) | – | (206.6) | (212.9) | (10.8) | (223.7) |
| Operating profit / (loss) after exceptional items | (5.8) | (188.9) | 20.2 | (174.5) | 202.0 | (27.1) | 174.9 |
| Share of profit after tax of joint ventures and associates | | | | | | | 0.1 |
| Profit before finance and tax | | | | | | | 175.0 |
| Finance income | | | | | | | 20.1 |
| Finance costs | | | | | | | (82.1) |
| Profit before tax | | | | | | | 113.0 |
| Tax | | | | | | | (73.6) |
| Profit for the year | | | | | | | 39.4 |

1. See note 33.

Net finance costs of £62.0m are not allocated to individual segments and include an exceptional charge of £13.9m which represents a non-recurring correction to the fair value basis of assessment of the Group's Private Placement loan notes relating to prior periods.

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:

| 2018 | £m |
|---|---|
| UK | 2,892.5 |
| Rest of the world | 6,384.5 |
| **Group** | 9,277.0 |

| 2018 (Restated)[1] | Australasia £m | UK and Europe £m | Asia £m | Emerging Markets £m | Distribution Total Distribution £m |
|---|---|---|---|---|---|
| **Segment assets and liabilities** | | | | | |
| Segment assets | 299.1 | 335.6 | 359.2 | 380.2 | 1,374.1 |
| Other current assets | | | | | |
| Other non-current assets | | | | | |
| Segment liabilities | (427.9) | (282.5) | (430.0) | (296.6) | (1,437.0) |
| Other liabilities | | | | | |
| **Net assets** | | | | | |

1. See note 33.

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

## 1 Segmental analysis continued

| 2018 (Restated)[1] | Distribution<br>Australasia £m | UK and Europe £m | Asia £m | Emerging Markets £m | Total Distribution £m |
|---|---|---|---|---|---|
| **Other segment items** | | | | | |
| Capital expenditure: | | | | | |
| – Property, plant and equipment | 8.7 | 6.3 | 8.6 | 14.0 | 37.6 |
| – Interest in leased vehicles | 1.9 | 0.1 | 8.0 | 2.4 | 12.4 |
| – Right-of-use assets | 23.2 | 0.7 | 12.2 | 15.5 | 51.6 |
| – Intangible assets | 3.0 | 4.4 | 2.5 | 3.6 | 13.5 |
| Depreciation: | | | | | |
| – Property, plant and equipment | 4.6 | 3.1 | 8.6 | 8.0 | 24.3 |
| – Interest in leased vehicles | – | 0.1 | 3.6 | 0.8 | 4.5 |
| – Right-of-use assets | 8.5 | 4.0 | 25.1 | 11.3 | 48.9 |
| Amortisation of intangible assets | 2.9 | 1.8 | 2.0 | 1.5 | 8.2 |
| Impairment of goodwill | – | – | – | – | – |
| Impairment of other intangible assets | – | – | – | – | – |
| Impairment of property, plant and equipment | – | 4.5 | – | – | 4.5 |
| Impairment of right-of-use assets | – | – | – | – | – |
| Net provisions charged / (credited) to the consolidated income statement | 2.1 | 4.5 | 1.6 | 0.6 | 8.8 |

1. See note 33.

Net provisions include inventory, trade receivables impairment and other liability provisions.

| 2018 (Restated)[1] | Retail<br>Australasia £m | UK and Europe £m | Emerging Markets £m | Total Retail £m | Total £m |
|---|---|---|---|---|---|
| **Segment assets and liabilities** | | | | | |
| Segment assets | 119.3 | 818.0 | 131.0 | 1,068.3 | 2,442.4 |
| Other current assets | | | | | 635.8 |
| Other non-current assets | | | | | 2,056.0 |
| Segment liabilities | (114.4) | (793.2) | (83.8) | (991.4) | (2,428.4) |
| Other liabilities | | | | | (1,344.1) |
| **Net assets** | | | | | 1,361.7 |

1. See note 33.

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

## 1 Segmental analysis continued

| 2018 (Restated)[1] | Australasia £m | UK and Europe £m | Emerging Markets £m | Retail Total Retail £m | Total pre Central £m | Central £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Other segment items** | | | | | | | |
| Capital expenditure: | | | | | | | |
| – Property, plant and equipment | 0.4 | 48.5 | 3.6 | 52.5 | 90.1 | – | 90.1 |
| – Interest in leased vehicles | – | 6.0 | – | 6.0 | 18.4 | – | 18.4 |
| – Right-of-use assets | – | 22.6 | 5.2 | 27.8 | 79.4 | – | 79.4 |
| – Intangible assets | – | 3.1 | 0.4 | 3.5 | 17.0 | 16.7 | 33.7 |
| Depreciation: | | | | | | | |
| – Property, plant and equipment | – | 15.8 | 3.7 | 19.5 | 43.8 | 0.1 | 43.9 |
| – Interest in leased vehicles | – | 2.7 | – | 2.7 | 7.2 | – | 7.2 |
| – Right-of-use assets | 4.7 | 10.2 | 2.2 | 17.1 | 66.0 | 0.9 | 66.9 |
| Amortisation of intangible assets | 0.7 | 3.2 | 1.3 | 5.2 | 13.4 | 0.8 | 14.2 |
| Impairment of goodwill | – | 175.0 | – | 175.0 | 175.0 | – | 175.0 |
| Impairment of other intangible assets | – | – | – | – | – | – | – |
| Impairment of property, plant and equipment | – | 18.7 | – | 18.7 | 23.2 | – | 23.2 |
| Impairment of right-of-use assets | 1.3 | 12.9 | – | 14.2 | 14.2 | – | 14.2 |
| Net provisions charged / (credited) to the consolidated income statement | 1.5 | 54.1 | 0.7 | 56.3 | 65.1 | (2.2) | 62.9 |

1. See note 33.

Net provisions include inventory, trade receivables impairment and other liability provisions.

## 2 Exceptional items

| | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|
| Goodwill impairment (see note 11) | – | (175.0) |
| Disposal of businesses (see note 29) | 108.8 | – |
| Other asset write-offs and impairments (see notes 11, 12 and 13) | (21.9) | (36.1) |
| Restructuring costs | (8.9) | – |
| Acquisition of businesses | (2.5) | (7.2) |
| Other operating exceptional items | – | (5.4) |
| Total exceptional operating items | 75.5 | (223.7) |
| Exceptional finance costs (see note 7) | – | (13.9) |
| Total exceptional items before tax | 75.5 | (237.6) |
| Exceptional tax (see note 8) | 2.5 | 5.5 |
| Total exceptional items | 78.0 | (232.1) |

1. Restated, following adoption of IFRS 16, to include a £12.9m impairment of right-of-use assets (see note 33).

An exceptional operating profit of £108.8m has been recognised related to the disposal of the Group's retail operations in China and the Fleet Solutions business in the UK, together with several retail sites in Australia and the UK.

As a direct result of the Group's optimisation of its retail market portfolio, asset write-offs of £4.9m and impairments of £17.0m, including leasehold improvements and right-of-use assets, and £8.9m of restructuring costs have been incurred, principally following the disposal of several retail sites in the UK and Australia. The restructuring costs incurred comprised headcount reduction and costs associated with exiting certain properties.

During the year exceptional operating costs of £2.5m have been incurred in connection with the acquisition and integration of business, primarily the Krasta Auto business in Lithuania and the Autolider business in South America.

In 2018, a goodwill impairment charge of £175.0m was recognised relating to the UK Retail CGU group. Exceptional items also include asset impairments of £36.1m following an impairment review of certain site-based assets, including right-of-use assets, in the UK and Europe. Exceptional operating costs of £7.2m were incurred in connection with the acquisition and integration of businesses, primarily the Grupo Rudelman business in Central America. Other operating exceptional items of £5.4m represents the cost of equalising Guaranteed Minimum Pensions in the Group's UK pension schemes following a ruling in the High Court in October 2018.

## 3 Revenue and expenses

### a. Revenue

An analysis of the Group's revenue for the year is as follows:

| | 2019 £m | 2018 £m |
|---|---|---|
| Sale of goods | 8,580.0 | 8,500.3 |
| Provision of services | 799.7 | 776.7 |
| | 9,379.7 | 9,277.0 |

### b. Analysis of net operating expenses

| | Net operating expenses before exceptional items 2019 £m | Exceptional items 2019 £m | Net operating expenses 2019 £m | Net operating expenses before exceptional items 2018 (Restated)[1] £m | Exceptional items 2018 (Restated)[1] £m | Net operating expenses 2018 (Restated)[1] £m |
|---|---|---|---|---|---|---|
| Distribution costs | 532.6 | – | 532.6 | 507.5 | – | 507.5 |
| Administrative expenses | 370.1 | 33.3 | 403.4 | 402.3 | 223.7 | 626.0 |
| Other operating income | (3.7) | (108.8) | (112.5) | (7.1) | – | (7.1) |
| | 899.0 | (75.5) | 823.5 | 902.7 | 223.7 | 1,126.4 |

1. See note 33.

## 3 Revenue and expenses continued

### c. Profit before tax is stated after the following charges / (credits):

| | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|
| Depreciation of tangible fixed assets: | | |
| – Property, plant and equipment | **42.6** | 43.9 |
| – Interest in leased vehicles | **6.9** | 7.2 |
| – Right-of-use assets | **66.3** | 66.9 |
| Amortisation of intangible assets | **16.0** | 14.2 |
| Impairment of goodwill | **–** | 175.0 |
| Impairment of other intangible assets | **0.7** | – |
| Impairment of property, plant and equipment | **4.8** | 23.2 |
| Impairment of right-of-use assets | **8.7** | 14.2 |
| Impairment of disposal group | **2.8** | – |
| Impairment of trade receivables | **2.0** | 1.3 |
| Profit on sale of property, plant and equipment | **(0.5)** | (2.1) |
| Loss on sale of other intangible assets | **1.0** | – |
| Operating lease rentals – short-term leases | **4.7** | 5.0 |
| Sub-lease income of right-of-use assets | **(0.8)** | (0.7) |

1. See note 33.

Profit on the sale of property, plant and equipment in 2019 relates to the sale of surplus assets in Australia and the UK (2018 – Latvia, the UK and Russia).

### d. Auditor's remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

| | 2019 £m | 2018 £m |
|---|---|---|
| Audit services: | | |
| Fees payable to the Company's auditor and its associates for the audit of the parent company and the consolidated financial statements | **0.5** | 0.4 |
| Fees payable to the Company's auditor and its associates for other services: | | |
| – The audit of the Company's subsidiaries | **3.0** | 2.5 |
| – Audit related assurance services | **0.1** | 0.1 |
| – All other services | **0.2** | 0.4 |
| Total fees payable to the Company's auditor | **3.8** | 3.4 |
| Audit fees – firms other than the Company's auditor | **0.2** | 0.2 |

### e. Staff costs

| | 2019 £m | 2018 £m |
|---|---|---|
| Wages and salaries | **558.5** | 558.6 |
| Social security costs | **48.4** | 53.8 |
| Other pension costs | **26.0** | 27.4 |
| Share-based payment charge | **6.1** | 7.5 |
| | **639.0** | 647.3 |

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 76 to 97 of this document. Information on compensation of key management personnel is set out in note 32b.

## 3 Revenue and expenses continued

### f. Average monthly number of employees

| | Distribution | | Retail | | Total | |
|---|---|---|---|---|---|---|
| | **2019 Number** | 2018 Number | **2019 Number** | 2018 Number | **2019 Number** | 2018 Number |
| Australasia | **1,167** | 1,182 | **482** | 567 | **1,649** | 1,749 |
| UK and Europe | **1,664** | 1,434 | **5,478** | 5,938 | **7,142** | 7,372 |
| Asia | **2,612** | 2,645 | **–** | – | **2,612** | 2,645 |
| Emerging Markets | **3,670** | 3,828 | **2,976** | 2,401 | **6,646** | 6,229 |
| Total operational | **9,113** | 9,089 | **8,936** | 8,906 | **18,049** | 17,995 |
| Central | | | | | **156** | 155 |
| | | | | | **18,205** | 18,150 |

## 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 £6.1m (2018 – £7.5m), 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:

| **2019** | **Weighted average exercise price*** | **Performance Share Plan** | **Executive Share Option Plan** | **Save As You Earn Plan** | **Other Share Plans** |
|---|---|---|---|---|---|
| Outstanding at 1 January | **£5.61** | **4,708,409** | **5,841** | **2,576,229** | **1,253,929** |
| Granted | **£4.59** | **2,182,473** | **–** | **1,432,380** | **489,364** |
| Exercised | **£4.79** | **(827,423)** | **(2,612)** | **(404,953)** | **(457,527)** |
| Lapsed | **£5.70** | **(1,177,272)** | **(3)** | **(1,234,749)** | **(325,610)** |
| **Outstanding at 31 December** | **£5.11** | **4,886,187** | **3,226** | **2,368,907** | **960,156** |
| Exercisable at 31 December | **£5.54** | **148,366** | **3,226** | **84,162** | **2,641** |

| 2018 | Weighted average exercise price* | Performance Share Plan | Executive Share Option Plan | Save As You Earn Plan | Other Share Plans |
|---|---|---|---|---|---|
| Outstanding at 1 January | £5.36 | 4,345,679 | 69,066 | 1,898,273 | 1,385,836 |
| Granted | £5.54 | 1,939,671 | – | 1,338,942 | 408,323 |
| Exercised | £2.30 | (1,081,742) | (63,225) | (78,916) | (455,255) |
| Lapsed | £5.89 | (495,199) | – | (582,070) | (84,975) |
| **Outstanding at 31 December** | £5.61 | 4,708,409 | 5,841 | 2,576,229 | 1,253,929 |
| Exercisable at 31 December | £4.96 | 237,158 | 5,841 | 453,464 | 74,504 |

* 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 2019 is 2.7 years (2018 – 2.4 years).

The range of exercise prices for options outstanding at the end of the year was £3.10 to £6.66 (2018 – £0.10 to £6.66). See note 25 for further details.

## 4 Share-based payments continued

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 2019 and 31 December 2018:

| | Performance Share Plan | | Save As You Earn Plan | | Other Share Plans | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Weighted average share price at grant date | **£5.95** | £7.08 | **£6.27** | £6.89 | **£6.19** | £7.07 |
| Weighted average share price at date of exercise | **£6.08** | £7.15 | **£6.32** | £7.25 | **£6.02** | £7.11 |
| Weighted average exercise price* | **n/a** | n/a | **£4.59** | £5.54 | **n/a** | n/a |
| Vesting period | **3.0 years** | 3.0 years | **3.0 years** | 3.0 years | **2.8 years** | 2.8 years |
| Expected volatility | **n/a** | n/a | **23.4%** | 22.2% | **n/a** | n/a |
| Expected life of award | **3.0 years** | 3.0 years | **3.2 years** | 3.2 years | **2.8 years** | 2.8 years |
| Weighted average risk-free rate | **n/a** | n/a | **1.0%** | 1.0% | **n/a** | n/a |
| Expected dividend yield | **n/a** | n/a | **4.3%** | 4.0% | **n/a** | n/a |
| Weighted average fair value per option | **£5.95** | £7.08 | **£1.38** | £1.28 | **£6.19** | £7.07 |

* 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 2019 or 2018.

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 Inchcape Motors Pension Scheme ("IMPS") in the UK is the Group's main defined benefit pension scheme. It is comprised of the Group, Motors, Normand and Cash+ sections. The Group, Motors and Normand sections provide benefits linked to the final salary of members, are closed to new members and largely closed to future benefit accrual. The Cash+ section is a defined benefit cash balance scheme, open to accrual for current and new employees, which is designed to meet regulatory requirements of auto-enrolment legislation. The Group also operates the Inchcape Overseas Pension Scheme which is non-UK registered.

**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 bears risks in relation to its final salary schemes, notably relating to investment performance, interest rates, inflation and members' life expectancies. There is potential for these risks to harm the funding position of the schemes. If the schemes were to be in deficit then additional contributions may be required from the Group. A number of exercises have been undertaken to mitigate these key funding risks.

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 and interest rate risk to normal retirement age (65). 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.

IMPS is established under trust law and has a trustee board that runs the scheme in accordance with the Trust Deed and Rules and relevant legislation. The trustee board is comprised of two independent trustee companies appointed by the Group. The Trustees are required to act in the best interest of the members and have responsibility for the scheme's governance. The Trustees consult with the Group over decisions relating to matters such as funding and investments.

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.

## 5 Pensions and other post-retirement benefits continued

**Scheme specific cash obligation / investment detail**

**Inchcape Motors Pension Scheme**

**Group, Motors and Normand sections (closed sections)**

The Group considers two measures of the pension deficit. The accounting position is shown on the Group balance sheet. The funding position, calculated at the triennial actuarial valuation, is used to agree contributions made to IMPS. The Trustees are currently progressing with the latest actuarial valuations as at 5 April 2019 for the four sections of IMPS. As part of the valuation process the Trustees and Group will agree future levels of contributions required to be made by the Group to IMPS.

The last completed actuarial valuations for the Group, Motors and Normand sections were carried out at 5 April 2016 on a market-related basis and determined in accordance with the advice of the Scheme Actuary based on the defined accrued benefit method. The actuarial valuation determined that the duration of the liabilities was approximately 18 years and that a small aggregate surplus existed. The Group currently contributes £0.6m per annum towards the administrative costs of running these sections. For the Normand section, the Group also currently pays deficit reduction contributions of £1.1m per annum, rising by 3.05% per annum 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, 45% for the Motors section and 46% for the Normand section) with the remainder in growth assets. The matching assets are invested in a liability-driven investment solution complemented with absolute return bonds. They are expected 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 section's liabilities and include equities, 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 the Scheme Actuary 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 currently contributes £0.2m per annum towards the administrative costs of running the scheme.

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 split equally between multi-factor equities and emerging market multi-asset funds.

**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 2018 and determined in accordance with the advice of the Scheme Actuary based on the attained age method. The actuarial valuation determined that the duration of the liabilities was approximately 12 years and that the scheme was approximately 77% funded on a prudent funding basis. To make good the funding deficit of £16.2m, it has been agreed that deficit contributions of £1.5m per annum will be paid, by means of an annual lump sum for 10 years, ending with the payment due in July 2029. The first payment at this new level will be on 1 July 2020. Additional contributions in respect of expenses of £150,000 per annum will also be made.

**TKM Group Pension Scheme (closed scheme)**

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 under which the benefits payable to the members of the scheme were fully insured. The insurance policy was purchased using the existing assets of the scheme with no additional funding required from the Group. The scheme was fully bought out and formally wound up during 2018.

