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. During the year, the Group has reviewed the operating segments and determined that in those regions where we are the Distributor and manage a network that includes dealerships that we own and operate, the results of those retail operations are better reflected as part of the results from Distribution. This has resulted in the results from our Subaru, Peugeot and Citroen retail operations in Australia and Toyota retail operations in Europe being reported as part of Australasia and UK and Europe Distribution. 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 mature 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 mature markets, together with associated Aftersales activities of service, bodyshop repairs and parts sales.
	Emerging Markets	Sale of New and Used vehicles in growing markets together with associated Aftersales activities of service, bodyshop repairs and parts sales.
Central		Comprises the Group's head office function and includes all central activities including the Board, finance, human resources, marketing, governance and global information services.

The Group has also refined the methodology for allocating gross profit between Vehicles and Aftersales and the apportionment of certain Central costs to the segments. Comparatives have been restated accordingly.

					Distribution
2018	**Australasia £m**	**UK and Europe £m**	**Asia £m**	**Emerging Markets £m**	**Total Distribution £m**
Revenue					
Total revenue	**1,198.4**	**1,145.5**	**1,687.7**	**956.5**	**4,988.1**
Inter-segment revenue	**–**	**–**	**–**	**–**	**–**
Revenue from third parties	**1,198.4**	**1,145.5**	**1,687.7**	**956.5**	**4.988.1**
Results					
Trading profit / (loss)	**87.8**	**33.3**	**169.6**	**84.2**	**374.9**
Operating exceptional items	**–**	**(4.5)**	**–**	**(1.8)**	**(6.3)**
Operating profit / (loss) after exceptional items	**87.8**	**28.8**	**169.6**	**82.4**	**368.6**
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

2018	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**
Inter-segment revenue	–	–	–	–	–	–	–
Revenue from third parties	**382.2**	**3,057.6**	**849.1**	**4,288.9**	**9,277.0**	**–**	**9,277.0**
Results							
Trading profit / (loss)	**(7.7)**	**14.8**	**19.4**	**26.5**	**401.4**	**(16.3)**	**385.1**
Operating exceptional items	**–**	**(193.7)**	**–**	**(193.7)**	**(200.0)**	**(10.8)**	**(210.8)**
Operating profit / (loss) after exceptional items	**(7.7)**	**(178.9)**	**19.4**	**(167.2)**	**201.4**	**(27.1)**	**174.3**
Share of profit after tax of joint ventures and associates							**0.1**
Profit before finance and tax							**174.4**
Finance income							**19.3**
Finance costs							**(61.6)**
Profit before tax							**132.1**
Tax							**(76.9)**
Profit for the year							**55.2**

Net finance costs of £42.3m 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**

Gross profit for Distribution and Retail activities is analysed as follows:

2018	Vehicles £m	Aftersales £m	Total £m
Distribution	**544.1**	**325.6**	**869.7**
Retail	**265.6**	**166.0**	**431.6**
Group	**809.7**	**491.6**	**1,301.3**

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

1 SEGMENTAL ANALYSIS CONTINUED

2018	Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Distribution Total Distribution £m
Segment assets and liabilities					
Segment assets	**298.4**	**335.2**	**373.2**	**381.1**	**1,387.9**
Other current assets					
Other non-current assets					
Segment liabilities	**(428.0)**	**(282.5)**	**(429.5)**	**(297.1)**	**(1,437.1)**
Other liabilities					
Net assets					

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

2018	Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Distribution 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**	**0.4**	**8.0**	**2.4**	**12.7**
– 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**
Amortisation of intangible assets	**2.9**	**1.8**	**2.0**	**1.5**	**8.2**
Impairment of goodwill	**–**	**–**	**–**	**–**	**–**
Impairment of Property, plant and equipment	**–**	**4.5**	**–**	**–**	**4.5**
Net provisions charged / (credited) to the consolidated income statement	**2.1**	**4.5**	**1.6**	**0.6**	**8.8**

Net provisions include inventory, trade receivables impairment and other liability provisions.

