OUR RISK FRAMEWORK

The Board is responsible for determining the nature and extent of the risks it is willing to take in order to achieve its objectives and has implemented 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'.

INCHCAPE PEACE OF MIND – OUR APPROACH TO RISK

Inchcape Peace of Mind (iPOM) is our Group-wide risk management and governance framework focusing on empowering each and every one of our colleagues to consider the risks associated with the decisions they take.

The Group has a three lines of defence model, with the first line of defence the policies and procedures implemented locally, the second line of defence comprising oversight functions and regional and Group management and the third line of defence the Internal Audit function. Continuously reviewing and building on our procedures, processes and frameworks to prevent risks from impacting our business, or to enable us to respond promptly and decisively when they do, gives us confidence in our ability to achieve our strategic objectives and support the long-term sustainable growth of our business.

The automotive industry is set to experience a period of rapid and unprecedented change, bringing both risks and opportunities, and our overview of the industry is given on page 11. Additionally, as a global business with a focus on growth by acquisition, we operate in an ever-changing, dynamic risk environment where economic, political, environmental, social, legal and technological changes present a complex risk landscape which threatens our ability to achieve our strategic objectives. However, we believe that our diversity of brand portfolio and geographic spread, combined with our strong balance sheet, cost control and risk-aware decision-making processes, make us resilient to all but the most significant and persistent risks.

The Board reviews the Group Principal Risk Footprint and its appetite for risk on an annual basis, and adopts an integrated approach to risk by regularly discussing the principal risks as part of its agenda.

In 2018 the Board focused its review of the principal risks according to both the potential severity of those risks, but also with regard to the level of influence we are able to exert over them. In doing so it ensured that the Group's risk mitigation activities centred on those risks where it can have the greatest influence in the context of its risk appetite.

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. 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, inherent risks are an accepted part of doing business.

In summary, the Board has a very low appetite for risks that could lead to violations of health, safety and environmental legislation, or to breaches of legal and regulatory requirements, 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 GDPR compliance processes 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 the acquisition of the Grupo Rudelman business during the year, and by our expansion into Kenya with JLR. We appreciate that without taking risks in new and sometimes unstable territories we would miss out on valuable opportunities for growth, particularly in emerging markets. We have experience in successfully managing operations in volatile markets and, accordingly, we have the capability and control procedures in place to address the challenges that come with those risks.

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, for example through significant investments in the digital customer journey.

Group risk 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 annual agenda.

AUDIT COMMITTEE

The Audit Committee has delegated responsibility from the Board for reviewing the effectiveness of risk management, internal controls, compliance and whistleblowing, receiving regular reports from management, the Head of Corporate Assurance, and the Head of Internal Audit. The Audit Committee also undertake 'deep dives' on the Group's principal risks.

Internal Audit

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

3rd line of defence

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 and annually reviews and approves the Group Principal Risk Footprint.

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;
- The Group's fraud and whistleblowing programme is operating effectively.

Corporate assurance

Leads continuous improvement in our risk management practices and risk mitigation techniques, and coordinates the Group Risk Assessment Process.

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.

2nd line of defence

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.