### 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 £7.1m (2018 – £7.0m). There are no outstanding contributions at 31 December 2019 (2018 – nil).

### 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 | |
|---|---|---|---|---|
| | **2019 %** | 2018 % | **2019 %** | 2018 % |
| Rate of increase in salaries | **3.0** | 3.1 | **4.0** | 4.0 |
| Rate of increase in pensions | **2.9** | 3.0 | **1.8** | 1.8 |
| Discount rate | **2.0** | 2.9 | **1.8** | 1.9 |
| Rate of inflation: | | | | |
| – Retail price index | **2.9** | 3.2 | **1.9** | 1.8 |
| – Consumer price index | **1.8** | 2.1 | **n/a** | n/a |

The rate of increase in healthcare costs is 6.0% (2018 – 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 23.0 years (2018 – 23.8 years) for current pensioners and 24.4 years (2018 – 25.3 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 | |
|---|---|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Present value of funded obligations | **(872.8)** | (727.0) | **(46.0)** | (50.9) | **(918.8)** | (777.9) |
| Fair value of plan assets | **887.6** | 816.0 | **43.0** | 45.0 | **930.6** | 861.0 |
| Net surplus / (deficit) in funded obligations | **14.8** | 89.0 | **(3.0)** | (5.9) | **11.8** | 83.1 |
| Present value of unfunded obligations | **(0.5)** | (0.6) | **(1.8)** | (0.6) | **(2.3)** | (1.2) |
| | **14.3** | 88.4 | **(4.8)** | (6.5) | **9.5** | 81.9 |

The net pension asset is analysed as follows:

| | | | | | | |
|---|---|---|---|---|---|---|
| Schemes in surplus | **78.4** | 116.2 | **0.3** | 0.3 | **78.7** | 116.5 |
| Schemes in deficit | **(64.1)** | (27.8) | **(5.1)** | (6.8) | **(69.2)** | (34.6) |
| | **14.3** | 88.4 | **(4.8)** | (6.5) | **9.5** | 81.9 |

**The amounts recognised in the consolidated income statement are as follows:**

| | United Kingdom | | Overseas | | Total | |
|---|---|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Current service cost | **(16.1)** | (17.5) | **(2.8)** | (2.9) | **(18.9)** | (20.4) |
| Past service cost | **–** | (5.4) | **–** | – | **–** | (5.4) |
| Scheme expenses | **(1.4)** | (1.5) | **(0.1)** | (0.1) | **(1.5)** | (1.6) |
| Interest expense on plan liabilities | **(21.0)** | (22.3) | **(0.9)** | (0.8) | **(21.9)** | (23.1) |
| Interest income on plan assets | **23.8** | 24.1 | **0.8** | 0.7 | **24.6** | 24.8 |
| | **(14.7)** | (22.6) | **(3.0)** | (3.1) | **(17.7)** | (25.7) |

## 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 | |
|---|---|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Actuarial gains / (losses) on liabilities: | | | | | | |
| – Experience (losses) / gains | **(10.3)** | (0.2) | **0.7** | (0.3) | **(9.6)** | (0.5) |
| – Changes in demographic assumptions | **(5.2)** | 29.4 | **(0.2)** | – | **(5.4)** | 29.4 |
| – Changes in financial assumptions | **(123.6)** | 63.6 | **(0.4)** | 0.5 | **(124.0)** | 64.1 |
| Actuarial gains / (losses) on assets: | | | | | | |
| – Experience gains / (losses) | **64.7** | (54.5) | **2.6** | (2.1) | **67.3** | (56.6) |
| | **(74.4)** | 38.3 | **2.7** | (1.9) | **(71.7)** | 36.4 |

Analysis of the movement in the net asset / (liability):

| | United Kingdom | | Overseas | | Total | |
|---|---|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| At 1 January | **88.4** | 75.1 | **(6.5)** | (2.8) | **81.9** | 72.3 |
| Amount recognised in the consolidated income statement | **(14.7)** | (22.6) | **(3.0)** | (3.1) | **(17.7)** | (25.7) |
| Contributions by employer | **15.0** | 3.5 | **1.6** | 1.4 | **16.6** | 4.9 |
| Taxes paid from plan assets | **–** | (5.9) | **–** | – | **–** | (5.9) |
| Actuarial (losses) / gains recognised in the year | **(74.4)** | 38.3 | **2.7** | (1.9) | **(71.7)** | 36.4 |
| Effect of foreign exchange rates | **–** | – | **0.4** | (0.1) | **0.4** | (0.1) |
| **At 31 December** | **14.3** | 88.4 | **(4.8)** | (6.5) | **9.5** | 81.9 |

Changes in the present value of the defined benefit obligation are as follows:

| | United Kingdom | | Overseas | | Total | |
|---|---|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| At 1 January | **(727.6)** | (1,007.9) | **(51.5)** | (49.0) | **(779.1)** | (1,056.9) |
| Current service cost | **(16.1)** | (17.5) | **(2.8)** | (2.9) | **(18.9)** | (20.4) |
| Past service cost | **–** | (5.4) | **–** | – | **–** | (5.4) |
| Interest expense on plan liabilities | **(21.0)** | (22.3) | **(0.9)** | (0.8) | **(21.9)** | (23.1) |
| Actuarial gains / (losses): | | | | | | |
| – Experience (losses) / gains | **(10.3)** | (0.2) | **0.7** | (0.3) | **(9.6)** | (0.5) |
| – Changes in demographic assumptions | **(5.2)** | 29.4 | **(0.2)** | – | **(5.4)** | 29.4 |
| – Changes in financial assumptions | **(123.6)** | 63.6 | **(0.4)** | 0.5 | **(124.0)** | 64.1 |
| Contributions by employees | **(0.2)** | (0.2) | **–** | – | **(0.2)** | (0.2) |
| Benefits paid | **30.7** | 33.0 | **4.6** | 3.3 | **35.3** | 36.3 |
| Plan settlements | **–** | 199.9 | **0.7** | – | **0.7** | 199.9 |
| Effect of foreign exchange rate changes | **–** | – | **2.0** | (2.3) | **2.0** | (2.3) |
| **At 31 December** | **(873.3)** | (727.6) | **(47.8)** | (51.5) | **(921.1)** | (779.1) |

## 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 | |
|---|---|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| At 1 January | **816.0** | 1,083.0 | **45.0** | 46.2 | **861.0** | 1,129.2 |
| Interest income on plan assets | **23.8** | 24.1 | **0.8** | 0.7 | **24.6** | 24.8 |
| Scheme expenses | **(1.4)** | (1.5) | **(0.1)** | (0.1) | **(1.5)** | (1.6) |
| Actuarial gains / (losses) : | | | | | | |
| – Experience gains / (losses) | **64.7** | (54.5) | **2.6** | (2.1) | **67.3** | (56.6) |
| Contributions by employer | **15.0** | 3.5 | **1.6** | 1.4 | **16.6** | 4.9 |
| Contributions by employees | **0.2** | 0.2 | **–** | – | **0.2** | 0.2 |
| Benefits paid | **(30.7)** | (33.0) | **(4.6)** | (3.3) | **(35.3)** | (36.3) |
| Plan settlements | **–** | (199.9) | **(0.7)** | – | **(0.7)** | (199.9) |
| Taxes paid from plan assets | **–** | (5.9) | **–** | – | **–** | (5.9) |
| Effect of foreign exchange rate changes | **–** | – | **(1.6)** | 2.2 | **(1.6)** | 2.2 |
| **At 31 December** | **887.6** | 816.0 | **43.0** | 45.0 | **930.6** | 861.0 |

At the end of the reporting period, the percentage of the plan assets by category were as follows:

| | United Kingdom | | Overseas | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Equities (quoted) | **5.9%** | 5.2% | **67.4%** | 73.3% | **8.8%** | 8.8% |
| Equities (unquoted) | **–** | – | **–** | 2.7% | **–** | 0.1% |
| Corporate bonds (quoted) | **–** | – | **19.3%** | 13.3% | **0.9%** | 0.7% |
| Investment funds (quoted) | **–** | – | **0.2%** | 0.2% | **–** | – |
| Investment funds (unquoted) | **62.4%** | 66.3% | **–** | – | **59.5%** | 62.8% |
| Other (quoted) | **–** | – | **5.1%** | 3.8% | **0.2%** | 0.2% |
| Other (unquoted) | **31.7%** | 28.5% | **8.0%** | 6.7% | **30.6%** | 27.4% |
| | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% |

The investments shown as quoted equities and bonds are held through funds where the underlying investments of the fund are quoted. Investment funds and other assets include equities, bonds, property, derivatives and liability driven investments. Virtually all the equities and bonds held within the investment funds have prices in active markets. Derivatives, property and liability driven investments can be classified as Level 2 instruments.

The schemes had no directly held employer related investment during the reporting period. The schemes' investment managers may potentially hold a small investment in Inchcape plc either through index weightings or stock selection (less than 0.5% of their respective fund values).

## 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 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**

Where relevant, 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 schemes 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 | |
|---|---|---|
| | **2019 £m** | 2018 £m |
| Discount rate –0.25% | **+28.8** | +31.2 |
| Discount rate +0.25% | **-26.3** | -29.3 |
| RPI Inflation –0.25% | **-10.7** | -9.8 |
| RPI Inflation +0.25% | **+12.0** | +10.6 |
| CPI Inflation –0.25% | **-8.8** | -8.0 |
| CPI Inflation +0.25% | **+10.4** | +9.2 |
| Life expectancy + 1 year | **+38.1** | +29.4 |

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 £3.7m to its UK defined benefit plans in 2020, under the prevailing Schedules of Contributions, on top of the ongoing employer contributions for the open Cash+ section. As part of the finalisation of the actuarial valuations of IMPS as at 5 April 2019, a revised Schedule of Contributions will be agreed between the Trustees and the Group.

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

| | 2019<br>£m | 2018<br>(Restated)[1]<br>£m |
|---|---|---|
| Bank and other interest receivable | **17.2** | 12.7 |
| Net interest income on post-retirement plan assets and liabilities | **2.7** | 1.7 |
| Sub-lease finance income | **0.6** | 0.8 |
| Other finance income | **3.6** | 4.9 |
| Total finance income | **24.1** | 20.1 |

1. See note 33.

## 7 Finance costs

| | 2019<br>£m | 2018<br>(Restated)[1]<br>£m |
|---|---|---|
| Interest payable on bank borrowings | **12.9** | 11.5 |
| Interest payable on Private Placement | **6.9** | 7.1 |
| Interest payable on other borrowings | **–** | 0.2 |
| Fair value adjustment on Private Placement | **3.3** | 17.1 |
| Fair value gain on cross currency interest rate swaps | **(3.4)** | (2.6) |
| Lease finance costs | **20.0** | 20.8 |
| Stock holding interest (see note 21) | **27.6** | 25.2 |
| Other finance costs | **4.0** | 3.3 |
| Capitalised borrowing costs | **(0.1)** | (0.5) |
| Total finance costs | **71.2** | 82.1 |
| | | |
| Total finance costs are analysed as follows: | | |
| Finance costs before exceptional finance costs | **71.2** | 68.2 |
| Exceptional finance costs | **–** | 13.9 |
| Total finance costs | **71.2** | 82.1 |

1. See note 33.

Included within finance costs, in 2018, is a fair value adjustment in relation to the Group's Private Placement loan notes of £14.5m. Included within this is £13.9m which represents a non-recurring correction to the fair value basis of assessment relating to prior periods. This amount has been reported as an exceptional item in order to provide additional useful information regarding the Group's underlying business performance.

The Group capitalisation rate used for general borrowing costs in accordance with IAS 23 was a weighted average rate for the year of 2.9% (2018 – 2.0%).

## 8 Tax

| | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|
| Current tax: | | |
| – UK corporation tax | **0.1** | 0.1 |
| – Overseas tax | **78.6** | 80.5 |
| | **78.7** | 80.6 |
| Adjustments to prior year liabilities: | | |
| – UK | **4.4** | 0.2 |
| – Overseas | **(2.6)** | (1.4) |
| Current tax | **80.5** | 79.4 |
| Deferred tax (see note 17) | **(7.4)** | (5.8) |
| Total tax charge | **73.1** | 73.6 |
| | | |
| The total tax charge is analysed as follows: | | |
| – Tax charge on profit before exceptional items | **75.6** | 79.1 |
| – Tax credit on exceptional items | **(2.5)** | (5.5) |
| Total tax charge | **73.1** | 73.6 |

1. See note 33.

Details of the exceptional items for the year can be found in note 2. Not all of the exceptional items will be taxable/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 taxable/allowable.

**Factors affecting the tax expense for the year**

The effective tax rate for the year after exceptional items is 18.2% (2018 – 65.1% restated). The underlying effective tax rate before the impact of exceptional items is 23.2% (2018 – 22.6% restated). The weighted average tax rate is 20.6% (2018 – 31.0% restated). 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.

| | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|
| Profit before tax | **401.8** | 113.0 |
| Profit before tax multiplied by the weighted average tax rate of 20.6% (2018 – 31.0%) | **82.8** | 35.0 |
| | | |
| **Non-exceptional items** | | |
| – Permanent differences | **5.4** | 8.4 |
| – Non-taxable income | **(2.6)** | (4.7) |
| – Prior year items | **(5.5)** | (1.5) |
| – Recognition of deferred tax assets | **(0.4)** | (2.5) |
| – Tax audits and settlements | **6.5** | (3.6) |
| – Taxes on undistributed earnings | **2.0** | 2.5 |
| – Other items (including tax rate differentials and changes) | **0.4** | 0.5 |
| | | |
| **Exceptional items** | | |
| – Goodwill impairment (see note 11) | **–** | 33.3 |
| – Acquisition and disposals of businesses | **(20.5)** | 1.1 |
| – Exceptional finance costs (see note 7) | **–** | 2.1 |
| – Other asset write-offs and impairment (see notes 11, 12 and 13) | **5.0** | 3.0 |
| Total tax charge | **73.1** | 73.6 |

1. See note 33.

## 8 Tax continued

**Factors affecting the tax expense of future years**

The Group's future tax expense, and effective tax rate, could be affected by several factors including: the resolution of audits and disputes, consequences of the European Commission's state aid investigations, 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.

On 25 April 2019, the European Commission published its full decision in relation to its investigation into the "group financing exemption" ('GFE') in the UK's controlled foreign company rules and whether the GFE constituted unlawful State Aid. The Commission concluded that the legislation up until December 2018 does partially represent State Aid. On 12 June 2019 the UK Government brought an action against the Commission to have the judgment annulled. Subsequently a number of UK multi-national groups, including Inchcape, applied on their own behalf to have the decision annulled. In view of HMRC's recent statement concerning the European Commission decision published in December 2019 and the assessment subsequently received, the Group has recognised a provision of £5.4m plus interest.

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. In the event that actual taxable profits are different to those forecast, the Group's future tax expense and effective tax rate could be affected. Information about the Group's tax losses and deferred tax assets can be found in note 17.

The Group has published its approach to tax on inchcape.com covering its tax strategy and governance framework.

## 9 Earnings per share

| | **2019 £m** | 2018 (Restated)[1] £m |
|---|---|---|
| **Profit for the year** | **328.7** | 39.4 |
| Non-controlling interests | **(5.8)** | (7.0) |
| **Basic earnings** | **322.9** | 32.4 |
| Exceptional items | **(78.0)** | 232.1 |
| **Adjusted earnings** | **244.9** | 264.5 |
| Basic earnings per share | **79.0p** | 7.8p |
| Diluted earnings per share | **78.4p** | 7.8p |
| Basic Adjusted earnings per share | **59.9p** | 63.8p |
| Diluted Adjusted earnings per share | **59.5p** | 63.4p |

1. See note 33.

| | **2019 number** | 2018 number |
|---|---|---|
| Weighted average number of fully paid ordinary shares in issue during the year | **409,513,387** | 415,090,366 |
| Weighted average number of fully paid ordinary shares in issue during the year: | | |
| – Held by the Inchcape Employee Trust | **(763,509)** | (611,860) |
| Weighted average number of fully paid ordinary shares for the purposes of basic EPS | **408,749,878** | 414,478,506 |
| Dilutive effect of potential ordinary shares | **2,988,393** | 2,883,558 |
| Adjusted weighted average number of fully paid ordinary shares in issue during the year for the purposes of diluted EPS | **411,738,271** | 417,362,064 |

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.

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. Basic 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.

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.

## 10 Dividends

The following dividends were paid by the Group:

| | 2019 £m | 2018 £m |
|---|---|---|
| Interim dividend for the six months ended 30 June 2019 of 8.9p per share (30 June 2018 of 8.9p per share) | **36.3** | 36.9 |
| Final dividend for the year ended 31 December 2018 of 17.9p per share (31 December 2017 of 18.9p per share) | **74.2** | 78.3 |
| | **110.5** | 115.2 |

A final proposed dividend for the year ended 31 December 2019 of 17.9p per share amounting to £71.4m is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2019.

The Group has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Inchcape plc, currently has adequate levels of realised profits within its retained earnings to support dividend payments.

