

DIRECTORS' REPORT

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The Directors' Report for the year ended 31 December 2018 comprises pages 88 to 92 of this report (together with sections incorporated by reference). Information required in the Management Report under DTR4.1.8R can be found in the following sections:

- A review of the business and future developments – pages 1 to 33
- Principal risks and uncertainties – pages 35 to 46.

CORPORATE GOVERNANCE STATEMENT

The statement of compliance with the 2016 UK Corporate Governance Code is given on page 51. The Code is published on the Financial Reporting Council's website www.frc.org.uk. Information required under DTR7 is given in the Corporate Governance Report on pages 50 to 87.

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:

Nigel Stein	John Langston
Stefan Bomhard	Coline McConville
Jerry Buhlmann	Nigel Northridge
Rachel Empey	Till Vestring
Richard Howes	Jane Kingston – appointed 25 July 2018
	Ken Hanna – retired 25 May 2018

In accordance with the 2016 UK Corporate Governance Code, all the Directors will stand for election or re-election at the Annual General Meeting (AGM) on 23 May 2019, apart from Nigel Northridge who will retire from the Board following the AGM. Jane Kingston, who was appointed during 2018, will stand for election for the first time.

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 2018 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 2018 are shown on pages 94 to 183. 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 2019 AGM, the final ordinary dividend will be paid on 21 June 2019 to shareholders registered in the books of the Company at the close of business on 17 May 2019. Together with the interim dividend of 8.9p per ordinary share paid on 5 September 2018, this makes a total ordinary dividend for the year of 26.8p per ordinary share (2017: 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 16 for more information on the dividend policy.

SHARE CAPITAL

As at 31 December 2018, the Company's issued share capital of £41,512,745.30 comprised 415,127,453 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 24 May 2018, the Company was authorised to make market purchases of up to 41,501,828 ordinary shares (representing approximately 10.0% of its issued share capital).

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	20,711,753	11/12/2018	4.98%
Norges Bank	12,682,169	27/11/2018	3.06%
Standard Life			
Aberdeen plc	48,736,361	22/11/2018	11.74%

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 2018, the Trust's shareholding totalled 777,211 ordinary shares.

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

DIRECTORS' INTERESTS

The table showing the beneficial interests, other than share options, including family interests, in the ordinary shares of the Company of the persons who were Directors at 31 December 2018 is shown in the Directors' Report on Remuneration on page 84.

There have been no changes to the number of shares held by Directors between 31 December 2018 and 27 February 2019.

CHANGE OF CONTROL

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

The Group's relationships with its OEM 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 2018, or was entered into during the year for any Director and/or connected person (2017: 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	86 (TSR Graph)
4	Details of long-term incentive schemes	82-83
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	89
13	Shareholder waiver of future dividends	89
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 to 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 2018 to 31 December 2018. 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.

Intensity ratio

The Group's intensity ratio is revenue per tonne of CO₂e. This allows for a fair comparison over time of CO₂e emissions given the growth trajectory envisaged for the Group and cyclical variations in business activity.

Total greenhouse gas emissions in 2018 GHG emissions

	Total emissions (tonnes CO ₂ e)		
	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Change in emissions
Scope 1 and 2 emissions			
Scope 1 (Direct emissions from combustion of fuels and operation of facilities)	10,815	12,083	-10.0%
Scope 2 (Electricity, heat, steam and cooling purchased for own use)	46,073	48,562	-5.0%
Total Scope 1 and 2 emission	56,888	60,645	-6.0%
Operational emissions intensity			
Intensity metric – total revenue (£m)	9,277	7,838	+18.0%
Total scope 1 and 2 emissions (tonnes CO ₂ e)	56,888	60,645	-6.0%
Scope 1 and 2 emissions per £m (tCO ₂ e/£m)	6.1	7.7	-21.0%

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.

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.

In 2018, an online 'employee experience' survey was rolled out and in smaller businesses, focus groups were established as an opportunity to learn more about how employees feel about working for Inchcape and to gain an understanding of how the employee experience can be enhanced so that employees feel challenged, excited, engaged and supported in their roles.

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 68 to 87.

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 2018 is as follows:

		Male		Female	Total
Board	7	70.0%	3	30.0%	10
Senior management	77	82.8%	16	17.2%	93
All employees	13,687	73.1%	5,047	26.9%	18,734

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 but aims to achieve the recommendation of 33% female representation by 2020.

To help achieve these goals, the Nomination Committee is reviewing its selection processes to ensure that a broad mix of suitable candidates is being put forward for consideration. 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 35 to 46.

FINANCIAL INSTRUMENTS

The information required under Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of financial instruments is given in note 23 to the financial statements on pages 151 to 157.

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 2018 and does not intend to make any political donations in 2019.

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.

DIRECTORS' REPORT CONTINUED

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.

GOING CONCERN

Having assessed the principal risks and the other matters discussed in connection with the viability statement on page 46, 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 auditors, Deloitte LLP, have indicated their willingness to continue in office. A resolution to reappoint them as auditors 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, 23 May 2019 at Deutsche Bank AG, Winchester House, 1 Great Winchester Street, London EC2N 2DB. The notice convening the meeting and the resolutions to be put to the meeting, together with the explanatory notes, are given in the Circular to all shareholders.

The Directors' Report was approved by the Board and has been signed by the secretary of the Company.

Tamsin Waterhouse

Group Company Secretary