1 SEGMENTAL ANALYSIS CONTINUED

2018	Retail Australasia £m	UK and Europe £m	Emerging Markets £m	Total Retail £m	Total £m
Segment assets and liabilities					
Segment assets	**104.5**	**830.1**	**131.0**	**1,065.6**	**2,453.5**
Other current assets					**695.9**
Other non-current assets					**1,587.0**
Segment liabilities	**(114.4)**	**(791.8)**	**(83.8)**	**(990.0)**	**(2,427.1)**
Other liabilities					**(893.5)**
Net assets					**1,415.8**

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

2018	Retail Australasia £m	UK and Europe £m	Emerging Markets £m	Total Retail £m	Total pre Central £m	Central £m	Total £m
Other segment items							
Capital expenditure:							
– Property, plant and equipment	**0.4**	**48.5**	**3.6**	**52.5**	**90.1**	**–**	**90.1**
– Interest in leased vehicles	**–**	**6.0**	**–**	**6.0**	**18.7**	**–**	**18.7**
– 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**
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 property, plant and equipment	**–**	**18.7**	**–**	**18.7**	**23.2**	**–**	**23.2**
Net provisions charged / (credited) to the consolidated income statement	**1.5**	**54.1**	**0.7**	**56.3**	**65.1**	**(2.2)**	**62.9**

Net provisions include inventory, trade receivables impairment and other liability provisions.

1 SEGMENTAL ANALYSIS CONTINUED

2017	Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Distribution Total Distribution £m
Revenue					
Total revenue	1,237.8	1,068.4	1,692.6	794.7	4,793.5
Inter-segment revenue	–	–	–	–	–
Revenue from third parties	1,237.8	1.068.4	1,692.6	794.7	4,793.5
Results					
Trading profit / (loss)	92.2	34.5	154.2	85.9	366.8
Operating exceptional items	(0.1)	(5.2)	(0.1)	(2.4)	(7.8)
Operating profit / (loss) after exceptional items	92.1	29.3	154.1	83.5	359.0
Share of loss after tax of joint ventures and associates					
Profit before finance and tax					
Finance income					
Finance costs					
Profit before tax					
Tax					
Profit for the year					

1 SEGMENTAL ANALYSIS CONTINUED

2017	Australasia £m	UK and Europe £m	Emerging Markets £m	Retail Total Retail £m	Total pre Central £m	Central £m	Total £m
Revenue							
Total revenue	401.6	3,174.4	583.8	4,159.8	8,953.3	–	8,953.3
Inter-segment revenue	–	–	–	–	–	–	–
Revenue from third parties	401.6	3,174.4	583.8	4,159.8	8,953.3	–	8,953.3
Results							
Trading profit / (loss)	9.4	52.0	3.6	65.0	431.8	(25.2)	406.6
Operating exceptional items	–	(2.8)	(1.1)	(3.9)	(11.7)	(0.9)	(12.6)
Operating profit / (loss) after exceptional items	9.4	49.2	2.5	61.1	420.1	(26.1)	394.0
Share of loss after tax of joint ventures and associates							–
Profit before finance and tax							394.0
Finance income							14.6
Finance costs							(39.6)
Profit before tax							369.0
Tax							(93.4)
Profit for the year							275.6

Net finance costs of £25.0m 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:

2017	£m
UK	3,047.5
Rest of the world	5,905.8
Group	8,953.3

Gross profit for Distribution and Retail activities is analysed as follows:

2017	Vehicles £m	Aftersales £m	Total £m
Distribution	514.1	308.7	822.8
Retail	270.3	158.1	428.4
Group	784.4	466.8	1,251.2

1 SEGMENTAL ANALYSIS CONTINUED

2017	Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Distribution Total Distribution £m
Segment assets and liabilities					
Segment assets	240.9	317.0	350.6	282.6	1,191.1
Other current assets					
Other non-current assets					
Segment liabilities	(424.4)	(266.0)	(362.4)	(235.5)	(1,288.3)
Other liabilities					
Net assets					

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

2017	Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Distribution Total Distribution £m
Other segment items					
Capital expenditure:					
– Property, plant and equipment	12.1	10.7	9.7	17.0	49.5
– Interest in leased vehicles	0.1	–	9.9	0.8	10.8
– Intangible assets	4.3	3.8	0.3	1.5	9.9
Depreciation:					
– Property, plant and equipment	3.8	2.4	10.7	6.8	23.7
– Interest in leased vehicles	–	0.3	4.8	0.2	5.3
Amortisation of intangible assets	1.9	0.8	2.6	0.9	6.2
Impairment of goodwill	–	–	–	–	–
Impairment of other intangible assets	–	–	–	–	–
Net provisions charged / (credited) to the consolidated income statement	1.0	3.5	4.8	0.3	9.6

Net provisions include inventory, trade receivables impairment and other liability provisions.