2nd line of defence

Regional risk champions

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

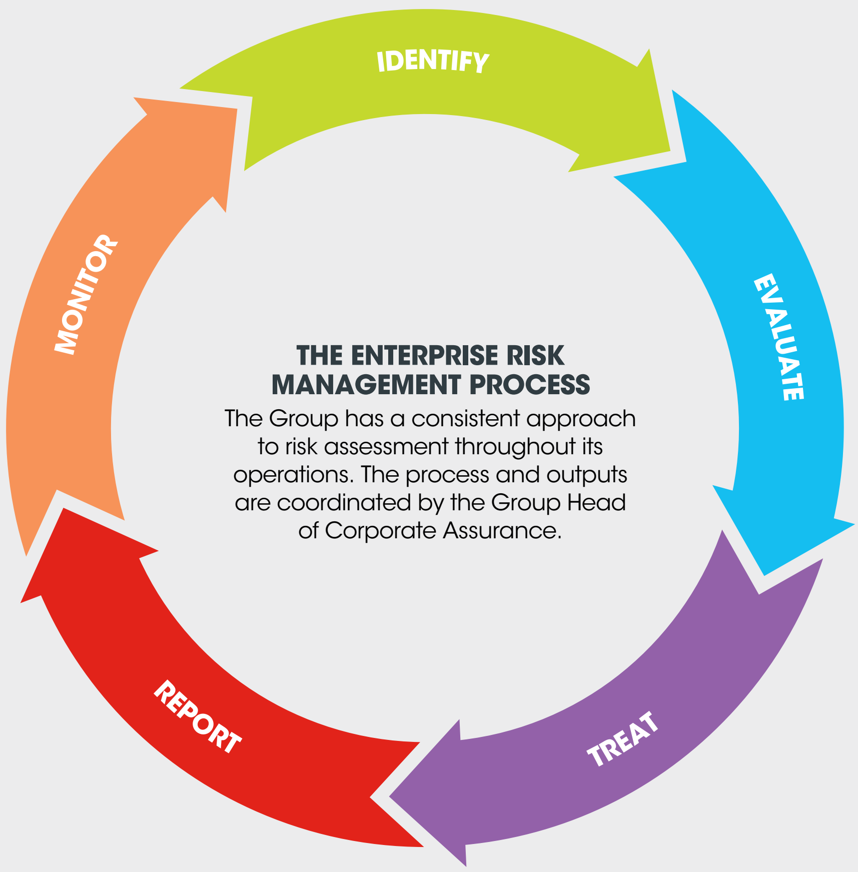
Finance leadership team

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

Market iPOM Committees

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

1st line of defence



Identify	We identify the risks and opportunities that may impede or expedite our ability to achieve our Ignite strategic objectives. We articulate those risks and opportunities in a consistent way.
Evaluate	We prioritise our risks according to a consistent set of definitions, considering both the impact and the likelihood, allowing us to focus our mitigation plans.
Treat	Management teams take action to address the risks we face either to control the likelihood of the risks crystallising or mitigate the impact if they do and bring our risk profile in line with the Board's risk appetite.
Report	The Group Executive Committee and the Board regularly review the output from the Enterprise Risk Management process.
Monitor	We maintain an up-to-date assessment of risks and ensure that the controlling and mitigating actions we have identified are taken in a timely way.

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 would 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. During 2018 the leadership team of each region presented a detailed regional risk assessment to the Committee.

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

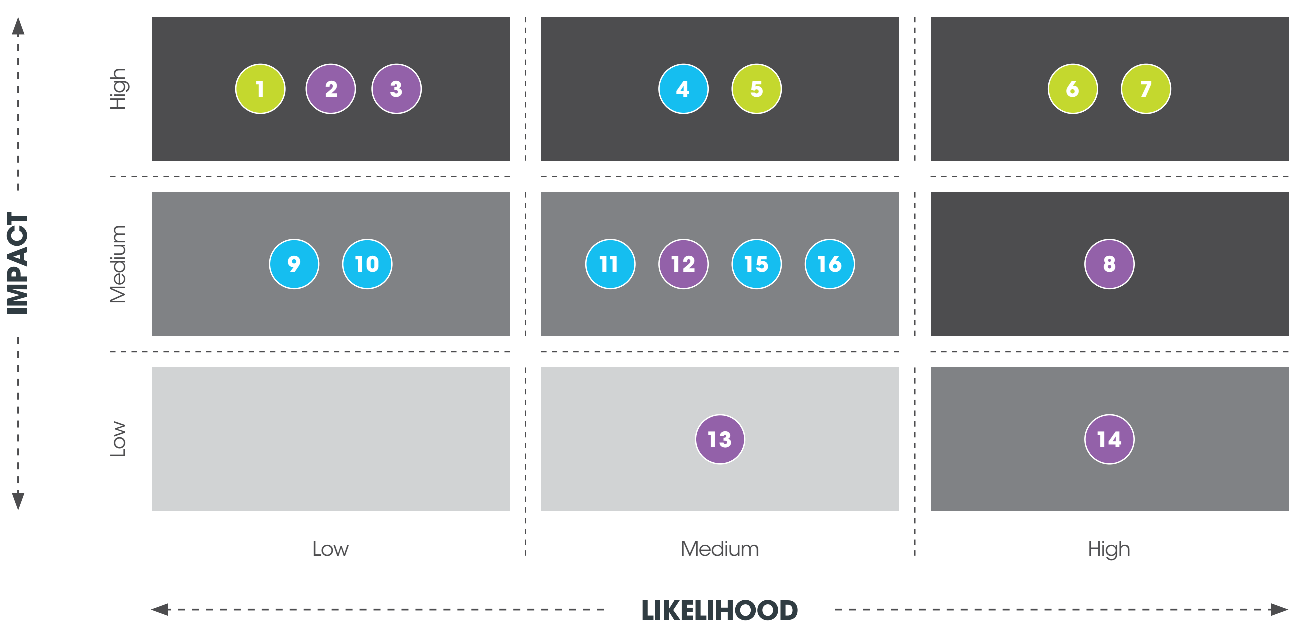
Given the size and geographical diversity of our business, we understand there may be additional risks not currently known to management and we continuously improve our iPOM processes to ensure we capture as complete a picture as possible.