## 11 Intangible assets

| | Goodwill £m | Distribution agreements £m | Computer software £m | Other intangible assets £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 | 605.0 | 170.7 | 182.2 | 0.1 | 958.0 |
| Businesses acquired (see note 29) | 43.7 | 80.1 | 0.2 | – | 124.0 |
| Businesses sold | (0.7) | – | (0.1) | – | (0.8) |
| Additions | – | – | 33.7 | – | 33.7 |
| Disposals | – | – | (0.3) | – | (0.3) |
| Retirement of fully amortised assets not in use | – | – | (0.3) | – | (0.3) |
| Effect of foreign exchange rate changes | (13.8) | (1.0) | (1.3) | – | (16.1) |
| At 1 January 2019 | **634.2** | **249.8** | **214.1** | **0.1** | **1,098.2** |
| Businesses acquired (see note 29) | **10.1** | **33.2** | **0.3** | **–** | **43.6** |
| Businesses sold (see note 29) | **(34.1)** | **–** | **(1.8)** | **–** | **(35.9)** |
| Additions | **–** | **–** | **25.2** | **–** | **25.2** |
| Disposals | **–** | **–** | **(2.1)** | **–** | **(2.1)** |
| Retirement of fully amortised assets not in use | **–** | **–** | **–** | **(0.1)** | **(0.1)** |
| Reclassified to assets held for sale (see note 20) | **(10.6)** | **–** | **–** | **–** | **(10.6)** |
| Effect of foreign exchange rate changes | **(5.5)** | **(21.9)** | **(3.7)** | **–** | **(31.1)** |
| **At 31 December 2019** | **594.1** | **261.1** | **232.0** | **–** | **1,087.2** |
| | | | | | |
| **Accumulated amortisation and impairment** | | | | | |
| At 1 January 2018 | (213.2) | – | (105.3) | – | (318.5) |
| Amortisation charge for the year | – | – | (14.1) | (0.1) | (14.2) |
| Impairment charge for the year | (175.0) | – | – | – | (175.0) |
| Disposals | – | – | 0.1 | – | 0.1 |
| Retirement of fully amortised assets not in use | – | – | 0.3 | – | 0.3 |
| Effect of foreign exchange rate changes | 13.8 | – | 1.3 | – | 15.1 |
| At 1 January 2019 | **(374.4)** | **–** | **(117.7)** | **(0.1)** | **(492.2)** |
| Amortisation charge for the year | **–** | **–** | **(16.0)** | **–** | **(16.0)** |
| Impairment charge for the year | **–** | **–** | **(0.7)** | **–** | **(0.7)** |
| Business sold (see note 29) | **–** | **–** | **1.4** | **–** | **1.4** |
| Disposals | **–** | **–** | **1.0** | **–** | **1.0** |
| Retirement of fully amortised assets not in use (see note 20) | **–** | **–** | **–** | **0.1** | **0.1** |
| Effect of foreign exchange rate changes | **(4.0)** | **–** | **1.1** | **–** | **(2.9)** |
| **At 31 December 2019** | **(378.4)** | **–** | **(130.9)** | **–** | **(509.3)** |
| **Net book value at 31 December 2019** | **215.7** | **261.1** | **101.1** | **–** | **577.9** |
| Net book value at 31 December 2018 | 259.8 | 249.8 | 96.4 | – | 606.0 |

The asset impairments of £0.7m, which arose following the disposal of businesses in Australia, are included within exceptional items (see note 2).

## 11 Intangible assets continued

### Goodwill

Goodwill acquired in a business combination has been 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 | Discount rate | Long-term growth rate | CGU group | **2019 £m** | 2018 £m |
|---|---|---|---|---|---|
| UK and Europe Retail | 8.8% | 2.0% | UK Retail | **80.2** | 90.3 |
| UK and Europe Distribution | 9.1% | 2.0% | Baltics | **5.8** | – |
| Emerging Markets Distribution | 12.8% to 18.2% | 2.5% | South America – Uruguay & Ecuador | **3.8** | – |
| | | | South America – Other | **45.7** | 51.4 |
| | | | Central America | **44.8** | 46.6 |
| | | | Kenya | **1.2** | 1.1 |
| Asia | 8.9% | 2.0% | Singapore | **22.8** | 23.3 |
| Australasia Retail | 10.2% | 2.0% | Australia Retail | **9.6** | 45.2 |
| Australasia Distribution | | | Peugeot Citroën Australia | **1.8** | 1.9 |
| | | | | **215.7** | 259.8 |

Goodwill is subject to impairment testing annually, or more frequently where there are indications that they may be impaired. Impairment tests were performed for all CGU groups during the year ended 31 December 2019.

The recoverable amounts of all CGU groups were determined based on the higher of the fair value less costs to sell and value in use calculations. The recoverable amount is determined firstly through value in use calculations. Where this is insufficient to cover the carrying value of the relevant asset being tested, fair value less costs to sell is also determined.

The value in use calculations use cash flow projections based on five-year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to volumes, revenue, gross margins, overheads, the level of working capital required to support trading and capital expenditure. The relative importance of the value in use calculations to the assumptions used depends on whether the CGU group operates Retail or Distribution activities. For example, the following assumptions are key to the value in use calculations for Retail activities:

- Volumes, linked to market forecasts and brand partner targets, particularly in relation to the sale of New vehicles;
- Gross margins;
- Working capital, to support trading; and
- Capital expenditure.

The assumptions used in the value in use calculations are based on past experience, recent trading and expectations of future changes in the operation of the business and changes in the relevant markets including, where appropriate, the impact of climate change. They also reflect expectations about continuing relationships with key brand partners. The forecast cash flows do not include uncommitted restructuring or improvements and enhancements to existing assets.

For CGU groups in Emerging Markets, cash flows after the five-year period are extrapolated for a further five years using declining growth rates which reduces the year five growth rate down to the long-term growth rate of 2.5%, to better reflect the medium-term growth expectations for those markets. A terminal value calculation is used to estimate the cash flows after year ten using these long-term growth rates. For all other markets, a terminal value calculation is used to estimate the cash flows after year five.

Cash flows are discounted back to present value using a risk adjusted discount rate. The discount rates used are calculated based on a weighted average cost of capital adjusted for a risk premium attributable to the relevant country. The Group uses several inputs to calculate a range for the weighted average cost of capital from which an absolute measure of the weighted average cost of capital is determined on a prudent basis.

### Impairment

In 2018, the Board reassessed its short and medium-term forecasts for the UK Retail CGU group following a 29.6% decline in the sale of diesel vehicles and an overall decline in the UK New car market of 6.8% (source: SMMT). The impairment test for the UK Retail CGU group was updated and the review indicated that the value in use calculation was less than the carrying value of the assets attributable to the UK Retail CGU group. Consequently, an impairment charge of £175m was recognised.

In 2019, the UK New car market declined by a further 2.4% (source: SMMT) broadly in line with previous forecasts. During the year, the UK Retail business also made meaningful progress in reshaping its retail footprint through the selective sale of less productive UK Retail sites. In light of the reduction in the UK Retail footprint, the Board has revisited its short and medium-term forecast for the UK Retail CGU group and updated the value in use calculations. The key assumptions for these forecasts remain those relating to volumes, gross margins, the level of working capital required to support trading and capital expenditure. Due to the uncertainty regarding the terms of the UK/EU relationship after 31 December 2020, the forecasts assume that an orderly process for a trade agreement will be agreed between the UK government and the EU.

## 11 Intangible assets continued

The results of the impairment review indicated that the value in use calculation now exceeded the carrying value of the assets attributable to the UK Retail CGU group by c£70m.

The forecasts are however sensitive to changes in the key assumptions used. The table below shows the sensitivity of the value in use calculations for the UK Retail CGU group to possible changes in the more sensitive assumptions while holding all other assumptions constant.

| | Increase / (decrease) in assumption | Effect on value in use calculation £m |
|---|---|---|
| New vehicle margins | +/-20bps | +/-£31m |
| Used vehicle margins | +/-20bps | +/-£29m |
| Aftersales gross margins | +/-150bps | +/-£26m |
| Overheads | +/-50bps | -/+£16m |

**Sensitivities**

The Group's value in use calculations for the remaining CGU groups are sensitive to a change in the key assumptions used. However, with the exception of the UK Retail CGU group, a reasonably possible change in a key assumption will not cause a material impairment of goodwill in any of the CGU groups.

### Distribution agreements

Indefinite-life intangible assets, principally Distribution agreements acquired in a business combination are allocated to the CGUs or CGU groups that are expected to benefit from the cash flows associated with the relevant agreements. These CGU groups represent the lowest level within the Group at which the associated indefinite life intangible assets are monitored for management purposes.

The carrying amount of indefinite-life intangible assets has been allocated to CGU groups within the following reporting segments:

| Reporting segment | Discount rate | Long-term growth rate | CGU group | 2019 £m | 2018 £m |
|---|---|---|---|---|---|
| UK and Europe Distribution | 9.1% | 2.0% | BMW Baltics | **27.4** | 9.6 |
| Emerging Markets Distribution | 12.7% to 18.2% | 2.5% | Hino South America | **46.0** | 51.8 |
| | | | Subaru South America | **88.6** | 99.8 |
| | | | Daimler South America | **13.8** | – |
| | | | Suzuki Central America | **85.3** | 88.6 |
| | | | | **261.1** | 249.8 |

Distribution agreements with indefinite useful lives are subject to impairment testing annually, or more frequently where there are indications that they may be impaired. Impairment tests were performed for all CGU groups during the year ended 31 December 2019.

The recoverable amounts of the Distribution agreements were determined based on value in use calculations. The value in use calculations use cash flow projections based on five-year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to volumes, revenue, gross margins, overheads, the level of working capital required to support trading and capital expenditure. The assumptions are based on past experience, recent trading and expectations of future changes in the operation of the business and changes in the relevant markets including, where appropriate, the impact of climate change. They also reflect expectations about continuing relationships with key brand partners. The forecast cash flows do not include uncommitted restructuring or improvements and enhancements to existing assets.

Cash flows after the five-year period are extrapolated for each CGU group using declining growth rates which reduces the year five growth rate down to the long-term growth rate for each CGU group of between 2.0% and 2.5%. A terminal value calculation is used to estimate the cash flows after year ten using these long-term growth rates.

Cash flows are discounted back to present value using a risk adjusted discount rate. The discount rates used are calculated based on a weighted average cost of capital adjusted for a risk premium attributable to the relevant country. The Group uses several inputs to calculate a range for the weighted average cost of capital from which an absolute measure of the weighted average cost of capital is determined on a prudent basis.

**Sensitivities**

The Group's value in use calculations are sensitive to a change in the key assumptions used. However, a reasonably possible change in a key assumption will not cause a material impairment of an indefinite life asset in any of the CGU groups.

## 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 2018 | 823.1 | 247.1 | 1,070.2 | 64.4 | 1,134.6 |
| Adjustment for IFRS 16 | (2.2) | – | (2.2) | – | (2.2) |
| At 1 January 2018 (restated) [1] | 820.9 | 247.1 | 1,068.0 | 64.4 | 1,132.4 |
| Businesses acquired | 40.5 | 2.7 | 43.2 | 3.7 | 46.9 |
| Businesses sold | (5.7) | (1.2) | (6.9) | – | (6.9) |
| Additions | 54.0 | 36.1 | 90.1 | 18.4 | 108.5 |
| Disposals | (16.7) | (17.9) | (34.6) | – | (34.6) |
| Reclassifications | 7.2 | (6.5) | 0.7 | (0.7) | – |
| Transferred to/from inventory | – | (1.4) | (1.4) | (23.4) | (24.8) |
| Retirement of fully depreciated assets not in use | (0.3) | (1.8) | (2.1) | – | (2.1) |
| Reclassified to assets held for sale (see note 20) | (4.9) | – | (4.9) | – | (4.9) |
| Effect of foreign exchange rate changes | (7.9) | 1.0 | (6.9) | 1.4 | (5.5) |
| At 1 January 2019 (restated) [1] | **887.1** | **258.1** | **1,145.2** | **63.8** | **1,209.0** |
| Businesses acquired (see note 29) | **7.5** | **2.5** | **10.0** | **0.2** | **10.2** |
| Businesses sold (see note 29) | **(72.5)** | **(10.4)** | **(82.9)** | **(8.7)** | **(91.6)** |
| Additions | **21.9** | **21.4** | **43.3** | **9.1** | **52.4** |
| Disposals | **(14.0)** | **(12.4)** | **(26.4)** | **(0.1)** | **(26.5)** |
| Transferred to/from inventory | **–** | **0.1** | **0.1** | **(23.0)** | **(22.9)** |
| Other[2] | **–** | **18.7** | **18.7** | **–** | **18.7** |
| Reclassified to assets held for sale (see note 20) | **(53.5)** | **(5.0)** | **(58.5)** | **–** | **(58.5)** |
| Effect of foreign exchange rate changes | **(13.3)** | **(7.9)** | **(21.2)** | **(1.9)** | **(23.1)** |
| **At 31 December 2019** | **763.2** | **265.1** | **1,028.3** | **39.4** | **1,067.7** |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 January 2018 | (169.1) | (159.3) | (328.4) | (17.8) | (346.2) |
| Adjustment for IFRS 16 | 1.3 | – | 1.3 | – | 1.3 |
| At 1 January 2018 (restated)[1] | (167.8) | (159.3) | (327.1) | (17.8) | (344.9) |
| Businesses sold | 0.8 | 0.6 | 1.4 | – | 1.4 |
| Depreciation charge for the year | (19.9) | (24.0) | (43.9) | (7.2) | (51.1) |
| Disposals | 6.7 | 13.3 | 20.0 | – | 20.0 |
| Impairment charge for the year | (23.2) | – | (23.2) | – | (23.2) |
| Reclassifications | – | (0.4) | (0.4) | 0.4 | – |
| Transferred to/from inventory | – | 0.7 | 0.7 | 7.9 | 8.6 |
| Retirement of fully depreciated assets not in use | 0.3 | 1.8 | 2.1 | – | 2.1 |
| Effect of foreign exchange rate changes | 0.8 | (0.5) | 0.3 | (0.5) | (0.2) |
| At 1 January 2019 (restated) [1] | **(202.3)** | **(167.8)** | **(370.1)** | **(17.2)** | **(387.3)** |
| Businesses sold | **15.2** | **6.7** | **21.9** | **3.7** | **25.6** |
| Depreciation charge for the year | **(18.1)** | **(24.5)** | **(42.6)** | **(6.9)** | **(49.5)** |
| Impairment charge for the year | **(4.8)** | **–** | **(4.8)** | **–** | **(4.8)** |
| Disposals | **7.0** | **7.8** | **14.8** | **–** | **14.8** |
| Transferred to/from inventory | **–** | **0.3** | **0.3** | **8.8** | **9.1** |
| Other[2] | **–** | **(18.7)** | **(18.7)** | **–** | **(18.7)** |
| Reclassified to assets held for sale (see note 20) | **23.9** | **4.4** | **28.3** | **–** | **28.3** |
| Effect of foreign exchange rate changes | **4.7** | **4.7** | **9.4** | **0.5** | **9.9** |
| **At 31 December 2019** | **(174.4)** | **(187.1)** | **(361.5)** | **(11.1)** | **(372.6)** |
| **Net book value at 31 December 2019** | **588.8** | **78.0** | **666.8** | **28.3** | **695.1** |
| Net book value at 31 December 2018 (restated) | 684.8 | 90.3 | 775.1 | 46.6 | 821.7 |

1. See note 33.
2. This represents a correction of a historic adjustment to cost and accumulated depreciation of acquired plant, machinery and equipment. It has no net impact on net book value at any balance sheet date presented.

The asset impairments of £4.8m, which arose following an impairment review of certain site-based assets in the UK and Australia as a result of the retail disposals in those markets (2018 – £23.2m in the UK and Europe), are included within exceptional items (see note 2).

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

The book value of land and buildings is analysed between:

| | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|
| Freehold | **423.5** | 484.0 |
| Leasehold with over 50 years unexpired | **45.1** | 47.4 |
| Short leasehold | **120.2** | 153.4 |
| | **588.8** | 684.8 |

1. See note 33.

Land and buildings include properties with a net book value of £9.7m (2018 – £12.3m) that are let to third parties on a short-term basis.

As at 31 December 2019, £5.7m (2018 – £5.6m) of capitalised borrowing costs were included within 'land and buildings', £0.1m of which was capitalised in 2019 (2018 – £0.5m).

## 13 Right-of-use assets and lease liabilities

### a. Amounts recognised in the balance sheet

| | Land and buildings £m | Other £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 | 585.0 | 4.1 | 589.1 |
| Businesses acquired | 12.1 | – | 12.1 |
| Additions | 78.3 | 1.1 | 79.4 |
| Derecognition | (8.2) | (0.5) | (8.7) |
| Remeasurement | 14.2 | – | 14.2 |
| Effect of foreign exchange rate changes | (2.5) | (0.1) | (2.6) |
| At 1 January 2019 | **678.9** | **4.6** | **683.5** |
| Businesses acquired (see note 29) | **11.7** | **–** | **11.7** |
| Businesses sold (see note 29) | **(48.3)** | **–** | **(48.3)** |
| Additions | **25.8** | **0.5** | **26.3** |
| Derecognition | **(48.1)** | **–** | **(48.1)** |
| Transferred to assets held for sale (see note 20) | **(42.6)** | **–** | **(42.6)** |
| Remeasurement | **8.8** | **0.6** | **9.4** |
| Effect of foreign exchange rate changes | **(20.2)** | **(0.2)** | **(20.4)** |
| **At 31 December 2019** | **566.0** | **5.5** | **571.5** |
| **Accumulated depreciation and impairment** | | | |
| At 1 January 2018 | (194.5) | (1.4) | (195.9) |
| Depreciation charge for the year | (65.7) | (1.2) | (66.9) |
| Impairment charge for the year | (14.2) | – | (14.2) |
| Derecognition | 8.2 | 0.1 | 8.3 |
| Effect of foreign exchange rate changes | 0.4 | – | 0.4 |
| At 1 January 2019 | **(265.8)** | **(2.5)** | **(268.3)** |
| Businesses sold (see note 29) | **12.0** | **–** | **12.0** |
| Depreciation charge for the year | **(64.9)** | **(1.4)** | **(66.3)** |
| Derecognition | **44.4** | **0.1** | **44.5** |
| Impairment charge for the year | **(8.7)** | **–** | **(8.7)** |
| Transferred to assets held for sale (see note 20) | **19.4** | **–** | **19.4** |
| Effect of foreign exchange rate changes | **9.0** | **0.2** | **9.2** |
| **At 31 December 2019** | **(254.6)** | **(3.6)** | **(258.2)** |
| **Net book value at 31 December 2019** | **311.4** | **1.9** | **313.3** |
| Net book value at 31 December 2018 | 413.1 | 2.1 | 415.2 |

The asset impairments of £8.7m, which arose following an impairment review of certain site-based assets in Australia, as a result of the retail disposals in the market, are included within exceptional items (2018 – £14.2m in the UK and Australia, of which £12.9m are included within exceptional items) (see note 2).

## 13 Right-of-use assets and lease liabilities continued

| | 2019 £m | 2018[1] £m |
|---|---|---|
| **Lease liabilities** | | |
| Current | **56.8** | 66.3 |
| Non-current | **296.0** | 394.1 |
| **At 31 December** | **352.8** | 460.4 |

1. In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16, please see note 33.

### b. The Group's leasing activities and how these are accounted for

The Group leases various retail and other locations, primarily in the UK, Australia, Hong Kong, South America and Russia. Rental contracts are typically made for fixed periods of 2 to 25 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Lease liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- uses a build-up approach that starts with a risk-free interest rate by market and currency;
- applies a credit risk, based on yields of comparable entities, to the determined risk-free interest rate by market; and
- where applicable, makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets comprising mainly land and buildings are measured at cost less accumulated depreciation and impairment losses. The costs include the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less lease incentives received, any direct costs and an estimate of dismantling costs. The carrying amount is further adjusted for any remeasurement of the lease liability. Depreciation is expensed to the income statement on a straight-line basis over the lease term. The lease term includes the noncancellable period of lease together with any extension or termination options that are reasonably certain to be exercised.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise largely of small items of office equipment.