1 SEGMENTAL ANALYSIS CONTINUED

2017	Retail Australasia £m	 UK and Europe £m	 Emerging Markets £m	 Total Retail £m	 Total £m
Segment assets and liabilities					
Segment assets	142.6	833.2	124.3	1,100.1	2,291.2
Other current assets					1,004.8
Other non-current assets					1,582.0
Segment liabilities	(144.9)	(820.9)	(69.0)	(1,034.8)	(2,323.1)
Other liabilities					(1,107.0)
Net assets					1,447.9

Segment assets include net inventory, receivables and derivative assets. Segment liabilities include payables, provisions and derivative liabilities.

2017	Retail Australasia £m	 UK and Europe £m	 Emerging Markets £m	 Total Retail £m	Total pre Central £m	Central £m	Total £m
Other segment items							
Capital expenditure:							
– Property, plant and equipment	0.4	47.1	7.3	54.8	104.3	0.1	104.4
– Interest in leased vehicles	–	7.8	–	7.8	18.6	–	18.6
– Intangible assets	–	1.8	0.3	2.1	12.0	14.2	26.2
Depreciation:							
– Property, plant and equipment	0.9	14.5	4.3	19.7	43.4	0.4	43.8
– Interest in leased vehicles	–	3.6	–	3.6	8.9	–	8.9
Amortisation of intangible assets	–	4.2	2.6	6.8	13.0	0.8	13.8
Impairment of goodwill	–	–	–	–	–	–	–
Impairment of other intangible assets	–	–	–	–	–	–	–
Net provisions charged / (credited) to the consolidated income statement	2.7	39.3	1.6	43.6	53.2	(2.0)	51.2

Net provisions include inventory, trade receivables impairment and other liability provisions.

2 EXCEPTIONAL ITEMS

	2018 £m	2017 £m
Goodwill impairment (see note 11)	**(175.0)**	–
Other asset impairment (see note 12)	**(23.2)**	–
Acquisition of businesses	**(7.2)**	(2.1)
Restructuring costs	**–**	(10.5)
Other operating exceptional items	**(5.4)**	–
Total exceptional operating items	**(210.8)**	(12.6)
Exceptional finance costs (see note 7)	**(13.9)**	–
Total exceptional items before tax	**(224.7)**	(12.6)
Exceptional tax (see note 8)	**3.3**	2.7
Total exceptional items	**(221.4)**	(9.9)

During the period exceptional operating costs of £7.2m have been 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.

Exceptional items also include asset impairments of £23.2m following an impairment review of certain site-based assets in the UK and Europe.

In 2017 the Group incurred restructuring costs of £10.5m as part of a Group-wide programme commenced in 2016 to better align the organisation with the Ignite strategy. The costs incurred comprised headcount reduction and costs associated with the redevelopment of the third party Retail network in certain markets. Exceptional costs of £2.1m were also incurred in relation to the 2016 acquisition of the Subaru, Hino and associated Distribution businesses in South America.

3 REVENUE AND EXPENSES

a. Revenue

An analysis of the Group's revenue for the year is as follows:

	2018 £m	2017 £m
Sale of goods	**8,500.3**	8,231.8
Provision of services	**776.7**	721.5
	9,277.0	8,953.3

b. Analysis of net operating expenses

	Net operating expenses before exceptional items 2018 £m	Exceptional items 2018 £m	Net operating expenses 2018 £m	Net operating expenses before exceptional items 2017 £m	Exceptional items 2017 £m	Net operating expenses 2017 £m
Distribution costs	**507.5**	**–**	**507.5**	483.3	–	483.3
Administrative expenses	**415.8**	**210.8**	**626.6**	375.2	12.6	387.8
Other operating (income) / expense	**(7.1)**	**–**	**(7.1)**	(13.9)	–	(13.9)
	916.2	**210.8**	**1,127.0**	844.6	12.6	857.2

c. Profit before tax is stated after the following charges / (credits):

	2018 £m	2017 £m
Depreciation of tangible fixed assets:		
– Property, plant and equipment	**43.9**	43.8
– Interest in leased vehicles	**7.2**	8.9
Amortisation of intangible assets	**14.2**	13.8
Impairment of goodwill	**175.0**	–
Impairment of property, plant and equipment	**23.2**	–
Impairment of trade receivables	**1.3**	1.6
Profit on sale of property, plant and equipment	**(2.1)**	(10.6)
Operating lease rentals	**81.0**	71.3

Profit on the sale of property, plant and equipment in 2018 relates to the sale of surplus assets in Latvia, the UK and Russia. In 2017, the Group disposed of surplus assets in Australia and Russia.