Changes to the risk footprint

Following a detailed review of the Group principal risk footprint, the Board has in some cases made revisions to either the scope of the risk or its assessment of its severity. These changes are noted in the detailed commentary on pages 40 to 45.

In addition, the following risk was removed from the principal risk footprint as the Board felt that there was now sufficient certainty for the implications to be managed under normal business operations.

- Dynamic changes in local or international tax rules (e.g. domestic tax reform in markets in which we operate or changes to transfer pricing rules as a result of the OECD's Base Erosion and Profit Sharing initiative.



Note:

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

STRATEGIC risks directly addressed by Ignite

MANAGED risks where our ability to influence the impact and/or likelihood is relatively high

INHERENT risks where our ability to influence the impact and/or likelihood is relatively low

Principal risks
The principal risks to achievement of our strategy are:

Key risks		Link to Ignite	Trend
1	Loss of global Distribution contract with major brand partner.		→
2	Significant retrenchment of credit available to customers, dealer network or Inchcape plc negatively impacts vehicle sales and/or operational capability.		→
3	Material damage to OEM brand or product reputation, or a major interruption to OEM operations or product supply, negatively impacts vehicle sales.		→
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 brand partners.		↑
6	Impact of disruptive technologies and/or new entrants to the industry threatens our position in the value chain.		→
7	Failure to keep pace with changes in the digital economy impacts on revenues and/or OEM relations.		↑
8	Fluctuations in exchange rates with negative impact on financial performance.		→
9	Major cyber incident or other systems interruption impacts on ability to service customers and/or operational efficiency.		→
10	Failure to safeguard our customers and employees by not consistently applying EH&S standards across the Group.	TRUST	→
11	Internal controls failure or fraud of sufficient scale to materially affect financial performance or reputation.		→
12	Individual governments increasing restrictions on cross border currency movements leads to higher incidents of trapped cash across the Group.		→
13	Social, political and regulatory instability leads to economic uncertainty, market interruption and/or threat to safety.		→
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.		→
15	Failure to comply with laws and regulations leads to material financial penalty or reputational damage.		↑
16	Failure to attract, retain and develop our people leads to economic uncertainty, market interruption and/or threat to safety.		→