## 14 Investments in joint ventures and associates

Details of the interests held by the Group in joint ventures and associates can be found in note 16 to the Inchcape Plc Company financial statements on pages 188 to 196.

Amounts recognised in the statement of financial position in respect of joint ventures and associates are as follows:

| | **2019 £m** | 2018 £m |
|---|---|---|
| At 1 January | **4.3** | 4.2 |
| Share of profit after tax of joint ventures and associates | **0.3** | 0.1 |
| Disposals | **(0.1)** | – |
| Effect of foreign exchange rate changes | **(0.2)** | – |
| **At 31 December** | **4.3** | 4.3 |

Net assets of joint ventures and associates

| | **2019 £m** | 2018 £m |
|---|---|---|
| Current assets | **9.1** | 10.1 |
| Total assets | **9.1** | 10.1 |
| Current liabilities | **(0.4)** | (1.5) |
| Total liabilities | **(0.4)** | (1.5) |
| Net assets | **8.7** | 8.6 |

Results of joint ventures and associates

| | **2019 £m** | 2018 £m |
|---|---|---|
| Revenue | **–** | 0.2 |
| Other income | **0.6** | – |
| Profit before tax | **0.6** | 0.2 |
| Tax | **–** | – |
| Profit after tax of joint ventures and associates | **0.6** | 0.2 |

Summarised financial information of joint ventures and associates

| | **2019 £m** | 2018 £m |
|---|---|---|
| Opening net assets at 1 January | **8.6** | 8.4 |
| Profit for the year | **0.6** | 0.2 |
| Disposals | **(0.2)** | – |
| Other comprehensive income for the year | **(0.3)** | – |
| **Closing net assets at 31 December** | **8.7** | 8.6 |
| Carrying value of interest in joint ventures and associates | **4.3** | 4.3 |

As at 31 December 2019, no guarantees were provided in respect of joint ventures and associates' borrowings (2018 – £nil).

## 15 Financial assets at fair value through other comprehensive income

| | 2019 £m | 2018 £m |
|---|---|---|
| At 1 January | **7.4** | 7.5 |
| Additions | **–** | 0.6 |
| Disposals | **–** | (0.5) |
| Effect of foreign exchange rate changes | **(0.3)** | (0.2) |
| **At 31 December** | **7.1** | 7.4 |

Analysed as:

| | 2019 £m | 2018 £m |
|---|---|---|
| Current | **0.2** | 0.8 |
| Non-current | **6.9** | 6.6 |
| | **7.1** | 7.4 |

Assets held are analysed as follows:

| | 2019 £m | 2018 £m |
|---|---|---|
| Equity securities | **6.9** | 7.2 |
| Other | **0.2** | 0.2 |
| | **7.1** | 7.4 |

'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.

## 16 Trade and other receivables

| | Current | | Non-current | |
|---|---|---|---|---|
| | **2019 £m** | 2018 (Restated)[1] £m | **2019 £m** | 2018 (Restated)[1] £m |
| Trade receivables | **329.0** | 337.4 | **12.6** | 10.0 |
| Less: provision for impairment of trade receivables | **(8.7)** | (11.4) | **–** | – |
| Net trade receivables | **320.3** | 326.0 | **12.6** | 10.0 |
| Prepayments and accrued income[2] | **117.9** | 124.2 | **7.1** | 22.1 |
| Other receivables | **74.1** | 62.4 | **19.0** | 20.3 |
| | **512.3** | 512.6 | **38.7** | 52.4 |

1. See note 33.
2. The balance of accrued income at 31 December 2019 is £62.1m (2018 – £58.3m).

Movements in the provision for impairment of receivables were as follows:

| | **2019 £m** | 2018 £m |
|---|---|---|
| At 1 January | **(11.4)** | (10.2) |
| Businesses acquired | **–** | (1.7) |
| Charge for the year | **(2.0)** | (1.3) |
| Amounts written off | **1.1** | 1.2 |
| Unused amounts reversed | **3.6** | 0.7 |
| Effect of foreign exchange rate changes | **–** | (0.1) |
| **At 31 December** | **(8.7)** | (11.4) |

At 31 December, the analysis of trade receivables is as follows:

| | | | Past due but not impaired | | | |
|---|---|---|---|---|---|---|
| | Total £m | Neither past due nor impaired £m | 0 – 30 days £m | 30 – 90 days £m | > 90 days £m | Impaired £m |
| **2019** | **341.6** | **228.2** | **53.9** | **24.7** | **26.1** | **8.7** |
| 2018 | 347.4 | 252.4 | 47.0 | 21.9 | 14.7 | 11.4 |

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.

## 17 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 | IFRS 16 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | (14.4) | (3.4) | 2.0 | 11.1 | (4.8) | 12.7 | (73.1) | – | (69.9) |
| Adjustment for IFRS 16 | – | – | – | – | – | – | – | 10.9 | 10.9 |
| At 1 January 2019 (restated)[1] | (14.4) | (3.4) | 2.0 | 11.1 | (4.8) | 12.7 | (73.1) | 10.9 | (59.0) |
| Credited / (charged) to the consolidated income statement | – | 0.1 | (0.4) | 8.0 | 0.6 | (2.3) | – | 1.4 | 7.4 |
| (Charged) / credited to equity and other comprehensive income | 10.1 | 7.0 | 0.7 | – | – | – | – | – | 17.8 |
| Businesses acquired / disposed | (0.1) | – | – | (0.2) | (0.5) | (0.5) | (6.4) | (1.1) | (8.8) |
| Effect of foreign exchange rate changes | 0.2 | (0.2) | – | (0.6) | (0.3) | (1.0) | 6.5 | (0.4) | 4.2 |
| **At 31 December 2019** | (4.2) | 3.5 | 2.3 | 18.3 | (5.0) | 8.9 | (73.0) | 10.8 | (38.4) |

Analysed as:

| | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|
| Deferred tax assets | **58.3** | 33.3 |
| Deferred tax liabilities | **(96.7)** | (92.3) |
| | **(38.4)** | (59.0) |

1. See note 33.

Measured at relevant local statutory rates, the Group has an unrecognised deferred tax asset of £22m (2018 – £29m) relating to tax relief on trading losses. The unrecognised asset represents £108m (2018 – £140m) of losses which exist within legal entities where forecast taxable profits are not probable in the foreseeable future.

The Group has unrecognised deferred tax assets of £25m (2018 – £23m) relating to capital losses. The asset represents £147m (2018 – £136m) of losses at the UK standard rate of 17.0% (2018 – 17.0%). 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 £2.0m (2018 – £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 £11.4m (2018 – £12.5m) offset by deferred tax assets on trade related accounting provisions in the Group's operating companies £20.3m (2018 – £25.2m).

The deferred tax liability on distribution agreements of £73.0m (2018 – £73.1m) has been recorded as a result of the business acquisitions during 2016, 2018 and 2019.

The deferred tax asset on tax trading losses of £18.3m (2018 – £11.1m) relates to territories and entities where future taxable profits are considered probable.

## 18 Inventories

| | 2019 £m | 2018 £m |
|---|---|---|
| Raw materials and work in progress | **33.2** | 31.0 |
| Finished goods and merchandise | **1,533.7** | 1,820.9 |
| | **1,566.9** | 1,851.9 |

Vehicles held on consignment which are in substance assets of the Group amount to £167.2m (2018 – £205.6m). 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 £44.8m (2018 – £49.9m) 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 £7,504.9m (2018 – £7,466.7m). The write-down of inventory to net realisable value recognised as an expense during the year was £22.2m (2018 – £57.9m). All of these items have been included within 'cost of sales' in the consolidated income statement.

## 19 Cash and cash equivalents

| | 2019 £m | 2018 £m |
|---|---|---|
| Cash at bank and cash equivalents | **321.5** | 370.3 |
| Short-term deposits | **101.5** | 219.0 |
| | **423.0** | 589.3 |

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 2019, the weighted average floating rate was 0.42% (2018 – 0.45%).

£88.0m (2018 – £100.1m) of cash and cash equivalents is held in Ethiopia where prior approval is required to transfer funds abroad, and currency may not be available locally to effect such transfers.

At 31 December 2019, short-term deposits have a weighted average period to maturity of 25 days (2018 – 20 days).

## 20 Assets and liabilities held for sale and disposal group

| | 2019 £m | 2018 £m |
|---|---|---|
| Assets held for sale | **5.1** | 8.9 |
| Assets directly associated with the disposal group | **144.3** | – |
| Assets classified as held for sale and disposal group | **149.4** | 8.9 |
| Liabilities directly associated with the disposal group | **(106.1)** | – |

The assets and liabilities in the disposal group comprise the following:

| | 2019 £m | 2018 £m |
|---|---|---|
| Goodwill | **7.6** | – |
| Property, plant and equipment | **30.2** | – |
| Right-of-use assets | **22.9** | – |
| Inventories | **83.6** | – |
| Assets directly associated with the disposal group | **144.3** | – |
| Trade and other payables | **(76.4)** | – |
| Lease liabilities | **(29.7)** | – |
| Liabilities directly associated with the disposal group | **(106.1)** | – |

Assets held for sale relate to surplus properties within the UK, Russia and Colombia which are actively marketed with a view to sale.

The disposal groups relate to the assets and liabilities attributable to retail centres in the UK and Australia and are stated net of an impairment charge of £2.8m which has been reported as an exceptional charge in the income statement following the subsequent write-down of disposal groups to fair value less costs to sell.

## 21 Trade and other payables

| | Current | | Non-current | |
|---|---|---|---|---|
| | **2019 £m** | 2018 (Restated)[1] £m | **2019 £m** | 2018 £m |
| Trade payables | **241.2** | 225.0 | **–** | 3.5 |
| Payments received on account | **60.3** | 87.7 | **4.3** | 3.7 |
| Vehicle funding agreements | **1,367.9** | 1,621.6 | **–** | – |
| Other taxation and social security payable | **48.3** | 62.7 | **–** | – |
| Accruals and deferred income | **252.3** | 339.9 | **70.3** | 58.0 |
| Amounts payable to related parties | **–** | 0.1 | **–** | – |
| Other payables | **26.4** | 19.6 | **2.6** | 2.1 |
| | **1,996.4** | 2,356.6 | **77.2** | 67.3 |

1. See note 33.

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 are uncommitted facilities, 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. 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 (see note 7). At 31 December 2019, amounts outstanding under vehicle funding facilities and on which interest was payable were subject to a weighted average interest rate of 1.5% (2018 – 2.5%).

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.

Included within accruals and deferred income are the following balances:

| | **2019 £m** | 2018 £m |
|---|---|---|
| Extended warranties | **36.6** | 42.0 |
| Service packages | **38.1** | 34.0 |
| Other services | **44.7** | 45.7 |
| | **119.4** | 121.7 |

Analysed as:

| | **2019 £m** | 2018 £m |
|---|---|---|
| Current | **58.6** | 63.7 |
| Non-current | **60.8** | 58.0 |
| | **119.4** | 121.7 |

Revenue recognised in 2019 that was included in deferred revenue at the beginning of the year was £65.3m (2018 – £34.7m).

**Extended warranties**

Certain Group companies provide extended warranties to customers over and above those provided by the manufacturer and act as the principal in the supply of the warranty service. The periods covered are up to six years and / or specific mileage limits. A proportion of revenue is allocated to the extended warranty obligation and deferred to the balance sheet. The revenue is subsequently recognised over time along with the costs incurred in fulfilling any warranty obligations.

**Service packages**

Certain Group companies provide service packages to customers as part of the total vehicle package. Where the Group acts as principal, the value of the additional services is separately identified, deducted from revenue and recognised as deferred income on the balance sheet. It is subsequently recognised as revenue when the service is provided.

**Other services**

Certain Group companies provide other services as part of the total vehicle package (e.g. roadside assistance, fuel coupons etc). Where the Group acts as principal, the value of the additional services is separately identified, deducted from revenue and recognised as deferred income on the balance sheet. It is subsequently recognised as revenue over the period to which the service relates.

## 22 Provisions

| | Product warranty £m | Leasehold £m | Litigation £m | Other £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2019 | **9.0** | **0.7** | **1.5** | **21.8** | **33.0** |
| Adjustment for IFRS 16 | **–** | **1.0** | **–** | **0.6** | **1.6** |
| At 1 January 2019 (restated) [1] | **9.0** | **1.7** | **1.5** | **22.4** | **34.6** |
| Businesses acquired | **–** | **–** | **0.5** | **3.8** | **4.3** |
| Business sold | **–** | **–** | **–** | **(2.0)** | **(2.0)** |
| Charged to the consolidated income statement | **4.5** | **0.3** | **0.6** | **5.0** | **10.4** |
| Released to the consolidated income statement | **(1.5)** | **(0.1)** | **(0.5)** | **(1.7)** | **(3.8)** |
| Effect of unwinding of discount factor | **0.1** | **–** | **–** | **0.1** | **0.2** |
| Utilised during the year | **(1.1)** | **(1.1)** | **(0.2)** | **(3.4)** | **(5.8)** |
| Effect of foreign exchange rate changes | **(0.4)** | **(0.3)** | **(0.2)** | **(1.1)** | **(2.0)** |
| **At 31 December 2019** | **10.6** | **0.5** | **1.7** | **23.1** | **35.9** |

Analysed as:

| | 2019 £m | 2018 (Restated) [1] £m |
|---|---|---|
| Current | **23.0** | 20.3 |
| Non-current | **12.9** | 14.3 |
| | **35.9** | 34.6 |

1. See note 33.

**Product warranty**

Certain Group companies provide assurance warranties as part of the sale of a vehicle. These are not separable products. The warranty periods covered are up to five 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.

**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 and Hong Kong. Provision has been made to the extent of the estimated future net cost, excluding the lease liability recognised under IFRS 16. This includes taking into account existing subtenant arrangements. The category also includes the future obligation relating to the maintenance of premises. The expected utilisation period of these provisions is generally over the next ten 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 uncertain non-income taxes recognised on acquisition of a business, residual values on leased vehicles and provisions relating to restructuring activities. These provisions are expected to be utilised within three years.

## 23 Borrowings

| 2019 | Floating rate £m | Floating rate Weighted average effective interest rate % | Fixed rate £m | Fixed rate Weighted average effective interest rate % | Total interest bearing £m | On which no interest is paid £m | 2019 Total £m |
|---|---|---|---|---|---|---|---|
| **Current** | | | | | | | |
| Bank overdrafts | **43.8** | **0.8** | **–** | **–** | **43.8** | **–** | **43.8** |
| Bank loans | **6.3** | **1.0** | **–** | **–** | **6.3** | **–** | **6.3** |
| | **50.1** | **0.8** | **–** | **–** | **50.1** | **–** | **50.1** |
| **Non-current** | | | | | | | |
| Bank loans | **60.0** | **1.1** | **–** | **–** | **60.0** | **–** | **60.0** |
| Private Placement | **–** | **–** | **210.0** | **3.0** | **210.0** | **–** | **210.0** |
| | **60.0** | **1.1** | **210.0** | **3.0** | **270.0** | **–** | **270.0** |
| Total borrowings | **110.1** | **1.0** | **210.0** | **3.0** | **320.1** | **–** | **320.1** |

Bank overdrafts include £43.8m (2018 – £125.9m) held in cash pooling arrangements which have not been offset in the consolidated statement of financial position (see note 24b).

| 2018 (Restated)[1] | Floating rate £m | Floating rate Weighted average effective interest rate % | Fixed rate £m | Fixed rate Weighted average effective interest rate % | Total interest bearing £m | On which no interest is paid £m | 2018 Total £m |
|---|---|---|---|---|---|---|---|
| **Current** | | | | | | | |
| Bank overdrafts | 125.9 | 0.8 | – | – | 125.9 | – | 125.9 |
| Bank loans | 163.6 | 1.0 | – | – | 163.6 | – | 163.6 |
| Private Placement | 127.4 | 1.5 | – | – | 127.4 | – | 127.4 |
| Other loans | – | – | – | – | – | 0.1 | 0.1 |
| | 416.9 | 1.1 | – | – | 416.9 | 0.1 | 417.0 |
| **Non-current** | | | | | | | |
| Private Placement | – | – | 210.0 | 3.0 | 210.0 | – | 210.0 |
| Total borrowings | 416.9 | 1.1 | 210.0 | 3.0 | 626.9 | 0.1 | 627.0 |

1. See note 33.

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 £210m Sterling Private Placement loan notes are held at amortised cost. They have a fair value of £212.1m (2018 – £208.6m) calculated from discounted cash flow techniques obtained using discount rates from observable market data, which is a level 2 valuation technique. The fair values of the Group's other borrowings are not considered to be materially different from their book value.

£nil of the Group's bank loans are secured by term deposits placed under a standby letter of credit and related facility arrangements (2018 – £38.2m). The Group's bank overdrafts are secured by related offsetting cash balances held under pooling arrangements. The Group's remaining borrowings are unsecured.

In February 2019, the Group entered into a syndicated revolving credit facility of £700m with an initial expiry date of February 2024 and options to renew until 2026. This facility replaced the Group's existing syndicated revolving credit facility agreement for £400m and existing bilateral facility agreements of £221m.

At 31 December 2019, the committed funding facilities of the Group comprised a syndicated revolving credit facility of £700m (2018 – £400m), bilateral revolving credit facilities of £nil (2018 – £221m), US dollar Private Placement loan notes totalling US$nil (2018 – US$161m) and sterling Private Placement loan notes totalling £210m (2018 – £210m).

At 31 December 2019, £60m of the £700m was drawn down (2018 – £nil).

## 23 Borrowings continued

In December 2016, the Group concluded a Private Placement transaction raising £210m to refinance existing US dollar Private Placement borrowings which matured in May 2017. The amounts drawn under these facilities are as follows:

| Maturity date | May 2024 | May 2027 | May 2027 | May 2029 |
|---|---|---|---|---|
| Amount drawn | £70m | £30m | £70m | £40m |
| Fixed rate coupon | 2.85% | 3.02% | 3.12% | 3.10% |

All of the Group's remaining US$161m US dollar Private Placement loan notes were repaid in May 2019.