3 REVENUE AND EXPENSES CONTINUED

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:

	2018 £m	2017 £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	**0.4**	0.5
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries	**2.5**	2.1
– Audit related assurance services	**0.1**	0.1
– All other services	**0.4**	0.1
Total fees payable to the Company's auditor	**3.4**	2.8
Audit fees – firms other than the Company's auditor	**0.2**	0.4

e. Staff costs

	2018 £m	2017 £m
Wages and salaries	**558.6**	524.2
Social security costs	**53.8**	50.5
Other pension costs	**27.4**	23.5
Share-based payment charge	**7.6**	10.2
	647.4	608.4

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 68 to 87 of this document. Information on compensation of key management personnel is set out in note 31b.

f. Average monthly number of employees

	Distribution		Retail		Total	
	2018 Number	2017 Number	**2018 Number**	2017 Number	**2018 Number**	2017 Number
Australasia	**1,182**	1,128	**567**	574	**1,749**	1,702
UK and Europe	**1,434**	1,298	**5,938**	6,277	**7,372**	7,575
Asia	**2,645**	2,742	**–**	–	**2,645**	2,742
Emerging Markets	**3,828**	2,903	**2,401**	1,718	**6,229**	4,621
Total operational	**9,089**	8,071	**8,906**	8,569	**17,995**	16,640
Central					**155**	149
					18,150	16,789

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 £7.5m (2017 – £10.2m), all of which was equity-settled.

The Other Share Plan's 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:

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**

2017	Weighted average exercise price*	Performance Share Plan	Executive Share Option Plan	Save As You Earn Plan	Other Share Plans
Outstanding at 1 January	£4.48	4,630,496	355,159	2,051,995	1,286,746
Granted	£6.66	1,457,828	–	675,726	637,223
Exercised	£3.41	(1,082,419)	(284,480)	(441,502)	(423,530)
Lapsed	£5.74	(660,226)	(1,613)	(387,946)	(114,603)
Outstanding at 31 December	£5.36	4,345,679	69,066	1,898,273	1,385,836
Exercisable at 31 December	£3.33	410,145	69,066	77,365	34,346

* 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 2018 is 2.4 years (2017 – 2.7 years).

The range of exercise prices for options outstanding at the end of the year was £0.10 to £6.66 (2017 – £0.10 to £6.66). See note 24 for further details.

The fair value of options granted under the Save As You Earn Plan and Other Share Plans is estimated as at the date of grant using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of nil cost awards granted under the Performance Share Plan and Other Share Plans is the market value of the related shares at the time of grant. The following table lists the main inputs to the model for awards granted during the years ended 31 December 2018 and 31 December 2017:

	Performance Share Plan		Save As You Earn Plan		Other Share Plans	
	2018	2017	**2018**	2017	**2018**	2017
Weighted average share price at grant date	**£7.08**	£8.46	**£6.89**	£8.44	**£7.07**	£7.82
Weighted average share price at date of exercise	**£7.15**	£8.15	**£7.25**	£7.74	**£7.11**	£8.16
Weighted average exercise price*	**n/a**	n/a	**£5.54**	£6.66	**n/a**	n/a
Vesting period	**3.0 years**	3.0 years	**3.0 years**	3.0 years	**2.8 years**	2.5 years
Expected volatility	**n/a**	n/a	**22.2%**	23.0%	**n/a**	n/a
Expected life of award	**3.0 years**	3.0 years	**3.2 years**	3.2 years	**2.8 years**	2.5 years
Weighted average risk free rate	**n/a**	n/a	**1.0%**	0.5%	**n/a**	n/a
Expected dividend yield	**n/a**	n/a	**4.0%**	2.9%	**n/a**	n/a
Weighted average fair value per option	**£7.08**	£8.46	**£1.28**	£1.81	**£7.07**	£7.82

* 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 2018 or 2017.

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 (comprising the Group, Motors, Normand and Cash+ sections) in the UK is the main defined benefit final salary pension scheme. The Group, Motors and Normand sections are closed to new employees 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 for 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 underwrites investment, mortality and inflation risks necessary to meet the obligations under the schemes. In the event of poor returns, increased life expectancy or higher than expected inflation, the Group is required to address any shortfall through a combination of an increase in contributions or by making appropriate adjustments to the schemes.

Cash balance schemes like Cash+ allow members to accrue a percentage of their earnings each year, which then grows to provide a lump sum payment on retirement. Members have accrued benefits under this scheme with effect from 1 January 2013. The Group underwrites the investment risk to normal retirement age (65), but all inflation and mortality risks associated with benefits are borne solely by the members. Across the schemes a number of exercises have been undertaken to significantly mitigate these key funding risks.

Governance

Our UK schemes are registered with HMRC and comply fully with the regulatory framework published by the UK Pensions Regulator.