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

KEY RISKS

STRATEGIC RISKS

Risks which are mitigated directly by the implementation of our Ignite strategy

Description	Impact	Mitigating actions		Trend
Loss of distribution contract with major brand partner		**Impact: High**	**Likelihood: Low**	→
Distribution and Retail contracts are fundamental to our business model. Our ability to maintain those contracts, and attract and execute further business development opportunities, depends upon the quality of our OEM relationships. The underlying factors which could contribute to a contract being terminated include: – Failure to deliver a sufficiently attractive value proposition to brand partners. – Consistent failure to deliver to targets or standards or comply with the terms of Distribution agreements. – Failure to deliver on growth strategy or defend our business model against new entrants. – Major fraud, bribery, data security or other systemic compliance failure.	Non-renewal, or termination, of Distribution or Retail contracts. Negative impacts on revenue and profit. Reduced ability to deliver inorganic growth.	OEM partner of choice is a central pillar of Ignite strategy. Partner development teams continuously improve relations, share knowledge and address common issues with each OEM globally. Diversification of brand partner relationships acts as a natural hedge against the impact of a loss of a single OEM relationship. Focus on agreeing, and delivering to, OEM volume expectations. Strong focus on legal and regulatory compliance. Comprehensive risk management framework to mitigate unforeseen threats.		
Failure to achieve sufficient return on investment through our acquisitions strategy leads to reduced EPS and/or deterioration of our relationship with our OEM partners		**Impact: High**	**Likelihood: Medium**	↑
Inchcape complements its organic growth agenda by pursuing inorganic growth through acquisition. We have made several successful acquisitions in recent years. Failure to identify appropriate targets, acquire them on the right terms or to efficiently integrate those businesses into our existing operation will adversely impact our ability to deliver the benefits expected from those acquisitions.	Inefficient capital allocation. Failure to realise growth objectives. Damage to relationship with OEM partner. Overpayment for acquisition impacts on profitability. Exposure to unknown/misunderstood risks in unfamiliar markets.	Top down and bottom up approach to target identification. Dedicated business development team in place to project manage M&A. Strong M&A governance process through M&A Committee and Board. Partnering with the 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 and supported by Group functions. Intensive performance focus for newly acquired businesses. Roll out of Minimum Control Framework (MCF) in each new business.		

2018 Update

In recognition of the quickening pace of investment in new businesses under Ignite, the definition of this principal risk has been widened to reflect the financial and reputational risks in the full M&A process, rather than focussing purely on extraction of value as reported in the 2017 risk assessment. Given the increasing volume of deals and opportunities we have also increased our assessment of the gross likelihood from 'low' to 'medium'.

Description	Impact	Mitigating actions		Trend
Impact of disruptive technologies and/or new entrants to the industry threatens our position in the value chain		**Impact: High**	**Likelihood: High**	→
The automotive sector is set to experience a period of rapid and unprecedented change bringing both risks and opportunities. Specific risk factors include: – Electrification of drivetrains. – Connected cars and the associated increase in available data. – Autonomous vehicles and/or mobility solutions replacing vehicle ownership as the preferred model. – OEM consolidation and disintermediation in the value chain.	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. Loss of ability to own and therefore monetise data. Long-term change in vehicle ownership model may lead to changes in the automotive value chain including disintermediation.	Diversification of brand partnerships across different vehicle types and technologies. 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 offerings. Initiatives to monetise data such as targeted marketing, predictive maintenance and recall management. Regular liaison with OEM partners to match pipeline and product planning to emerging technologies and support demand. Understand the connectivity strategy of our OEM partners and where we can help / position ourselves in the value chain. Close monitoring of developments in industry and local market, including monitoring possible disruptors and likely timeframe for entry into the market. Pilot of possible new partner technologies.		

Failure to keep pace with changes in the digital economy impacts on revenues and/or OEM relations		**Impact: High**	**Likelihood: High**	↑
Technologies are continuing to develop that allow for real-time processing of vast amounts of data, and the development of networks connecting people, service providers and appliances (including vehicles). The digitalisation of the customer journey, and growth of online customer platforms, presents the opportunity to improve the customer offering, whilst at the same time presenting new risks around data protection, maintenance of standards and customer engagement through, for example, social media. Digital platforms may also allow our brand partners to reach out to our customer base directly with consequences for our place in the value chain.	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.	Digitalisation strategy driving investment in seamless, omni-channel brand experience and a best in class digital platform. Group and market level monitoring and management of social media presence. Focus on data analysis to identify opportunities to monetise data. Local use of the internet and social media as a communications channel for our customers.		

2018 Update

The Board has increased its assessment of the gross impact of this risk from 'medium' to 'high' as a reflection of the quickening pace of the digitalisation of the customer journey, and therefore of the velocity with which it needs to implement its response.

MANAGED RISKS

Risks over which we are able to exert considerable influence on the impact or likelihood of occurrence.

Description	Impact	Mitigating actions			Trend
Major loss or misappropriation of confidential or sensitive data results in financial penalty and/or reputational damage			**Impact: High**	**Likelihood: Medium**	→
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. 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. 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. Adverse financial impact as a result of civil or criminal action. Regulatory intervention leads to impact on financial performance (fine) or business operations.	Global Information Security policies and procedures developed by IT Security Manager. Information assets defined and security controls benchmarked to ensure best practices. Global vulnerability and risk scanning in place to enhance likelihood of early response and intervention. Cyber awareness training deployed to all relevant staff globally. Investment in advanced network threat detection and malicious communications filters. Physical and logical security measures control access to key infrastructure, and subject to regular penetration testing. Encryption of valuable and sensitive data.			