The table below sets out the maturity profile of the Group's existing borrowings that are exposed to interest rate risk. The analysis for 2018 is presented after taking account of the cross currency fixed to floating interest rate swap on US$161m of Private Placement loan notes.

| **2019** | **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** |
|---|---|---|---|---|---|---|---|
| **Fixed rate** | | | | | | | |
| Private Placement | **–** | **–** | **–** | **–** | **70.0** | **140.0** | **210.0** |
| **Floating rate** | | | | | | | |
| Bank overdrafts | **43.8** | **–** | **–** | **–** | **–** | **–** | **43.8** |
| Bank loans | **6.3** | **–** | **–** | **–** | **60.0** | **–** | **66.3** |

| 2018 (Restated)[1] | 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 |
|---|---|---|---|---|---|---|---|
| Fixed rate | | | | | | | |
| Private Placement | – | – | – | – | – | 210.0 | 210.0 |
| Floating rate | | | | | | | |
| Bank overdrafts | 125.9 | – | – | – | – | – | 125.9 |
| Bank loans | 163.6 | – | – | – | – | – | 163.6 |
| Private Placement | 127.4 | – | – | – | – | – | 127.4 |

1. See note 33.

## 24 Financial instruments

The Group's financial liabilities, other than derivatives, comprise overdrafts, loan notes, trade and other payables and lease liabilities. 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 include 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. Classification of financial instruments

| 2019 | Measured at amortised cost £m | Measured at fair value through other comprehensive income £m | Measured at fair value through profit or loss £m | Total £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through other comprehensive income | **–** | **7.1** | **–** | **7.1** |
| Trade and other receivables | **490.2** | **–** | **–** | **490.2** |
| Derivative financial instruments | **–** | **0.9** | **15.3** | **16.2** |
| Cash and cash equivalents | **423.0** | **–** | **–** | **423.0** |
| Total financial assets | **913.2** | **8.0** | **15.3** | **936.5** |
| **Financial liabilities** | | | | |
| Trade and other payables | **(1,885.4)** | **–** | **–** | **(1,885.4)** |
| Derivative financial instruments | **–** | **(3.3)** | **(24.1)** | **(27.4)** |
| Lease liabilities | **(352.8)** | **–** | **–** | **(352.8)** |
| Borrowings | **(320.1)** | **–** | **–** | **(320.1)** |
| Total financial liabilities | **(2,558.3)** | **(3.3)** | **(24.1)** | **(2,585.7)** |
| | **(1,645.1)** | **4.7** | **(8.8)** | **(1,649.2)** |

| 2018 (Restated)[1] | Measured at amortised cost £m | Measured at fair value through other comprehensive income £m | Measured at fair value through profit or loss £m | Total £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through other comprehensive income | – | 7.4 | – | 7.4 |
| Trade and other receivables | 409.8 | – | – | 409.8 |
| Derivative financial instruments | – | 16.8 | 75.3 | 92.1 |
| Cash and cash equivalents | 589.3 | – | – | 589.3 |
| Total financial assets | 999.1 | 24.2 | 75.3 | 1,098.6 |
| **Financial liabilities** | | | | |
| Trade and other payables | (2,225.7) | – | – | (2,225.7) |
| Derivative financial instruments | – | (1.2) | (12.1) | (13.3) |
| Lease liabilities | (460.4) | – | – | (460.4) |
| Borrowings | (627.0) | – | – | (627.0) |
| Total financial liabilities | (3,313.1) | (1.2) | (12.1) | (3,326.4) |
| | (2,314.0) | 23.0 | 63.2 | (2,227.8) |

1. See note 33.

## 24 Financial instruments continued

### 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: Financial instruments £m | Related amounts not set off in the statement of financial position: Cash collateral received £m | Net amount £m |
|---|---|---|---|---|---|---|
| **As at 31 December 2019** | | | | | | |
| Derivative financial assets | **16.2** | **–** | **16.2** | **(8.3)** | **–** | **7.9** |
| Cash and cash equivalents | **423.0** | **–** | **423.0** | **(43.8)** | **–** | **379.2** |
| Total | **439.2** | **–** | **439.2** | **(52.1)** | **–** | **387.1** |
| As at 31 December 2018 | | | | | | |
| Derivative financial assets | 98.4 | (6.3) | 92.1 | (11.9) | – | 80.2 |
| Cash and cash equivalents | 589.3 | – | 589.3 | (125.9) | – | 463.4 |
| Total | 687.7 | (6.3) | 681.4 | (137.8) | – | 543.6 |

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: Financial instruments £m | Related amounts not set off in the statement of financial position: Cash collateral paid £m | Net amount £m |
|---|---|---|---|---|---|---|
| **As at 31 December 2019** | | | | | | |
| Derivative financial liabilities | **(27.4)** | **–** | **(27.4)** | **8.3** | **–** | **(19.1)** |
| Bank overdrafts | **(43.8)** | **–** | **(43.8)** | **43.8** | **–** | **–** |
| Total | **(71.2)** | **–** | **(71.2)** | **52.1** | **–** | **(19.1)** |
| As at 31 December 2018 | | | | | | |
| Derivative financial liabilities | (19.6) | 6.3 | (13.3) | 11.9 | – | (1.4) |
| Bank overdrafts | (125.9) | – | (125.9) | 125.9 | – | – |
| Total | (145.5) | 6.3 | (139.2) | 137.8 | – | (1.4) |

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 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.

## 24 Financial instruments continued

## 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 Japanese yen exchange rate with both the Australian dollar and Chilean peso.

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; and
- 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.

Instruments approved for the purpose of hedging interest rate risk 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 loan notes that expired in 2019, bank borrowings, supplier-related finance and the returns available on surplus cash.

**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 2019 with all other variables held constant.

| | Increase in basis points | Effect on profit before tax £m |
|---|---|---|
| **2019** | | |
| Sterling | **75** | **(10.6)** |
| Euro | **50** | **0.3** |
| Russian rouble | **500** | **0.7** |
| Australian dollar | **100** | **3.1** |
| US dollar | **75** | **0.4** |
| **2018** | | |
| Sterling | 75 | (9.6) |
| Euro | 50 | 0.1 |
| Russian rouble | 500 | 0.4 |
| Australian dollar | 100 | 1.2 |
| US dollar | 75 | 0.9 |

## 24 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 in that unit's reporting 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 Australia which purchases vehicles in Japanese yen and our South and Central American businesses which purchase vehicles in Japanese yen and US dollars.

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 IFRS 9 hedges are documented and tested for the hedge effectiveness on an ongoing basis.

**Hedge of foreign currency debt**

In 2018, the Group used cross currency interest rate swaps to hedge the forward foreign currency risk associated with the US$161m Private Placement loan notes. The effective portion on the gain or loss of the hedge was recognised in the consolidated income statement at the same time as the underlying hedged transaction affects the consolidated income statement. The US$ Private Placement loan notes were fully repaid in 2019.

**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 |
|---|---|---|
| **2019** | | |
| Yen | **+10%** | **–** |
| Yen | **-10%** | **(0.1)** |
| 2018 | | |
| Yen | +10% | – |
| 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.

## 24 Financial instruments continued

The table below analyses the Group's short-term deposits and derivative assets by credit exposure excluding bank balances and cash in hand:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Credit rating of counterparty** | **Derivative assets £m** | **Short-term deposits £m** | Derivative assets £m | Short-term deposits £m |
| AA- | **0.5** | **1.0** | 43.4 | – |
| A+ | **1.5** | **–** | 32.5 | 68.1 |
| A | **9.3** | **2.0** | – | – |
| A- | **1.6** | **1.0** | 12.0 | 32.0 |
| BBB+ | **0.1** | **1.0** | 0.9 | 0.7 |
| BBB | **–** | **22.0** | – | – |
| BBB- | **0.1** | **–** | 0.1 | 19.9 |
| No rating* | **3.1** | **74.5** | 3.2 | 98.3 |
| | **16.2** | **101.5** | 92.1 | 219.0 |

* Counterparties in certain markets in which the Group operates do not have a credit rating.

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, receivables and other financial assets is represented by their carrying amount.

Total cash at bank of £321.5m (2018 – £370.3m) 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.

## 24 Financial instruments continued

### g. Liquidity risk

Prudent liquidity risk management includes 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 2019 based on contractual expected undiscounted cash flows:

| 2019 | Less than 3 months £m | Between 3 to 12 months £m | Between 1 to 5 years £m | Greater than 5 years £m | Total £m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | **414.3** | **8.7** | **–** | **–** | **423.0** |
| Trade and other receivables | **387.1** | **59.9** | **33.3** | **13.0** | **493.3** |
| Financial assets at fair value through other comprehensive income | **0.2** | **–** | **–** | **6.9** | **7.1** |
| Derivative financial instruments | **10.6** | **5.6** | **–** | **–** | **16.2** |
| | **812.2** | **74.2** | **33.3** | **19.9** | **939.6** |
| **Financial liabilities** | | | | | |
| Interest bearing loans and borrowings | **(44.0)** | **(6.8)** | **(156.9)** | **(150.4)** | **(358.1)** |
| Lease liabilities | **(21.4)** | **(60.1)** | **(235.8)** | **(251.9)** | **(569.2)** |
| Trade and other payables | **(1,619.6)** | **(251.4)** | **(14.4)** | **–** | **(1,885.4)** |
| Derivative financial instruments | **(18.7)** | **(8.7)** | **–** | **–** | **(27.4)** |
| | **(1,703.7)** | **(327.0)** | **(407.1)** | **(402.3)** | **(2,840.1)** |
| Net outflows | **(891.5)** | **(252.8)** | **(373.8)** | **(382.4)** | **(1,900.5)** |

| 2018 (Restated)[1] | Less than 3 months £m | Between 3 to 12 months £m | Between 1 to 5 years £m | Greater than 5 years £m | Total £m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 573.7 | 15.6 | – | – | 589.3 |
| Trade and other receivables | 356.3 | 31.4 | 15.7 | 12.2 | 415.6 |
| Financial assets at fair value through other comprehensive income | 0.2 | – | 7.2 | – | 7.4 |
| Derivative financial instruments | 24.7 | 141.8 | – | – | 166.5 |
| | 954.9 | 188.8 | 22.9 | 12.2 | 1,178.8 |
| **Financial liabilities** | | | | | |
| Interest bearing loans and borrowings | (164.6) | (253.5) | (25.3) | (228.6) | (672.0) |
| Lease liabilities | (21.6) | (61.8) | (242.9) | (292.5) | (618.8) |
| Trade and other payables | (1,913.6) | (299.2) | (12.9) | – | (2,225.7) |
| Derivative financial instruments | (13.4) | (76.4) | – | – | (89.8) |
| | (2,113.2) | (690.9) | (281.1) | (521.1) | (3,606.3) |
| Net outflows | (1,158.3) | (502.1) | (258.2) | (508.9) | (2,427.5) |

1. See note 33.

## 24 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:

| | | | | **2019** | | | | 2018 |
|---|---|---|---|---|---|---|---|---|
| | **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 | **–** | **16.2** | **–** | **16.2** | – | 92.1 | – | 92.1 |
| Financial assets at fair value through other comprehensive income | **0.5** | **–** | **6.6** | **7.1** | 0.5 | – | 6.9 | 7.4 |
| | **0.5** | **16.2** | **6.6** | **23.3** | 0.5 | 92.1 | 6.9 | 99.5 |
| **Liabilities** | | | | | | | | |
| Derivatives used for hedging | **–** | **(27.4)** | **–** | **(27.4)** | – | (13.3) | – | (13.3) |

Level 1 represents the fair value of financial instruments that are traded in active markets and is based on quoted markets 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 prevailing at 31 December 2019.

The Group's derivative financial instruments comprise the following:

| | | Assets | | Liabilities |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Cross currency interest rate swaps | **–** | 52.2 | **–** | – |
| Forward foreign exchange contracts | **16.2** | 39.9 | **(27.4)** | (13.3) |
| | **16.2** | 92.1 | **(27.4)** | (13.3) |

The ineffective portion recognised in the consolidated income statement that arises from fair value hedges amounts to a loss of £0.1m (2018 – loss of £0.6m). The ineffective portion recognised in the consolidated income statement that arises from cash flow hedges amounts to a gain of £nil (2018 – £nil).

**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 (2018 – 12 months) of the end of the reporting period.

The nominal principal amount of the outstanding forward foreign exchange contracts relating to transactional exposures at 31 December 2019 was £804.5m (2018 – £810.5m).

Net fair value gains and losses recognised in the hedging reserve in shareholders' equity (see note 26) on forward foreign exchange contracts as at 31 December 2019 are expected to be released to the consolidated income statement within 12 months of the end of the reporting period (2018 – 12 months).

**Fair value hedge**

At 31 December 2018, the Group had in place three cross currency interest rate swaps. Two of these totalled US$200m which hedged changes in the fair value of the Group's 12-year loan notes that matured in May 2019. Under these swaps the Group received fixed rate US dollar interest of 6.04% on US$200m and paid LIBOR +90bps. An additional US$39.2m cross currency interest rate swap was put in place after debt reduction in 2009 to offset the non-required portion of the original swaps. Under this swap the Group paid US dollar interest of 6.04% on US$39.2m and received LIBOR +214bps. The loan notes and cross currency interest rate swaps had the same critical terms and all matured in May 2019.

## 24 Financial instruments continued

### 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.

| | **2019** | 2018 (Restated)[1] |
|---|---|---|
| Return on capital employed | **22.2%** | 22.2% |

1. See note 33.

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. The leverage tests are measured excluding the impact of IFRS 16.

| | **2019** | 2018 |
|---|---|---|
| Adjusted EBITA interest cover (times)* | **133.3** | 62.0 |
| 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.

## 25 Share capital

### a. Allotted, called up and fully paid up

| | **2019 Number** | 2018 Number | **2019 £m** | 2018 £m |
|---|---|---|---|---|
| **Ordinary shares (nominal value of 10.0p each)** | | | | |
| At 1 January | **415,127,453** | 415,018,286 | **41.6** | 41.6 |
| Allotted under share option schemes | **75,353** | 109,167 | **–** | – |
| Cancelled under share buyback | **(16,070,070)** | – | **(1.6)** | – |
| **At 31 December** | **399,132,736** | 415,127,453 | **40.0** | 41.6 |

### b. Share buyback programme

During the year, the Group repurchased 16,070,070 of its own shares through purchases on the London Stock Exchange at a cost of £98.5m (2018 – £nil). 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, equivalent to the nominal value of the cancelled shares, was transferred to the capital redemption reserve. Costs of £1.5m (2018 – £nil) associated with the transfer to the Group of the repurchased shares and their subsequent cancellation were charged to the profit and loss reserve. In 2018, there were no repurchases of own shares.

### c. Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 26 February 2020 under the provisions of the Companies Act 2006 have been disclosed in the significant shareholdings section of the Corporate Governance Report.

## 25 Share capital continued

### d. Share options

At 31 December 2019, 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 (£) |
|---|---|---|
| **The Inchcape 1999 Share Option Plan – approved (Part II – UK)** | | |
| 2 | 7 April 2020 | 3.10 |
| **– unapproved (Part I – UK)** | | |
| 1,612 | 7 April 2020 | 3.10 |
| **– unapproved overseas (Part I – Overseas)** | | |
| 1,612 | 7 April 2020 | 3.10 |

| Number of ordinary shares of 10.0p each | Exercisable until | Option price (£) |
|---|---|---|
| **The Inchcape SAYE Share Option Scheme – approved** | | |
| 84,162 | 1 May 2020 | 5.63 |
| 237,810 | 1 May 2021 | 6.66 |
| 702,425 | 1 May 2022 | 5.54 |
| 1,344,510 | 1 May 2023 | 4.59 |

Included within the retained earnings reserve are 861,589 (2018 – 771,211) 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 2019 was £5.5m (2018 – £5.1m). The market value of these shares at 31 December 2019 and 26 February 2020 was £6.1m and £5.1m respectively (31 December 2018 – £4.3m, 27 February 2019 – £4.6m).

## 26 Other reserves

| | Translation reserve (Restated)[1] £m | Hedging reserve £m | Total other reserves (Restated)[1] £m |
|---|---|---|---|
| At 1 January 2018 | (67.1) | (16.5) | (83.6) |
| Cash flow hedges: | | | |
| – Fair value movements | – | 38.7 | 38.7 |
| – Reclassified and reported in inventories | – | (15.3) | (15.3) |
| – Tax on cash flow hedges | – | (5.7) | (5.7) |
| Other currency translation differences | (10.0) | – | (10.0) |
| At 1 January 2019 | **(77.1)** | **1.2** | **(75.9)** |
| Cash flow hedges: | | | |
| – Fair value movements | **–** | **(41.0)** | **(41.0)** |
| – Reclassified and reported in inventories | **–** | **16.4** | **16.4** |
| – Tax on cash flow hedges | **–** | **7.2** | **7.2** |
| Other currency translation differences | **(97.1)** | **–** | **(97.1)** |
| **At 31 December 2019** | **(174.2)** | **(16.2)** | **(190.4)** |

1. See note 33.

The effect of foreign exchange rate changes includes a gain of £2.7m (2018 – gain of £2.8m) on the sale and 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*.