Benefits under the Inchcape Motors Pension Scheme are paid to members from separate funds administered by a trustee board comprised of two independent trustee companies (the Trustees) appointed by the Group. The Trustees are required to act in the best interest of the members, and are responsible for making funding and investment decisions in conjunction with the Group.

The Group also has some minor unfunded arrangements relating to post-retirement health and medical plans in respect of past employees. There are no material defined contribution schemes in the UK.

Scheme specific cash obligation / investment detail

Inchcape Motors Pension Scheme

Group, Motors and Normand sections (closed sections)

The latest actuarial valuations for these sections were carried out at 5 April 2016 on a market-related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the defined accrued benefit method. The actuarial valuation determined that the duration of the liabilities was approximately 18 years and that a small surplus existed. The Group contributes £0.6m p.a. towards the administrative costs of running these sections and no further review is scheduled until April 2019. For the Normand section, the Group also currently pays deficit reduction contributions of £1.1m p.a., rising by 3.05% p.a. up until 5 April 2026 (at which point the funding shortfall is expected to be eliminated).

Each section's investment strategy sees it holding a proportion of its assets in matching assets (75% for the Group section, 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 designed to hedge inflation and interest rate risk in a capitally efficient manner. The growth assets are invested in assets that are expected to grow at rates significantly faster than each 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 independent professionally qualified actuaries based on the projected unit credit method. The valuation showed the funding level to be 98%, with the Trustee expecting the small shortfall to be removed by the ongoing pension contributions and returns on the assets held. The Group contributes £0.2m p.a. towards the administrative costs of running the scheme and the next review is in April 2019.

The investment strategy is to be 60% invested in diversified growth funds which are designed to grow at a rate significantly faster than the liabilities, whilst spreading investment risk across a broad spectrum of asset classes. The remaining 40% is to be split equally between multi-factor equities and emerging market multi-asset funds.

The next actuarial valuations for the four sections of the Inchcape Motors Pensions Scheme will be carried out as at 5 April 2019.

5 PENSIONS AND OTHER POST-RETIREMENT BENEFITS CONTINUED

Inchcape Overseas Pension Scheme

This scheme is managed from Guernsey and is subject to regulations similar to the UK. It is therefore reported under the United Kingdom in this note. The latest triennial actuarial valuation for this scheme was carried out at 31 March 2015 and determined in accordance with the advice of independent professionally qualified actuaries based on the attained age method. The actuarial valuation determined that the duration of the liabilities was approximately 11 years and that the scheme was approximately 86% funded on a prudent funding basis. The Group contributes £0.8m p.a. towards scheme administrative costs and improving the funding ratio. The investments are managed under a Fiduciary Management arrangement with the level of investment risk inherent in the investment arrangements reducing as and when the funding level improves. The scheme's actuarial valuation as at 31 March 2018 is currently in progress.

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 with Aviva under which the benefits payable to the members of the scheme are now fully insured. The insurance policy was purchased using the existing assets of the scheme with no additional funding required from the Group. The insurance policy was structured to enable the scheme, in time, to move to full buy-out, following which Aviva would become directly responsible for the pension payments under the scheme. The scheme has now been fully bought out and it was formally wound up on 3 August 2018. All liability for member benefits now lie with Aviva and the duties of the Group and the trustee have been discharged.

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 £7.0m (2017 – £6.2m). There are no outstanding contributions at 31 December 2018 (2017 – £0.2m).

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	
	2018 %	2017 %	**2018 %**	2017 %
Rate of increase in salaries	**3.1**	3.1	**4.0**	3.8
Rate of increase in pensions	**3.0**	3.0	**1.8**	2.3
Discount rate	**2.9**	2.5	**1.9**	1.9
Rate of inflation:				
– Retail price index	**3.2**	3.2	**1.8**	2.1
– Consumer price index	**2.1**	2.1	**n/a**	n/a

The rate of increase in healthcare costs is 5.4% (2017 – 5.4%) per annum.