2018 Update

A reference to 'misappropriation' of data has been added to this risk to more clearly reflect the fact that there are two principal factors: loss of data due to human error, and theft of data by malicious actors.

Description	Impact	Mitigating actions			Trend
Major cyber incident or other systems interruption impacts on ability to service customers and/or operational efficiency			**Impact: Medium**	**Likelihood: Low**	→
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. We have a diverse, and reasonably complex, IT landscape with multiple potential points of failure and must ensure that redundancies are built into our infrastructure to enable continuity should there be a large-scale disruption. 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. Loss, or compromise, of data crucial to business operation impacts the efficiency of operation.	Built-in resilience and security in place with active monitoring for core systems. Minimum controls framework including manual back-ups in place. SLA assurances and relevant accreditations from major systems infrastructure providers. Business continuity plans in place in all markets. Close management of iPower implementations and period of post implementation 'hyper care'.			

2018 Update

The title of this risk has been updated to reflect that the most likely, and damaging, threat to systems continuity is a cyber incident perpetrated by malicious actors. The balance of mitigating action has also been changed to address this.

Description	Impact	Mitigating actions		Trend
Failure to safeguard our customers and employees by not consistently applying EH&S standards across the Group		**Impact: Medium**	**Likelihood: Low**	→
Inchcape employs more than 18,000 people across the globe. We are also responsible for the safety of significant numbers of customers and 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.	Injury to customers, employees or third parties. Serious incident leading to lost time. Unlimited fines. Personal sanctions (for directors and officers). Damage to reputation following injury to, or death of, employees or customers. Civil or criminal action.	Local Health & Safety policies in place in all markets to comply with local legislation. Qualified Health & Safety practitioners in major markets (UK, Russia, Australia, Asia, Latam), and at Group level. Basic training offered to all staff with more advanced training for higher risk roles. Clear 'ways of working' displayed in prominent areas in the higher risk areas (e.g. workshops). Health & Safety audits undertaken to confirm compliance with standards. Accidents, hazards and near misses monitored on a regular basis with corrective actions tracked.		
Internal controls failure or fraud of sufficient scale to materially affect financial performance or reputations		**Impact: Medium**	**Likelihood: Medium**	→
Strong internal controls and processes underpin our operations. Without them we would fail to protect the value we create and undermine our growth potential.	Significant fraud with financial and reputational consequences. Significant error or financial misstatement. Procedural breakdown with consequences for efficiency and/or business interruption.	Minimum Controls Framework (MCF) sets an unambiguous global controls standard. Delegation of Authorities policy in place to ensure that decisions are undertaken within approved authority limits and parameters. Central internal controls team created to oversee implementation and development of MCF. Clear management accountability for internal controls. Automation of control through iPower implementation including automated controls reduces the possibility of error or oversight. Fraud and other major control incidents monitored by the Audit Committee. Close monitoring of MCF compliance by Group Internal Audit.		

2018 Update

The Board added the risk of fraud to reflect the increasing level of identified incidents during the year.

Description	Impact	Mitigating actions	Trend
Failure to comply with laws or regulations leads to material financial penalty or reputational damage		**Impact: Medium** **Likelihood: Medium**	↑
The Group, and its businesses, are subject to a wide range of laws and regulations. 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.	Financial impact of fines/sanctions. Regulatory intervention leads to business interruption or other inefficiencies. Adverse reputational impact affecting brand partner relationships.	Key appointments at Group level to help oversee legal compliance. Head of Legal & Regulatory Compliance, Group Legal Counsel. 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. Local training programmes in place for relevant staff to raise awareness and confirm expectations. Online legal/compliance training solution to be implemented globally in 2019.	

2018 Update

During the year, we completed our preparations for the implementation of the European General Data Protections Regulations which became fully enforceable from 25 May 2018. The Board has increased its assessment of the likelihood of this risk from 'low' to 'medium' to reflect the trend towards increasing regulatory pressure in the automotive industry, and also in recognition of our growing global footprint, particularly in emerging markets.