**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.

## 27 Retained earnings

| | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|
| At 1 January (restated)[1] | **1,087.0** | 1,145.0 |
| Adjustment for IFRIC 23[2] | **6.1** | – |
| Total comprehensive income attributable to owners of the parent for the year: | | |
| – Profit for the year | **322.9** | 32.4 |
| – Actuarial (losses) / gains on defined pension benefits (see note 5) | **(71.7)** | 36.4 |
| – Tax credited to reserves | **10.1** | (6.2) |
| Total comprehensive income for the year | **261.3** | 62.6 |
| Share-based payments, net of tax | **6.8** | 7.2 |
| Share buyback programme | **(100.0)** | – |
| Net purchase of own shares by Inchcape Employee Trust | **(9.3)** | (12.6) |
| Dividends paid (see note 10) | **(110.5)** | (115.2) |
| **At 31 December** | **1,141.4** | 1,087.0 |

1. See note 33.
2. See accounting policies for further details.

## 28 Notes to the consolidated statement of cash flows
## a. Reconciliation of cash generated from operations

| | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit | **448.6** | 174.9 |
| Exceptional items (see note 2) | **(75.5)** | 223.7 |
| Amortisation of intangible assets | **16.0** | 14.2 |
| Depreciation of property, plant and equipment | **42.6** | 43.9 |
| Depreciation of right-of-use assets | **66.3** | 66.9 |
| Impairment of right-of-use assets (non-exceptional) | **–** | 1.3 |
| Profit on disposal of property, plant and equipment | **(4.4)** | (2.1) |
| Gain on disposal of right-of-use assets | **(0.1)** | – |
| Share-based payments charge | **6.1** | 7.5 |
| Decrease / (increase) in inventories | **94.8** | (41.5) |
| Increase in trade and other receivables | **(29.4)** | (15.4) |
| (Decrease) / increase in trade and other payables | **(121.5)** | 94.6 |
| Increase in provisions | **1.7** | 1.0 |
| Pension contributions less than the pension charge for the year[2] | **2.3** | 21.3 |
| Decrease in interest in leased vehicles | **7.3** | 2.9 |
| Payments in respect of operating exceptional items | **(10.5)** | (10.1) |
| Other non-cash items | **1.6** | (1.3) |
| **Cash generated from operations** | **445.9** | 581.8 |

1. See note 33.
2. Includes additional payments of £2.8m (2018 – £2.7m) and a return of surplus of £nil (2018 – £16.8m).

## 28 Notes to the consolidated statement of cash flows continued

## b. Net debt reconciliation

| | Liabilities from financing activities | | | Assets | |
|---|---|---|---|---|---|
| | Borrowings £m | Leases £m | Sub-total £m | Cash / bank overdrafts £m | Total net debt £m |
| **Net debt at 1 January 2018 (restated)[1]** | (333.3) | (422.3) | (755.6) | 416.6 | (339.0) |
| Cash flows | (35.6) | 64.0 | 28.4 | 176.5 | 204.9 |
| Acquisitions | (61.2) | (12.1) | (73.3) | (152.7) | (226.0) |
| Disposals | – | – | – | 13.4 | 13.4 |
| New lease liabilities | – | (93.5) | (93.5) | – | (93.5) |
| Foreign exchange adjustments | (4.3) | 3.5 | (0.8) | 9.6 | 8.8 |
| Net movement in fair value | (14.5) | – | (14.5) | – | (14.5) |
| **Net debt at 1 January 2019 (restated)[1]** | **(448.9)** | **(460.4)** | **(909.3)** | **463.4** | **(445.9)** |
| Cash flows | **197.4** | **65.7** | **263.1** | **(214.0)** | **49.1** |
| Acquisitions | **(22.9)** | **(12.5)** | **(35.4)** | **(41.2)** | **(76.6)** |
| Disposals | **–** | **41.8** | **41.8** | **230.4** | **272.2** |
| New lease liabilities | **–** | **(30.2)** | **(30.2)** | **–** | **(30.2)** |
| Transferred to liabilities held for sale | **–** | **30.1** | **30.1** | **–** | **30.1** |
| Foreign exchange adjustments | **(1.8)** | **12.7** | **10.9** | **(59.4)** | **(48.5)** |
| Net movement in fair value | **(0.1)** | **–** | **(0.1)** | **–** | **(0.1)** |
| **Net debt at 31 December 2019** | **(276.3)** | **(352.8)** | **(629.1)** | **379.2** | **(249.9)** |

1. See note 33.

Net debt is analysed as follows:

| | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|
| Cash and cash equivalents as per the statement of financial position | **423.0** | 589.3 |
| Borrowings – disclosed as current liabilities | **(50.1)** | (417.0) |
| Add back: amounts treated as debt financing (see below) | **6.3** | 291.1 |
| **Cash and cash equivalents as per the statement of cash flows** | **379.2** | 463.4 |
| **Debt financing** | | |
| Borrowings – disclosed as current liabilities and treated as debt financing (see above) | **(6.3)** | (291.1) |
| Borrowings – disclosed as non-current liabilities | **(270.0)** | (210.0) |
| Lease liabilities | **(352.8)** | (460.4) |
| Fair value of cross currency interest rate swaps | **–** | 52.2 |
| **Debt financing** | **(629.1)** | (909.3) |
| Net debt | **(249.9)** | (445.9) |

1. See note 33.

## 29 Acquisitions and disposals

### a. Acquisitions

On 31 January 2019, the Group acquired the full share capital of Krasta Auto in Lithuania, an authorised dealer of BMW Group, from Modus Group for a total cash consideration of £16.3m (net of cash acquired). The business was acquired to strengthen the Group's partnership with BMW in Northern Europe. A Distribution agreement with a fair value of £19.0m has been recognised at the date of acquisition. The goodwill arising on the acquisition represents intangible assets that do not qualify for separate recognition and the premium paid to complete the Group's consolidation of BMW's representation across the Baltic region. None of the goodwill is expected to be deductible for tax purposes.

On 2 December 2019, the Group acquired the full share capital of Autolider, a distributor of Mercedes-Benz passenger and commercial vehicles in both Uruguay and Ecuador, for cash consideration of £24.9m (net of cash acquired) and contingent consideration with a fair value of £3.9m. A Distribution agreement with a provisional fair value of £14.2m has been recognised at the date of acquisition. This business builds further on the Group's presence in Latin America, adding two new markets, and is consistent with the focus on core Distribution capabilities. The goodwill arising on the acquisition represents intangible assets that do not qualify for separate recognition and the Group strengthening its Latin American platform. None of the goodwill is expected to be deductible for tax purposes.

| | Krasta Auto £m | Autolider[1] £m | Total £m |
|---|---|---|---|
| **Assets and liabilities acquired** | | | |
| Intangible assets | – | **0.3** | **0.3** |
| Distribution agreements recognised on acquisition (see note 11) | **19.0** | **14.2** | **33.2** |
| Property, plant and equipment | **0.3** | **9.9** | **10.2** |
| Right-of-use assets | **6.9** | **4.8** | **11.7** |
| Tax assets | **0.3** | **1.2** | **1.5** |
| Inventory | **8.2** | **27.4** | **35.6** |
| Trade and other receivables | **5.9** | **18.7** | **24.6** |
| Cash and cash equivalents | **1.1** | **1.1** | **2.2** |
| Trade and other payables | **(10.4)** | **(24.7)** | **(35.1)** |
| Lease liabilities | **(7.7)** | **(4.8)** | **(12.5)** |
| Provisions | **(1.7)** | **(2.6)** | **(4.3)** |
| Borrowings | **(7.0)** | **(15.9)** | **(22.9)** |
| Tax liabilities | **(3.6)** | **(3.7)** | **(7.3)** |
| **Net identifiable assets** | **11.3** | **25.9** | **37.2** |
| Goodwill | **6.1** | **4.0** | **10.1** |
| **Net assets acquired** | **17.4** | **29.9** | **47.3** |
| Consideration comprises | | | |
| Cash consideration | **17.4** | **26.0** | **43.4** |
| Contingent consideration | – | **3.9** | **3.9** |
| **Total consideration** | **17.4** | **29.9** | **47.3** |

1. The fair values of acquired assets and liabilities are provisional.

| **Income statement items** | Total £m |
|---|---|
| Revenue recognised since the acquisition date in the consolidated income statement | **55.9** |
| Profit after tax since the acquisition date in the consolidated income statement | **0.9** |

If the acquisitions had occurred on 1 January 2019, the Group's approximate revenue and operating profit before exceptional items for the year ended 31 December 2019 would have been £9,469.5m and £376.9m respectively.

| | 2019 £m | 2018 £m |
|---|---|---|
| **Cash outflow to acquire businesses, net of cash and overdrafts acquired** | | |
| Cash consideration | **43.4** | 161.2 |
| Less: Cash acquired | **(2.2)** | (8.5) |
| **Net cash outflow** | **41.2** | 152.7 |

## 29 Acquisitions and disposals continued

### b. Disposals

| | Australia Retail £m | UK Retail £m | Inchcape Fleet Solutions £m | China £m | Total £m |
|---|---|---|---|---|---|
| **Assets and liabilities disposed of** | | | | | |
| Goodwill | **29.0** | **5.1** | **–** | **–** | **34.1** |
| Intangible assets | **–** | **–** | **0.3** | **0.1** | **0.4** |
| Property, plant and equipment | **33.2** | **14.8** | **5.1** | **12.9** | **66.0** |
| Right-of-use assets | **1.5** | **20.7** | **–** | **14.1** | **36.3** |
| Tax assets | **0.4** | **–** | **0.8** | **1.3** | **2.5** |
| Inventory | **41.6** | **17.3** | **19.8** | **15.6** | **94.3** |
| Trade and other receivables | **–** | **–** | **30.6** | **15.4** | **46.0** |
| Cash and cash equivalents | **–** | **–** | **5.8** | **32.9** | **38.7** |
| Trade and other payables | **(37.1)** | **(14.9)** | **(43.2)** | **(10.7)** | **(105.9)** |
| Provisions | **–** | **–** | **(2.0)** | **–** | **(2.0)** |
| Lease liabilities | **(1.5)** | **(22.2)** | **–** | **(18.1)** | **(41.8)** |
| **Net assets disposed of** | **67.1** | **20.8** | **17.2** | **63.5** | **168.6** |
| Consideration received and receivable | **72.0** | **24.6** | **100.0** | **91.9** | **288.5** |
| Disposal costs incurred | **(1.4)** | **(3.6)** | **(1.9)** | **(6.9)** | **(13.8)** |
| Gain on disposal before reclassification of foreign currency translation reserve | **3.5** | **0.2** | **80.9** | **21.5** | **106.1** |
| Recycling of foreign currency translation reserve | **–** | **–** | **–** | **2.7** | **2.7** |
| Gain on disposal | **3.5** | **0.2** | **80.9** | **24.2** | **108.8** |

Consistent with our focus on optimal deployment of our capital and maximising returns, the Group agreed the sale of a number of underperforming sites within our Australian retail business. Three retail sites in Australia were sold in December 2019 following on from the sale of three further sites completed in June and August 2019.

In the UK, the Group has optimised its portfolio of retail centres in regions where the Group has a less concentrated presence and is less able to leverage costs efficiently. As a result, seven Volkswagen and Audi sites in the UK were sold in July 2019.

On 12 December 2019, the Group sold its three retail sites in China to Yongda Automobiles Services Holdings Limited for total proceeds of £91.9m, out of which £8.1m is deferred for payment over 12 months.

On 31 December 2019, the Inchcape Fleet Solutions business was sold for cash proceeds of £100m to Toyota Fleet Mobility GmbH.

None of these disposals are material enough to be shown as discontinued operations on the face of the consolidated income statement as they do not represent a separate major line of business or geographical area of operations.

### c. 2018 acquisitions and disposals

In 2018 the Group acquired the full share capital of Grupo Rudelman, an automotive distribution business in Central America focused on Suzuki, for a total cash consideration of £155.5m. The business was acquired to establish the Group's presence in markets with structural growth potential and to expand the partnership with Suzuki in a strategically important region, adjacent to existing South American operations. The goodwill arising on the acquisition represents intangible assets that do not qualify for separate recognition and the premium paid to establish the Group's presence in Panama and Costa Rica in order to provide a platform to deliver growth and returns far quicker than would otherwise have been achievable. None of the goodwill is expected to be deductible for tax purposes.

During the year, the Group also entered into a Distribution contract with Jaguar Land Rover to distribute the Jaguar and Land Rover brands in Kenya, acquired one Lexus site in the UK and made a completion payment in relation to the acquisition of BMW operations in Estonia. The total cost of these acquisitions was £5.7m with total goodwill arising on the transactions of £1.5m.

The Group also disposed of its Jaguar Land Rover operations in Shaoxing, China, and a dealership in the UK, generating disposal proceeds of £13.4m.

## 30 Guarantees and contingencies

| | 2019 £m | 2018 £m |
|---|---|---|
| Guarantees, performance bonds and contingent liabilities | **75.1** | 77.4 |

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 24).

**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.

HMRC has now been granted leave to appeal a number of items at the Supreme Court and hearings will occur in February and December 2020. Therefore, resolution of the test case in the FII GLO remains incomplete. As at 31 December 2019, no further receipts have been recognised in relation to the balance of Inchcape's claim in the FII GLO due to the uncertainty of the eventual outcome given the test case has not yet completed nor has Inchcape's specific claim been heard by the Courts.

It is not expected that Brexit will affect this ongoing litigation.

**Other matter**

While this does not represent a contingent liability, we note that a class action has been brought against our subsidiary, Subaru (Australia) Pty Limited, in connection with the global Takata airbag inflator recall. Subaru (Australia) Pty Limited is one of a number of named defendants and is, along with others, taking steps to defend the action.

## 31 Commitments

### a. Capital commitments

Contracts placed for future capital expenditure at the balance sheet date but not yet incurred are as follows:

| | 2019 £m | 2018 £m |
|---|---|---|
| Property, plant and equipment | **5.0** | 20.6 |
| Computer software | **–** | 0.4 |

### 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. From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases.

Future minimum lease payments for short-term leases under non-cancellable operating leases are as follows:

| | 2019 £m | 2018 £m |
|---|---|---|
| Within one year | **3.2** | 4.1 |

**Operating leases – 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:

| | 2019 £m | 2018 (Restated)[1] £m |
|---|---|---|
| Within one year | **3.4** | 5.0 |
| Between one and five years | **4.9** | 6.4 |
| After five years | **0.1** | 4.8 |
| | **8.4** | 16.2 |

## 31 Commitments continued

**Sub-lease receivables – Group as lessor**

The Group has entered into sub-leases for a number of properties and other assets. As the lease term represents a major proportion of the underlying asset's useful life, the associated right-of-use asset has been derecognised and replaced with a sub-lease receivable. Future minimum lease payments receivable under sub-leases, together with the present value of the net minimum lease payments receivable (included within trade and other receivables), are as follows:

| | **2019 £m** | 2018 £m |
|---|---|---|
| Minimum lease payments receivable: | | |
| – Within one year | **0.8** | 0.4 |
| – Between one and five years | **3.5** | 5.4 |
| – After five years | **8.2** | 12.2 |
| Total minimum lease payments receivable | **12.5** | 18.0 |
| Less: Unearned finance income | **(3.1)** | (5.8) |
| Present value of sub-lease receivables | **9.4** | 12.2 |

### 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:

| | **2019 £m** | 2018 £m |
|---|---|---|
| Vehicles subject to residual value commitments | **7.1** | 81.9 |

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. The disposal of the Fleet Solutions business in the UK has driven the reduction in the Group's vehicle liabilities and commitments.

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 £0.3m (2018 – £6.8m) of residual value commitments that are included within 'trade and other payables'.

## 32 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 | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Other income paid to related parties | **0.8** | 0.8 | **–** | 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 (2018 – £nil).

### b. Compensation of key management personnel

The remuneration of the Board of Directors and the Executive Committee was as follows:

| | **2019 £m** | 2018 £m |
|---|---|---|
| Wages and salaries | **5.4** | 5.9 |
| Post-retirement benefits | **0.6** | 0.6 |
| Share-based payments | **2.2** | 2.4 |
| | **8.2** | 8.9 |

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.

## 33 Restatement on initial adoption of IFRS 16

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. Provisions for onerous lease contracts have been derecognised and operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right-of-use assets and lease liabilities. The principal restatements as a result of the initial adoption of IFRS 16 *Leases* are set out in the following tables. The tables show the adjustments recognised for each individual line item as at 31 December 2018. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

The impacts on the consolidated income statement are:

| | Year to 31 Dec 2018 £m | IFRS 16 £m | **Year to 31 Dec 2018 Restated £m** |
|---|---|---|---|
| Net operating expenses | (1,127.0) | 0.6 | **(1,126.4)** |
| **Operating profit** | 174.3 | 0.6 | **174.9** |
| Finance income | 19.3 | 0.8 | **20.1** |
| Finance costs | (61.6) | (20.5) | **(82.1)** |
| **Profit before tax** | 132.1 | (19.1) | **113.0** |
| Tax | (76.9) | 3.3 | **(73.6)** |
| **Profit for the year** | 55.2 | (15.8) | **39.4** |

The impacts on the consolidated statement of financial position are:

| | As at 1 Jan 2018 £m | IFRS 16 £m | **As at 1 Jan 2018 Restated £m** | As at 31 Dec 2018 £m | IFRS 16 £m | **As at 31 Dec 2018 Restated £m** |
|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 788.4 | (0.9) | **787.5** | 822.9 | (1.2) | **821.7** |
| Right-of-use assets | – | 393.2 | **393.2** | – | 415.2 | **415.2** |
| Trade and other receivables | 59.0 | (16.7) | **42.3** | 70.9 | (18.5) | **52.4** |
| Deferred tax assets | 36.7 | 3.2 | **39.9** | 30.8 | 2.5 | **33.3** |
| **Current assets** | | | | | | |
| Trade and other receivables | 465.0 | (2.2) | **462.8** | 512.8 | (0.2) | **512.6** |
| **Total assets** | 4,878.0 | 376.6 | **5,254.6** | 4,736.4 | 397.8 | **5,134.2** |
| **Current liabilities** | | | | | | |
| Trade and other payables | (2,234.6) | (0.3) | **(2,234.9)** | (2,356.5) | (0.1) | **(2,356.6)** |
| Provisions | (21.2) | (1.0) | **(22.2)** | (18.5) | (1.8) | **(20.3)** |
| Lease liabilities | – | (56.4) | **(56.4)** | – | (66.3) | **(66.3)** |
| Borrowings | (534.5) | 1.7 | **(532.8)** | (417.1) | 0.1 | **(417.0)** |
| **Non-current liabilities** | | | | | | |
| Provisions | (11.5) | 0.3 | **(11.2)** | (14.5) | 0.2 | **(14.3)** |
| Lease liabilities | – | (365.9) | **(365.9)** | – | (394.1) | **(394.1)** |
| Deferred tax liabilities | (78.6) | 4.8 | **(73.8)** | (100.7) | 8.4 | **(92.3)** |
| Borrowings | (361.9) | 1.4 | **(360.5)** | (211.7) | 1.7 | **(210.0)** |
| **Total liabilities** | (3,430.1) | (415.4) | **(3,845.5)** | (3,320.6) | (451.9) | **(3,772.5)** |
| **Net assets** | 1,447.9 | (38.8) | **1,409.1** | 1,415.8 | (54.1) | **1,361.7** |
| **Equity** | | | | | | |
| Other reserves | (83.5) | (0.1) | **(83.6)** | (76.3) | 0.4 | **(75.9)** |
| Retained earnings | 1,183.5 | (38.5) | **1,145.0** | 1,141.3 | (54.3) | **1,087.0** |
| **Equity attributable to owners of the parent** | 1,427.3 | (38.6) | **1,388.7** | 1,392.3 | (53.9) | **1,338.4** |
| Non-controlling interests | 20.6 | (0.2) | **20.4** | 23.5 | (0.2) | **23.3** |
| **Total equity** | 1,447.9 | (38.8) | **1,409.1** | 1,415.8 | (54.1) | **1,361.7** |

## 33 Restatement on initial adoption of IFRS 16 continued

The impacts on the consolidated statement of cash flows are:

| | Year to 31 Dec 2018 £m | IFRS 16 £m | **Year to 31 Dec 2018 Restated £m** |
|---|---|---|---|
| Cash generated from operations | 501.5 | 80.3 | **581.8** |
| Interest received | 17.1 | 0.8 | **17.9** |
| Interest paid | (44.2) | (19.9) | **(64.1)** |
| **Net cash generated from operating activities** | 375.7 | 61.2 | **436.9** |
| Receipt of sub-lease receivables | – | 1.0 | **1.0** |
| **Net cash used in investing activities** | (238.7) | 1.0 | **(237.7)** |
| Payment of capital element of finance leases | (1.8) | (62.2) | **(64.0)** |
| **Net cash used in financing activities** | (99.8) | (62.2) | **(162.0)** |
| **Net increase in cash and cash equivalents** | 37.2 | – | **37.2** |

See note 1 for details of the change in accounting policies arising from the adoption of IFRS 16.