Assumptions regarding future mortality experience are set based on published statistics and experience. For the UK schemes, the average life expectancy of a pensioner retiring at age 65 is 23.8 years (2017 – 23.9 years) for current pensioners and 25.3 years (2017 – 25.8 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	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Present value of funded obligations	**(727.0)**	(1,007.2)	**(50.9)**	(47.6)	**(777.9)**	(1,054.8)
Fair value of plan assets	**816.0**	1,083.0	**45.0**	46.2	**861.0**	1,129.2
Net surplus / (deficit) in funded obligations	**89.0**	75.8	**(5.9)**	(1.4)	**83.1**	74.4
Present value of unfunded obligations	**(0.6)**	(0.7)	**(0.6)**	(1.4)	**(1.2)**	(2.1)
	88.4	75.1	**(6.5)**	(2.8)	**81.9**	72.3
The net pension asset is analysed as follows:						
Schemes in surplus	**116.2**	105.5	**0.3**	0.4	**116.5**	105.9
Schemes in deficit	**(27.8)**	(30.4)	**(6.8)**	(3.2)	**(34.6)**	(33.6)
	88.4	75.1	**(6.5)**	(2.8)	**81.9**	72.3

The amounts recognised in the consolidated income statement are as follows:

	United Kingdom		Overseas		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Current service cost	**(17.5)**	(14.2)	**(2.9)**	(3.1)	**(20.4)**	(17.3)
Past service cost	**(5.4)**	–	**–**	–	**(5.4)**	–
Scheme expenses	**(1.5)**	(1.6)	**(0.1)**	(0.1)	**(1.6)**	(1.7)
Interest expense on plan liabilities	**(22.3)**	(27.7)	**(0.8)**	(0.9)	**(23.1)**	(28.6)
Interest income on plan assets	**24.1**	29.2	**0.7**	0.8	**24.8**	30.0
	(22.6)	(14.3)	**(3.1)**	(3.3)	**(25.7)**	(17.6)

5 PENSIONS AND OTHER POST-RETIREMENT BENEFITS CONTINUED

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	United Kingdom		Overseas		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Actuarial gains / (losses) on liabilities:						
– Experience (losses) / gains	**(0.2)**	4.2	**(0.3)**	1.4	**(0.5)**	5.6
– Changes in demographic assumptions	**29.4**	12.3	**–**	–	**29.4**	12.3
– Changes in financial assumptions	**63.6**	(0.6)	**0.5**	(0.1)	**64.1**	(0.7)
Actuarial gains on assets:						
– Experience (losses) / gains	**(54.5)**	13.7	**(2.1)**	7.0	**(56.6)**	20.7
	38.3	29.6	**(1.9)**	8.3	**36.4**	37.9

Analysis of the movement in the net asset / (liability):

	United Kingdom		Overseas		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
At 1 January	**75.1**	47.3	**(2.8)**	(10.0)	**72.3**	37.3
Amount recognised in the consolidated income statement	**(22.6)**	(14.3)	**(3.1)**	(3.3)	**(25.7)**	(17.6)
Contributions by employer	**3.5**	12.5	**1.4**	1.7	**4.9**	14.2
Taxes paid from plan assets	**(5.9)**	–	**–**	–	**(5.9)**	–
Actuarial gains / (losses) recognised in the year	**38.3**	29.6	**(1.9)**	8.3	**36.4**	37.9
Effect of foreign exchange rates	**–**	–	**(0.1)**	0.5	**(0.1)**	0.5
At 31 December	**88.4**	75.1	**(6.5)**	(2.8)	**81.9**	72.3

Changes in the present value of the defined benefit obligation are as follows:

	United Kingdom		Overseas		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
At 1 January	**(1,007.9)**	(1,082.0)	**(49.0)**	(56.6)	**(1,056.9)**	(1,138.6)
Current service cost	**(17.5)**	(14.2)	**(2.9)**	(3.1)	**(20.4)**	(17.3)
Past service cost	**(5.4)**	–	**–**	–	**(5.4)**	–
Interest expense on plan liabilities	**(22.3)**	(27.7)	**(0.8)**	(0.9)	**(23.1)**	(28.6)
Actuarial gains / (losses):						
– Experience (losses) / gains	**(0.2)**	4.2	**(0.3)**	1.4	**(0.5)**	5.6
– Changes in demographic assumptions	**29.4**	12.3	**–**	–	**29.4**	12.3
– Changes in financial assumptions	**63.6**	(0.6)	**0.5**	(0.1)	**64.1**	(0.7)
Contributions by employees	**(0.2)**	(0.1)	**–**	–	**(0.2)**	(0.1)
Benefits paid	**33.0**	49.0	**3.3**	5.6	**36.3**	54.6
Plan settlements	**199.9**	51.2	**–**	–	**199.9**	51.2
Effect of foreign exchange rate changes	**–**	–	**(2.3)**	4.7	**(2.3)**	4.7
At 31 December	**(727.6)**	(1,007.9)	**(51.5)**	(49.0)	**(779.1)**	(1,056.9)