Description	Impact	Mitigating actions	Trend
Failure to attract, retain and develop our people leading to knowledge drain and operational inefficiency		**Impact: Medium** **Likelihood: Medium**	→
Inchcape employs over 18,000 people across 32 different territories in various roles including Sales, Aftersales, and back office functions. The fragmented nature of the automotive sector, coupled with remuneration strategies that typically reward short-term performance, mean that the industry suffers from high turnover rates, especially in retail businesses. These can exceed 30-35% per annum. 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, and diversity, at all levels may compromise our ability to deliver the Ignite strategy.	Loss of core knowledge and experience. Business interruption or operational inefficiency. Failure to deliver strategic objectives.	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. 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.	

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, dealer network or Inchcape plc negatively impacts vehicle sales and/or operational capability	Readily available, affordable credit is 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.	High	Low	→
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. **The Board has revised its definition of this risk to include damage to OEM or product reputation.**	High	Low	→
Fluctuations in exchange rates with negative impact on financial performance	As a global organisation we accept the risk that outside 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	→
Individual governments increasing restrictions on cross-border currency movements leading to higher incidents of trapped cash across the Group	We regularly look for mitigating strategies including investment opportunities in local businesses that can generate hard currency earnings or engaging with government and central banks to ensure we receive our fair allocation of hard currency reserves.	Medium	Medium	→
Social, political and regulatory instability leads to economic uncertainty, market interruption and/or threat to safety	We accept that in certain markets there is an enhanced risk of social, political and regulatory instability. 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. **The scope of this risk has been widened by the Board to recognise the impact of economic uncertainty, reflective of the implications of Brexit.**	Low	Medium	→
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. **The Board has widened the scope of this risk to include Aftersales legislation.**	Low	High	→

BREXIT

The UK is currently scheduled to leave the European Union on 29 March 2019. There is uncertainty, however, as to whether this will indeed be the departure date and as to the terms of the UK/EU relationship after that date.

In "agreed deal" scenarios, there will be a sufficient planning period of at least 21 months available to plan and prepare for the implications of Brexit. In the event of a no-deal Brexit, however, there will be no such transition period.

Our immediate focus, therefore, has been on preparing for a no-deal scenario. We have taken steps to understand the potential impacts of such a scenario upon our business and have identified, and taken, those mitigating actions that are available to us.

The nature, and location, of our business means that there are three principal potential impacts. These are

- Macro-economic impacts in the UK economy lead to reduced consumer confidence and a reduction in the overall size of the addressable market;
- The introduction of tariffs on UK automotive exports to European markets, and certain third countries, results in increased costs that are not able to be recovered from customers;
- A fall in the value of sterling increases the sterling value of the Group's foreign currency earnings.

The Board has considered these potential impacts carefully together with the mitigation plans in place. We are working closely with our OEM partners to ensure that any impacts are minimised.

The Board and Group Executive Committee are actively monitoring the position and will continue to take the actions that are available to them to respond to events as they unfold.

VIABILITY STATEMENT

The long-term viability of the Group is intrinsically linked to the delivery of the Ignite strategy and the cash-generative nature of this business model. Our continued viability is dependent upon the continuation of our relationships with our OEM partners. In addition, three years is also the key timeline for New vehicle purchase in mature markets with good personal finance penetration. In seeking to be the OEM partner of choice, we continue to build on the long-term strategic relationships we have developed 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 part of the strategic planning process, the Board adopts a rigorous approach to the identification of the principal risks and to monitoring the actions taken to mitigate these risks.

The Board has prioritised three of the principal risks for the purposes of assessing the longer-term viability of the Group:

- Loss of global distribution contract with major brand partner;
- Significant retrenchment of credit available to customers, dealer network or the Group negatively impacts vehicle sales and/or operational capability;
- 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 the first and third of these risks. The risk of a liquidity / credit shock, has been modelled as a sensitivity on top of both of these risks to understand their combined financial impact. For 2019, the Board has also considered the impact of a "no deal no transition" Brexit.

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 are managed and mitigated as 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 2021.

DIRECTORS' APPROVAL OF THE STRATEGIC REPORT

Our 2018 Strategic Report, from pages 1 to 46, has been reviewed and approved by the Board of Directors on 27 February 2019.

Stefan Bomhard
Chief Executive