## 34 Foreign currency translation

The main exchange rates used for translation purposes are as follows:

| | Average rates | | Year end rates | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Australian dollar | **1.84** | 1.79 | **1.89** | 1.81 |
| Chilean peso | **908.04** | 853.58 | **996.59** | 885.33 |
| Ethiopian birr | **37.39** | 36.92 | **42.42** | 36.06 |
| Euro | **1.14** | 1.13 | **1.18** | 1.11 |
| Hong Kong dollar | **10.01** | 10.45 | **10.34** | 9.99 |
| Russian rouble | **82.96** | 83.14 | **82.13** | 88.48 |
| Singapore dollar | **1.74** | 1.80 | **1.78** | 1.74 |
| US dollar | **1.28** | 1.33 | **1.33** | 1.28 |

## 35 Events after the reporting period

The Group has agreed to acquire Daimler's Mercedes-Benz passenger car and private vans distribution operations in Colombia, currently operated by Daimler Colombia S.A.

The Group disposed of two retail sites in the UK in January 2020 and two retail sites in Australia in February 2020.

# Alternative performance measures



## Alternative performance measures

The Group assesses its performance using a variety of alternative performance measures which are not defined under International Financial Reporting Standards. These provide insight into how the Board and Executive Committee monitor the Group's strategic and financial performance, and provide useful information on the underlying trends, performance and position of the Group.

| Performance measure | Definition | Why we measure it |
|---|---|---|
| **Trading profit** | Operating profit (before exceptional items) and unallocated central costs. Refer to note 1. | A measure of the contribution of the Group's segmental performance. |
| **Operating profit before exceptional items** | Operating profit before exceptional items. Refer to the consolidated income statement. | A key metric of the Group's underlying business performance. |
| **Operating margin** | Operating profit (before exceptional items) divided by revenue. | A key metric of operational efficiency, ensuring that we are leveraging global scale to translate sales growth into profit. |
| **Profit before tax & exceptional items** | Represents the profit made after operating and interest expense excluding the impact of exceptional items and before tax is charged. Refer to consolidated income statement. | A key driver of delivering sustainable and growing earnings to shareholders. |
| **Exceptional items** | Items that are charged or credited in the consolidated income statement which are material and non-recurring in nature. Refer to note 2. | The separate reporting of exceptional items helps provide additional useful information regarding the Group's underlying business performance and is consistent with the way that financial performance is measured by the Board and the Executive Committee. |
| **Free cash flow** | Net cash flows from operating activities, before exceptional cash flows, less normalised net capital expenditure and dividends paid to non-controlling interests. Refer to page 31. | A key driver of the Group's ability to 'Invest to Accelerate Growth' and to make distributions to shareholders. |
| **Return on capital employed (ROCE)** | Operating profit (before exceptional items) divided by the average of opening and closing capital employed, where capital employed is defined as net assets add net debt / 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. |
| **Net funds / (debt)** | Cash and cash equivalents less borrowings and lease liabilities adjusted for the fair value of derivatives that hedge interest rate or currency risk on borrowings. Refer to note 28. | A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. |
| **Net capital expenditure** | Cash outflows from the purchase of property, plant, equipment and intangible assets less the proceeds from the disposal of property, plant, equipment and intangible assets. Refer to page 31. | A measure of the net amount invested in operational facilities in the period. |
| **Constant currency** | Presentation of reported results translated using constant rates of exchange. | A measure of underlying business performance which excludes the impact of changes in exchange rates used for translation. |

# 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.

| Consolidated income statement | 2019 £m | 2018 £m | 2017 £m[1] | 2016 £m[1] | 2015 £m[1] |
|---|---|---|---|---|---|
| **Revenue** | **9,379.7** | 9,277.0 | 8,953.3 | 7,838.4 | 6,836.3 |
| Operating profit before exceptional items | **373.1** | 398.6 | 406.6 | 359.1 | 324.7 |
| Operating exceptional items | **75.5** | (223.7) | (12.6) | (81.6) | (49.5) |
| Operating profit | **448.6** | 174.9 | 394.0 | 277.5 | 275.2 |
| Share of profit / (loss) after tax of joint ventures and associates | **0.3** | 0.1 | – | (0.1) | 0.7 |
| Profit before finance and tax | **448.9** | 175.0 | 394.0 | 277.4 | 275.9 |
| Net finance costs before exceptional items | **(47.1)** | (48.1) | (25.0) | (9.6) | (13.3) |
| Exceptional finance costs | **–** | (13.9) | – | – | – |
| Profit before tax | **401.8** | 113.0 | 369.0 | 267.8 | 262.6 |
| Tax before exceptional tax | **(75.6)** | (79.1) | (96.1) | (88.0) | (74.9) |
| Exceptional tax | **2.5** | 5.5 | 2.7 | 11.5 | (4.8) |
| Profit after tax | **328.7** | 39.4 | 275.6 | 191.3 | 182.9 |
| Non-controlling interests | **(5.8)** | (7.0) | (7.9) | (6.9) | (7.1) |
| **Profit for the year** | **322.9** | 32.4 | 267.7 | 184.4 | 175.8 |
| Basic: | | | | | |
| – Profit before tax | **401.8** | 113.0 | 369.0 | 267.8 | 262.6 |
| – Earnings per share (pence) | **79.0p** | 7.8p | 64.6p | 43.2p | 39.8p |
| Adjusted (before exceptional items): | | | | | |
| – Profit before tax | **326.3** | 350.6 | 381.6 | 349.4 | 312.1 |
| – Earnings per share (pence) | **59.9p** | 63.8p | 66.7p | 59.6p | 52.1p |
| Dividends per share – interim paid and final proposed (pence) | **26.8p** | 26.8p | 26.8p | 23.8p | 20.9p |
| **Consolidated statement of financial position** | | | | | |
| Non-current assets | **1,773.2** | 2,056.0 | 1,641.0 | 1,563.4 | 1,259.1 |
| Other assets less (liabilities) excluding net (debt) / funds | **(224.7)** | (248.4) | (273.3) | (227.4) | (183.6) |
| Capital employed | **1,548.5** | 1,807.6 | 1,367.7 | 1,336.0 | 1,075.5 |
| Net (debt) / funds | **(249.9)** | (445.9) | 80.2 | 26.5 | 166.4 |
| **Net assets** | **1,298.6** | 1,361.7 | 1,447.9 | 1,362.5 | 1,241.9 |
| Equity attributable to owners of the parent | **1,278.3** | 1,338.4 | 1,427.3 | 1,343.9 | 1,219.0 |
| Non-controlling interests | **20.3** | 23.3 | 20.6 | 18.6 | 22.9 |
| **Total equity** | **1,298.6** | 1,361.7 | 1,447.9 | 1,362.5 | 1,241.9 |

1 Prior year results have been restated on transition to IFRS 16 Leases. See note 33 for further details. Earlier periods have not been restated for the effects of IFRS 16 and therefore the results are not presented on a comparable basis.

# Company statement of financial position

As at 31 December 2019

| | Notes | 2019 £m | 2018 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 3 | **8.6** | 13.8 |
| Property, plant and equipment | 4 | **1.5** | 1.5 |
| Investment in subsidiaries | 5 | **1,576.9** | 1,576.9 |
| Deferred tax assets | 10 | **5.6** | 1.1 |
| Trade and other receivables – amounts falling due after more than one year | 6 | **210.6** | 210.0 |
| | | **1,803.2** | 1,803.3 |
| **Current assets** | | | |
| Current tax assets | | **1.9** | 2.1 |
| Trade and other receivables – amounts due within one year | 6 | **42.2** | 174.3 |
| Cash and cash equivalents | 7 | **2.1** | 0.9 |
| | | **46.2** | 177.3 |
| **Total assets** | | **1,849.4** | 1,980.6 |
| **Current liabilities** | | | |
| Trade and other payables – amounts falling due within one year | 8 | **(22.0)** | (135.1) |
| | | **(22.0)** | (135.1) |
| **Non-current liabilities** | | | |
| Trade and other payables – amounts falling due after more than one year | 9 | **(1,104.4)** | (1,099.6) |
| | | **(1,104.4)** | (1,099.6) |
| **Total liabilities** | | **(1,126.4)** | (1,234.7) |
| **Net assets** | | **723.0** | 745.9 |
| **Equity** | | | |
| Share capital | 12 | **40.0** | 41.6 |
| Share premium | | **146.7** | 146.7 |
| Capital redemption reserve | | **140.6** | 139.0 |
| Retained earnings | | **395.7** | 418.6 |
| **Total shareholders' funds** | | **723.0** | 745.9 |

The Company reported a profit for the financial year ended 31 December 2019 of £190.8m (2018 – a loss of £29.1m). The financial statements on pages 179 to 196 were approved by the Board of Directors on 26 February 2020 and were signed on its behalf by:

**Stefan Bomhard**
Group Chief Executive

**Gijsbert de Zoeten**
Chief Financial Officer

Registered Number: 609782

Inchcape plc

# Company statement of changes in equity

For the year ended 31 December 2019

| | Notes | Share capital £m | Share premium £m | Capital redemption reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2018 | | 41.6 | 146.7 | 139.0 | 568.0 | 895.3 |
| Loss for the year | | – | – | – | (29.1) | (29.1) |
| Total comprehensive loss for the year | | – | – | – | (29.1) | (29.1) |
| Dividends | 13 | – | – | – | (115.2) | (115.2) |
| Net purchase of own shares by the Inchcape Employee Trust | | – | – | – | (12.6) | (12.6) |
| Share-based payments, net of tax | | – | – | – | 7.5 | 7.5 |
| At 1 January 2019 | | **41.6** | **146.7** | **139.0** | **418.6** | **745.9** |
| Profit for the year | | **–** | **–** | **–** | **190.8** | **190.8** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **190.8** | **190.8** |
| Dividends | 13 | **–** | **–** | **–** | **(110.5)** | **(110.5)** |
| Share buyback programme | 12 | **(1.6)** | **–** | **1.6** | **(100.0)** | **(100.0)** |
| Net purchase of own shares by the Inchcape Employee Trust | | **–** | **–** | **–** | **(9.3)** | **(9.3)** |
| Share-based payments, net of tax | | **–** | **–** | **–** | **6.1** | **6.1** |
| **At 31 December 2019** | | **40.0** | **146.7** | **140.6** | **395.7** | **723.0** |

Share-based payments include a net tax charge of £nil (2018 – £nil).

# Accounting policies



**General information**

These financial statements are prepared for Inchcape plc (the Company) for the year ended 31 December 2019. The Company is the ultimate parent entity of the Inchcape Group (the Group) and acts as the holding company of 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 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 Company does not have any critical accounting judgements. The sources of estimation uncertainty most applicable to the Company do not give rise to a significant risk of material adjustment to the carrying value of the Company's assets and liabilities.

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 39 to 52.

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
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, as described in the Directors' Report of the consolidated Group Financial Statements.

### Foreign currencies
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 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.

### Impairment
The Company's accounting policies in respect of impairment of property, plant and equipment, intangible assets and financial assets are consistent with those of the Group. The carrying values of investments in subsidiary undertakings are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The Company's impairment policies in relation to financial assets are consistent with those of the Group, with additional consideration given to amounts owed by Group undertakings. Any provision for impairment of receivables is based on lifetime expected credit losses. Lifetime expected credit losses are calculated by assessing historic credit loss experience, adjusted for factors specific to the receivable and company.

### 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 between five and eight 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.

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, 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.

### 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 credit 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 117 to 125.

# Notes to the financial statements

## 1 Auditor's remuneration

The Company incurred £0.1m (2018 – £0.1m) in relation to UK statutory audit fees for the year ended 31 December 2019.

## 2 Directors' remuneration

| | 2019 £m | 2018 £m |
|---|---|---|
| Wages and salaries | **2.1** | 3.1 |
| Social security costs | **0.2** | 0.3 |
| Pension costs | **0.3** | 0.3 |
| | **2.6** | 3.7 |

Further information on Executive Directors' emoluments and interests is given in the Directors' Report on Remuneration which can be found on pages 76 to 97.

## 3 Intangible assets

| | Computer software £m | Total £m |
|---|---|---|
| **Cost** | | |
| At 1 January 2019 | **33.7** | **33.7** |
| Additions | **0.9** | **0.9** |
| Transfer to Group companies | **(5.7)** | **(5.7)** |
| **At 31 December 2019** | **28.9** | **28.9** |
| **Accumulated amortisation and impairment** | | |
| At 1 January 2019 | **(19.9)** | **(19.9)** |
| Amortisation charge for the year | **(0.4)** | **(0.4)** |
| **At 31 December 2019** | **(20.3)** | **(20.3)** |
| **Net book value at 31 December 2019** | **8.6** | **8.6** |
| Net book value at 31 December 2018 | 13.8 | 13.8 |

## 4 Property, plant and equipment

| | Plant, machinery and equipment £m | Total £m |
|---|---|---|
| **Cost** | | |
| At 1 January 2019 and at 31 December 2019 | 1.8 | 1.8 |
| **Accumulated depreciation and impairment** | | |
| At 1 January 2019 and at 31 December 2019 | (0.3) | (0.3) |
| **Net book value at 31 December 2019** | **1.5** | **1.5** |
| Net book value at 31 December 2018 | 1.5 | 1.5 |

## 5 Investment in subsidiaries

| | 2019 £m | 2018 £m |
|---|---|---|
| **Cost** | | |
| At 1 January and at 31 December | **1,711.0** | 1,711.0 |
| **Provisions** | | |
| At 1 January | **(134.1)** | (61.9) |
| Provisions for impairment | **–** | (72.2) |
| **At 31 December** | **(134.1)** | (134.1) |
| **Net book value** | **1,576.9** | 1,576.9 |

The Directors believe that the carrying value of the individual investments is supported by their underlying net assets.

In 2018, an impairment charge of £72.2m in relation to Inchcape Finance (Ireland) Ltd was recognised following a capital reduction, 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

| | 2019 £m | 2018 £m |
|---|---|---|
| **Amounts due within one year** | | |
| Amounts owed by Group undertakings | **42.1** | 174.3 |
| Other debtors | **0.1** | – |
| | **42.2** | 174.3 |
| **Amounts due after more than one year** | | |
| Amounts owed by Group undertakings | **210.0** | 210.0 |
| Other debtors | **0.6** | – |
| | **210.6** | 210.0 |

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

| | 2019 £m | 2018 £m |
|---|---|---|
| Cash and cash equivalents | **2.1** | 0.9 |

## 8 Trade and other payables – amounts falling due within one year

| | 2019 £m | 2018 £m |
|---|---|---|
| Amounts owed to Group undertakings | **17.5** | 5.5 |
| Private Placement | **–** | 124.8 |
| Other taxation and social security payable | **–** | 2.7 |
| Other creditors | **4.5** | 2.1 |
| | **22.0** | 135.1 |

Amounts owed to Group undertakings are interest free and repayable on demand.

In 2018, the Company had an amount of US$160.8m under the Private Placement which borne interest at a fixed rate of 6.04% per annum. It was repaid in May 2019.

## 9 Trade and other payables – amounts falling due after more than one year

| | 2019 £m | 2018 £m |
|---|---|---|
| Amounts owed to Group undertakings | **894.4** | 889.6 |
| Private Placement | **210.0** | 210.0 |
| | **1,104.4** | 1,099.6 |

Amounts owed to Group undertakings are repayable between one and five years and bear interest at rates linked to source currency base rates.

In December 2016, the Group concluded a Private Placement transaction raising £210m to refinance existing US dollar Private Placement borrowings which matured in May 2017. The amounts drawn under these facilities are as follows:

| | | | | |
|---|---|---|---|---|
| Maturity date | May 2024 | May 2027 | May 2027 | May 2029 |
| Amount drawn | £70m | £30m | £70m | £40m |
| Fixed rate coupon | 2.85% | 3.02% | 3.12% | 3.10% |

## 10 Deferred tax

| Net deferred tax asset | Tax losses | Accelerated tax depreciation | Other timing differences £m | Total £m |
|---|---|---|---|---|
| At 1 January 2019 | **0.8** | **(0.1)** | **0.4** | **1.1** |
| Credited / (Charged) to the income statement | **3.0** | **(0.1)** | **1.6** | **4.5** |
| **At 31 December 2019** | **3.8** | **(0.2)** | **2.0** | **5.6** |

Deferred tax assets recognised are supported by future taxable profits of the UK tax group, headed by the Company, which are considered probable.

## 11 Guarantees

The Company is party to composite cross guarantees between banks and its subsidiaries. The Company's exposure under these guarantees at 31 December 2019 was £2.1m (2018 – £0.9m), 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 £94.7m (2018 – £94.7m).

## 12 Share capital

### a. Allotted, called up and fully paid up

| | 2019 Number | 2018 Number | 2019 £m | 2018 £m |
|---|---|---|---|---|
| **Ordinary shares** | | | | |
| At 1 January | **415,127,453** | 415,018,286 | **41.6** | 41.6 |
| Allotted under share option schemes | **75,353** | 109,167 | **–** | – |
| Cancelled under share buyback | **(16,070,070)** | – | **(1.6)** | – |
| **At 31 December** | **399,132,736** | 415,127,453 | **40.0** | 41.6 |

### b. Share buyback programme

During 2019, the Company repurchased 16,070,070 (2018 – nil) of its own shares through purchases on the London Stock Exchange, at a cost of £98.5m (2018 – £nil). 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 (2018 – £nil), equivalent to the nominal value of the cancelled shares, has been transferred to the capital redemption reserve. Costs of £1.5m (2018 – £nil) 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 26 February 2020 under the provisions of the Companies Act 2006 have been disclosed in the significant shareholdings section of the Corporate Governance Report.