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	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
At 1 January	**1,083.0**	1,129.3	**46.2**	46.6	**1,129.2**	1,175.9
Interest income on plan assets	**24.1**	29.2	**0.7**	0.8	**24.8**	30.0
Scheme expenses	**(1.5)**	(1.6)	**(0.1)**	(0.1)	**(1.6)**	(1.7)
Actuarial (losses) / gains:						
– Experience (losses) / gains	**(54.5)**	13.7	**(2.1)**	7.0	**(56.6)**	20.7
Contributions by employer	**3.5**	12.5	**1.4**	1.7	**4.9**	14.2
Contributions by employees	**0.2**	0.1	**–**	–	**0.2**	0.1
Benefits paid	**(33.0)**	(49.0)	**(3.3)**	(5.6)	**(36.3)**	(54.6)
Plan settlements	**(199.9)**	(51.2)	**–**	–	**(199.9)**	(51.2)
Taxes paid from plan assets	**(5.9)**	–	**–**	–	**(5.9)**	–
Effect of foreign exchange rate changes	**–**	–	**2.2**	(4.2)	**2.2**	(4.2)
At 31 December	**816.0**	1,083.0	**45.0**	46.2	**861.0**	1,129.2

At the end of the reporting period, the percentage of the plan assets by category were as follows:

	United Kingdom		Overseas		Total	
	2018	2017	**2018**	2017	**2018**	2017
Equities (quoted)	**5.2%**	4.2%	**73.3%**	75.9%	**8.8%**	7.1%
Equities (unquoted)	**–**	–	**2.7%**	–	**0.1%**	–
Corporate bonds (quoted)	**–**	–	**13.3%**	18.2%	**0.7%**	0.7%
Government bonds (quoted)	**–**	–	**–**	0.5%	**–**	–
Investment funds (quoted)	**–**	–	**0.2%**	–	**–**	–
Investment funds (unquoted)	**66.3%**	53.6%	**–**	–	**62.8%**	51.4%
Bulk purchase annuity	**–**	18.9%	**–**	–	**–**	18.2%
Other (quoted)	**–**	–	**3.8%**	–	**0.2%**	–
Other (unquoted)	**28.5%**	23.3%	**6.7%**	5.4%	**27.4%**	22.6%
	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 and liability driven investments can be classified as Level 2 instruments and property as Level 3 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	
	2018 £m	2017 £m
Discount rate -0.25%	**+31.2**	+44.8
Discount rate +0.25%	**-29.3**	-42.1
Inflation -0.25%	**-17.8**	-28.8
Inflation +0.25%	**+19.8**	+29.6
Life expectancy + 1 year	**+29.4**	+39.3

The above analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The above variances have been used as they are believed to be reasonably possible fluctuations.

g. Expected future cash flows

The Group has agreed to pay approximately £2.8m to its UK defined benefit plans in 2019 on top of the ongoing employer contributions for the open Cash+ section. The Group does not expect any material changes to the annual cash contributions over the next three years given the funding position of the largest schemes, which account for 90% of the Group's total pension liabilities.

The defined benefit obligations are based on the current value of expected benefit payment cash flows to members over the next several decades. The average duration of the liabilities is approximately 18 years for the UK schemes.

6 FINANCE INCOME

	2018 £m	2017 £m
Bank and other interest receivable	**12.7**	7.2
Net interest income on post-retirement plan assets and liabilities	**1.7**	1.4
Other finance income	**4.9**	6.0
Total finance income	**19.3**	14.6

7 FINANCE COSTS

	2018 £m	2017 £m
Interest payable on bank borrowings	**11.5**	7.7
Interest payable on Private Placement	**7.1**	6.0
Interest payable on other borrowings	**0.2**	0.2
Fair value adjustment on Private Placement	**17.1**	(34.3)
Fair value (gain) / loss on cross currency interest rate swaps	**(2.6)**	33.1
Stock holding interest (see note 20)	**25.2**	24.3
Other finance costs	**3.6**	2.7
Capitalised borrowing costs	**(0.5)**	(0.1)
Total finance costs	**61.6**	39.6

Total finance costs are analysed as follows:		
Finance costs before exceptional finance costs	**47.7**	39.6
Exceptional finance costs[1]	**13.9**	–
Total finance costs	**61.6**	39.6

1. Included within finance costs is a fair value adjustment in relation to the Group's Private Placement Loan Notes of £17.1m. Included within this is a charge of £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 2.0% (2017 – 2.0%).