## 12 Share capital continued

### d. Share options

At 31 December 2019, 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** | | |
| 2 | 7 April 2020 | 3.10 | 84,162 | 1 May 2020 | 5.63 |
| | | | 237,810 | 1 May 2021 | 6.66 |
| | | | 702,425 | 1 May 2022 | 5.54 |
| | | | 1,344,510 | 1 May 2023 | 4.59 |
| **– unapproved (Part I – UK)** | | | | | |
| 1,612 | 7 April 2020 | 3.10 | | | |
| **– unapproved overseas (Part I – Overseas)** | | | | | |
| 3,224 | 7 April 2020 | 3.10 | | | |

Included within the retained earnings reserve are 861,589 (2018 – 777,211) 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 2019 was £5.5m (2018 – £5.1m). The market value of these shares at both 31 December 2019 and 26 February 2020 was £6.1m and £5.1m respectively (31 December 2018 – £4.3m, 27 February 2019 – £4.6m).

### e. Share-based remuneration

Inchcape plc has two employees, the Group Chief Executive and the Chief Financial Officer.

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 £0.6m (2018 – £1.2m), all of which is equity-settled.

The weighted average exercise price of shares exercised during the period was £0.10 (2018 – £0.10).

The weighted average remaining contractual life for the share options outstanding at 31 December 2019 is 2.3 years (2018 – 5.9 years) and the exercise price for options outstanding at the end of the year was £5.54 (2018 – range of £0.10 to £5.63).

## 13 Dividends

The following dividends were paid by the Company:

| | **2019 £m** | 2018 £m |
|---|---|---|
| Interim dividend for the six months ended 30 June 2019 of 8.9p per share (30 June 2018 of 8.9p per share) | **36.3** | 36.9 |
| Final dividend for the year ended 31 December 2018 of 17.9p per share (31 December 2017 of 18.9p per share) | **74.2** | 78.3 |
| | **110.5** | 115.2 |

A final proposed dividend for the year ended 31 December 2019 of 17.9p per share amounting to £71.4m is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2019.

## 14 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 2019 is shown below:

**Subsidiaries**

| Name and registered address | | Percentage owned |
|---|---|---|
| **Argentina** | | |
| *Av Libertador 13.180 Martinez Bs As* | | |
| Distribuidora Automotriz Argentina SA | | 100% |
| Inchcape Argentina SA | | 100% |
| **Australia** | | |
| *Level 2, 4 Burbank Place, Baulkham Hills, NSW 2153* | | |
| AutoNexus Pty Ltd | | 100% |
| Bespoke Automotive Australia Pty Ltd | | 100% |
| Inchcape Australia Ltd | (i) | 100% |
| Trivett Automotive Retail Pty Ltd | | 100% |
| Inchcape European Automotive Pty Ltd | (ii) | 100% |
| SMLB Pty Ltd | | 100% |
| Subaru (Aust) Pty 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% |
| Inchcape Finance Australia Pty Limited | | 100% |
| Inchcape Corporate Services Australia Pty Limited | | 100% |
| **Belgium** | | |
| *Leuvensesteenweg 369, 1932 Sint-Stevens-Woluwe* | | |
| Autoproducts NV | | 100% |
| Car Security NV | | 100% |
| Toyota Belgium NV/SA | | 100% |
| *Boulevard Industriel 198, 1070 Anderlecht* | | |
| Garage Francorchamps SA | | 100% |
| Inchcape Retail Belgium | | 100% |
| **Brunei** | | |
| *KM3.6, Jalan Gadong, Bandar Seri Begawan* | | |
| Champion Motors (Brunei) Sdn Bhd | | 70% |
| NBT (Brunei) Sdn Bhd | | 70% |
| NBT Services Sdn Bhd | | 70% |
| **Bulgaria** | | |
| *163 Tsarigradsko Shosse Str, Sofia* | | |
| Inchcape Brokerage Bulgaria EOOD | | 100% |
| TM Auto EOOD | | 100% |
| Toyota Balkans EOOD | | 100% |

## 14 Related undertakings continued

| Name and registered address | Percentage owned |
|---|---|
| **Chile** | |
| *Av. La Dehesa 265, Santiago, Región Metropolitana* | |
| Mobility Services Chile SpA | 100% |
| Universal Motors SpA | 100% |
| Williamson Balfour Motors SpA | 100% |
| Williamson Balfour SA | 100% |
| *Ruta 5 Norte #19100 Ciudad Santiago comuna Lampa Región Metropolitana* | |
| Inchcape Automotriz Chile SA | 100% |
| Hino Chile SA | 100% |
| Inchcape Camiones y Buses Chile SA | 100% |
| *Avda. las Condes 11774, Vitacura, Santiago* | |
| Inchcape Latam Internacional SA | 100% |
| Indigo Chile Holdings SpA | 100% |
| *Avenida Francisco Bilbao 0102, Providencia, Santiago* | |
| Inchcape Commercial Chile SA | 100% |
| **Colombia** | |
| *Calle 99 N° 69c – 41 Bogotá* | |
| Inchcape Inversiones Colombia S.A.S | 100% |
| Impoquing Motor SAS | 100% |
| Matrase SAS | 100% |
| Praco Didacol SAS | 100% |
| Inmobiliaria Inchcape Colombia S.A.S | 100% |
| *Aut. Medellín Calle 80 Km 7 Parque Industrial Celta Trade Park Bodega 1202 Funza* | |
| Distribuidora Hino de Colombia SAS | 100% |
| **Cook Islands** | |
| *First Floor, BCI House, Avarua, Rarotonga* | |
| IB Enterprises Ltd | 100% |
| **Costa Rica** | |
| *La Uruca, de la Pozuelo 200 metros oeste, frente al Hospital Mexico* | |
| Arienda Express SA | 100% |
| Comericio de las Americas SA | 100% |
| Inchcape Protection Express | 100% |
| Vehiculos de Trabajo SA | 100% |
| Vistas de Guanacaste Orquideas SA | 100% |
| **Djibouti** | |
| *Route de Venise – Djibouti Free Zone – LOB 124, PO Box 2645* | |
| Red Sea Automotive FZCO | 100% |

## 14 Related undertakings continued

| Name and registered address | Percentage owned |
|---|---|
| **Ecuador** | |
| *Av. Galo Plaza Lasso n. 5898. Quito, 170513* | |
| Autolider Ecuador S.A. | 100% |
| **Estonia** | |
| *Läike tee 38, Peetri küla, Rae vald, Harjumaa 75312* | |
| Inchcape Motors Estonia OÜ | 100% |
| **Ethiopia** | |
| *Bole Sub City, Kebele 03, H.Nr. 2441, Addis Ababa* | |
| The Motor & Engineering Company Of Ethiopia (Moenco) S.C. | 94% |
| **Finland** | |
| *Ansatie 6 a C, 01740 Vantaa, Kotipaikka, Helsinki* | |
| Inchcape Motors Finland Oy | 100% |
| **Greece** | |
| *48 Ethnikis Antistaseos Street, Halandri 15231* | |
| British Providence SA | 100% |
| Eurolease Fleet Services SA | 100% |
| Toyota Hellas SA | 100% |
| Polis Inchcape Athens SA | 100% |
| *11th Km, National Road Thessaloniki-Airport, Thessaloniki 60371* | |
| Polis Inchcape Thessaloniki SA | 100% |
| **Guam** | |
| *443 South Marine Corps Drive, Tamuning, Guam 96913* | 100% |
| Atkins Kroll Inc | |
| **Hong Kong** | |
| *11/F, Tower B, Manulife Financial Centre, 223-231 Wai Yip Street, Kwun Tong, Kowloon, HK* | 100% |
| British Motors Ltd | 100% |
| Crown Motors Ltd | 100% |
| Future Motors Ltd | 100% |
| Inchcape Finance (HK) Ltd | 100% |
| Inchcape Hong Kong Ltd | 100% |
| Inchcape Mobility Limited | 100% |
| Inchcape Motor Services Ltd | 100% |
| Mega EV Ltd | 100% |

## 14 Related undertakings continued

| Name and registered address | | Percentage owned |
|---|---|---|
| **Ireland** | | |
| *17 Corrig Road, Sandyford, Dublin 18, D18 N6K8* | | |
| Inchcape Finance (Ireland) Ltd | (v) | 100% |
| **Ivory Coast** | | |
| *01 BP 3893, Abidjan O1* | | |
| Distribution Services Cote d'Ivoire SA | | 100% |
| Toyota Services Afrique SA | | 100% |
| **Kenya** | | |
| *LR 1870/X/126, Ground Floor, Oracle Towers, Waiyaki Way, P.O. Box 2231-00606, Nairobi* | | |
| Inchcape Kenya Ltd | | 100% |
| **Latvia** | | |
| *4a Skanstes Street, Riga, LV-1013* | | |
| Baltic Motors Imports SIA | | 100% |
| Baltijas Ipasumu Fonds SIA | | 100% |
| BM Lizings SIA | | 100% |
| Ermans SIA | | 100% |
| Inchcape Motors Latvia SIA | (viii) | 60% |
| *Paula Stradina 29, Ventspils, LV-3602* | | |
| Ventmotors SIA | | 100% |
| **Lithuania** | | |
| *Laisves av. 137, Vilnius, LT-06118* | | |
| UAB Autovista | | 67% |
| UAB Autovytaras | | 67% |
| UAB Inchcape Motors | | 67% |
| *Ozo str. 10A, Vilnius, LT-08200* | | |
| UAB Krasta Auto | | 100% |
| UAB Krasta Auto Vilnius | | 100% |
| *Svajonės str. 40, Klaipėda, LT-94101* | | |
| UAB Krasta Auto Klaipeda | | 100% |
| *Veiverių str. 150, Kaunas, LT-46391* | | |
| UAB Krasta Auto Kaunas | | 100% |
| **Luxembourg** | | |
| *6 ZAI Bourmicht L-8070, Bertrange* | | |
| Grand Garage de Luxembourg | | 100% |
| *193 Route d'Arlon, L-1150* | | |
| Jaguar Luxembourg | | 100% |

## 14 Related undertakings continued

| Name and registered address | | Percentage owned |
|---|---|---|
| **Macau** | | |
| *Avenida do Coronel Mesquita, No 48-48D, Edf. Industrial Man Kei R/C, Macau* | | |
| Nova Motors (Macao) Ltd | | 100% |
| Yat Fung Motors Ltd | | 100% |
| **Macedonia** | | |
| *21 8th September Boulevard, 1000 Skopje* | | |
| Toyota Auto Center DOOEL | | 100% |
| **Netherlands** | | |
| *Gustav Mahlerlaan 1212, 1081 LA Amsterdam, the Netherlands* | | |
| Inchcape International Group BV | (i) | 100% |
| **New Zealand** | | |
| *Bell Gully, Level 22, Vero Centre, 48 Shortland Street, Auckland, 1010 , New Zealand* | | |
| Inchcape Motors NZ Ltd | | 100% |
| **Panama** | | |
| *Vía General Nicanor A. de Obarrio (Street 50), Plaza Bancomer* | | |
| Ilaother SA | | 100% |
| Ilachile SA | | 100% |
| *Ciudad de Panamá, Vía Cincuentenario Andrés Mojica, Ave. 6ta B., Lote X 5B, Corregimiento de San Francisco, Distrito de Panamá, Provincia de Panamá* | | |
| Arrendadora Automotriz SA | | 100% |
| Bielesfield Corp | | 100% |
| Edenborn Trading Inc | | 100% |
| Goltex Commerce Inc | | 100% |
| Inmuebles Comerciales SA | | 100% |
| Iron Crag Corporation | | 100% |
| Motors Japoneses SA | | 100% |
| Sun Motors SA | | 100% |
| **Peru** | | |
| *Av. El Polo Nro. 1117, Santiago de Surco, Lima* | | |
| Inchcape Motors Peru SA | | 100% |
| *Av. Republica de Panama Nro. 3330, San Isidro, Lima* | | |
| IMP Distribuidora SA | | 100% |
| *Av. Morro Solar 812, Santiago de Surco, Lima* | | |
| Autocar del Peru SA | | 100% |
| Distribuidora Automotriz del Peru SA | | 100% |
| Inchcape Latam Peru SA | | 100% |
| Rentas e 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 Wroclaw* | | |
| Interim Cars Sp z.o.o | | 100% |

## 14 Related undertakings continued

| Name and registered address | Percentage owned |
|---|---|
| **Romania** | |
| *Pipera Boulevard No 1, Voluntari, Ilfov, 077190* | |
| Inchcape Motors Srl | 100% |
| Inchcape Real Estate Srl | 100% |
| Toyota Romania Srl | 100% |
| **Russia** | |
| *Building 1, 18 2-ya Magistralnaya street, Moscow 123290* | |
| LLC Inchcape Management Services Rus | 100% |
| LLC Inchcape Holding | 100% |
| *31 Litera A, Rustaveli Street, St Petersburg 195273* | |
| LLC Inchcape Olimp | 100% |
| *108811, Moscow, settlement Moskovskiy, block №34, property 2, bld. 1* | |
| LLC Inchcape T | 100% |
| *10 Seslavinskaya Street, Moscow 121309* | |
| LLC Autoproject | 100% |
| *36 Yaroslavskoe Shosse, Moscow 129337* | |
| LLC Borishof 1 | 100% |
| *195273, Saint-Petersburg, Rustaveli str., 31, Lit.A, apt.3* | |
| LLC Concord | 100% |
| *Building 22, 18 2-ya Magistralnaya Street, Moscow 123290* | |
| LLC Musa Motors JLR | 100% |
| LLC Musa Motors Volvo | 100% |
| *41 ul. Kuznetsovskaya, St Petersburg 196105* | |
| LLC Orgtekhstroy | 100% |
| **Saipan** | |
| *San Jose Village, 1 Chalan Monsignor Guerrero, Saipan, 96950, Northern Mariana Islands* | |
| Atkins Kroll (Saipan) Inc | 100% |
| **Singapore** | |
| *2 Pandan Crescent, Inchcape Centre, Singapore 128462* | |
| Borneo Motors (Singapore) Pte Ltd | 100% |
| Century Motors (Singapore) Pte Ltd | 100% |
| Champion Motors (1975) Pte Ltd | 100% |
| Inchcape Automotive Services Pte Ltd | 100% |
| Inchcape Motors Private Ltd | 100% |
| **Spain** | |
| *C. Prim, 19, 28004 Madrid* | |
| Inchcape Inversiones España SLu | 100% |
| **Thailand** | |
| *No. 4332 Rama IV Road, Prakhanong Sub-District, Klongtoey District, Bangkok* | |
| Inchcape (Thailand) Company Ltd | 100% |
| Inchcape Services (Thailand) Co Ltd | 100% |

## 14 Related undertakings continued

| Name and registered address | | Percentage owned |
|---|---|---|
| **United Kingdom** | | |
| *Inchcape Retail, First Floor, Unit 3140 Park Square, Solihull Parkway, Birmingham B37 7YN* | | |
| Armstrong Massey (York) Ltd | | 100% |
| Armstrong Massey Holdings Ltd | | 100% |
| Autobytel 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 Motors International Ltd | | 100% |
| Inchcape Motors Pension Trust 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% |
| Kenning Motor Group Ltd | | 100% |
| L&C Auto Services (Croydon) Ltd | (vii) | 100% |
| L&C Auto Services Ltd | (vii) | 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% |

## 14 Related undertakings continued

| Name and registered address | | Percentage owned |
|---|---|---|
| Normand Trustees Ltd | | 100% |
| 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% |
| | | |
| *22a St James's Square, London, SW1Y 5LP* | | |
| Cavendish 1 Ltd | | 100% |
| Inchcape Baltic Motors Ltd | | 100% |
| Inchcape (Belgium) Ltd | (vii) | 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 | (ix) | 70% |
| Inchcape Russia (UK) Ltd | (vii) | 100% |
| Inchcape (Singapore) Ltd | | 100% |
| St Mary Axe Securities Ltd | | 100% |
| | | |
| *PO Box 33, Dorey Court, Admiral Park, St Peter Port, GUERNSEY GY1 4AT* | | |
| St James's Insurance Ltd | | 100% |
| | | |
| *4th Floor 115 George Street, Edinburgh EH2 4JN* | | |
| Inchcape Investments & Asset Management Ltd | | 100% |
| | | |
| **Uruguay** | | |
| *Rambla Baltasar Brum 3028, Montevideo* | | |
| Autolider Uruguay S.A. | | 100% |
| | | |
| **United States of America** | | |
| *The Corporation Company, 30600 Telegraph Road Bingham Farms, MI 48025* | | |
| Baltic Motors Corporation | | 100% |
| | | |
| *Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801* | | |
| SS Acquisition Corporation | (x) | 12% |

## 14 Related undertakings continued

### Joint ventures

| Name and registered address | | Percentage owned |
|---|---|---|
| **Greece** | | |
| *48 Ethnikis Antistaseos Street, Halandri 15231* | | |
| Tefin SA | | 50% |
| *Charterhall House, Charterhall Drive, Chester, Cheshire CH88 3AN* | | |
| Inchcape Financial Services Ltd | (i) | 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) Owned at 60% by Inchcape plc, 40% by Baltics Motors Corporation

(ix) Owned at 70% by Inchcape plc and 30% by Inchcape Australia Ltd

(x) Owned at 42% by Inchcape Baltic Motors Ltd, 2% by Inchcape BMI Ltd, 44% by Inchcape Latvia Ltd and 12% by Inchcape plc

# 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
**Independent Auditor**
Deloitte
Chartered Accountants and
Statutory Auditor

### Share registrars
Computershare Investor Services PLC
Registrar's Department, The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel: +44 (0) 370 707 1076

### Solicitors
Herbert Smith Freehills
Slaughter and May

### Corporate brokers
Jeffries Hoare Govett
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**
21 May 2020

**Announcement of 2020 Interim Results**
30 July 2020

**www.inchcape.com/annualreport**

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Printed at Principal Colour Ltd. ISO 14001 certified, Alcohol Free and FSC® Chain of Custody certified.

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Inchcape plc Annual Report and Accounts 2019