8 TAX

	2018 £m	2017 £m
Current tax:		
– UK corporation tax	**0.1**	3.9
– Overseas tax	**80.5**	98.3
	80.6	102.2
Adjustments to prior year liabilities:		
– UK	**0.2**	2.2
– Overseas	**(1.4)**	(0.5)
Current tax	**79.4**	103.9
Deferred tax (note 16)	**(2.5)**	(10.5)
Total tax charge	**76.9**	93.4

	2018 £m	2017 £m
The total tax charge is analysed as follows:		
– Tax charge on profit before exceptional items	**80.2**	96.1
– Tax credit on exceptional items	**(3.3)**	(2.7)
Total tax charge	**76.9**	93.4

Details of the exceptional items for the year can be found in note 2. Not all of the exceptional items will be allowable for tax purposes. Therefore the tax credit on exceptional items represents the total of the current and deferred tax on only those elements that are assessed as allowable.

Factors affecting the tax expense for the year

The effective tax rate for the year after exceptional items is 58.2% (2017 – 25.3% restated). The underlying effective tax rate before the impact of exceptional items is 22.5% (2017 – 25.2% restated). The weighted average tax rate is 29.7% (2017 – 24.0%). 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.

	2018 £m	2017 £m
Profit before tax	**132.1**	369.0
Profit before tax multiplied by the weighted average tax rate of 29.7% (2017 – 24.0%)	**39.2**	88.6
Non-exceptional items		
– Permanent differences	**8.4**	3.4
– Non-taxable income	**(4.7)**	(3.5)
– Prior year items	**(1.5)**	(0.8)
– (Recognition) / Derecognition of deferred tax assets	**(3.1)**	2.1
– Overseas tax audits and settlements	**(3.6)**	1.3
– Taxes on undistributed earnings	**2.5**	5.1
– Other items (including tax rate differentials and changes)	**0.5**	(3.2)
Exceptional items		
– Goodwill impairment (see note 11)	**33.3**	–
– Restructuring costs	**–**	0.2
– Acquisition of businesses	**1.1**	0.2
– Exceptional finance costs (see note 7)	**2.1**	–
– Other asset impairment (see note 12)	**2.7**	–
Total tax charge	**76.9**	93.4

8 TAX CONTINUED

Factors affecting the tax expense of future years

Factors that could affect the Group's future tax expense include the resolution of audits and disputes, changes in tax laws or tax rates, the ability to utilise brought forward losses and business acquisitions and disposals. In addition, a change in profit mix between low and high taxed jurisdictions will impact the Group's future tax expense.

In October 2017 the EU Commission opened a formal State Aid investigation into an exemption within the UK's current Controlled Foreign Company (CFC) regime (introduced in 2013) for certain finance income. The investigation is ongoing, but if the Commission ultimately concludes that the provisions do constitute State Aid then they would require the UK to recover any such aid from affected parties. The Group has claimed the benefit of this exemption, and therefore may be adversely affected by the outcome of the investigation. If the Commission were to conclude that the finance exemption within the UK's CFC regime constitutes State Aid and no other exemptions were available to the Group then, as at 31 December 2018, an estimated tax liability of £5.0m plus interest would arise unless such a decision could be successfully challenged in the EU Courts. However, no provision has been made in respect of this investigation since we believe that it is more likely than not that no additional tax will ultimately be due.

The utilisation of brought forward tax losses or the recognition of deferred tax assets associated with such losses may also give rise to tax charges or credits. The recognition of deferred tax assets, particularly in respect of tax losses, is based upon an assessment of whether it is probable that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group against which to utilise the assets in the future. Judgement is required when determining probable future taxable profits. More detail of the Group's tax losses and deferred tax assets can be found in note 16.

9 EARNINGS PER SHARE

	2018 £m	2017 £m
Profit for the year	**55.2**	275.6
Non-controlling interests	**(7.0)**	(7.9)
Basic earnings	**48.2**	267.7
Exceptional items	**221.4**	9.9
Adjusted earnings	**269.6**	277.6
Basic earnings per share	**11.6p**	64.3p
Diluted earnings per share	**11.5p**	63.6p
Basic Adjusted earnings per share	**65.0p**	66.7p
Diluted Adjusted earnings per share	**64.6p**	66.0p

	2018 number	2017 number
Weighted average number of fully paid ordinary shares in issue during the year	**415,090,366**	417,209,998
Weighted average number of fully paid ordinary shares in issue during the year:		
– Held by the Inchcape Employee Trust	**(611,860)**	(1,181,859)
Weighted average number of fully paid ordinary shares for the purposes of basic EPS	**414,478,506**	416,028,139
Dilutive effect of potential ordinary shares	**2,883,558**	4,735,677
Adjusted weighted average number of fully paid ordinary shares in issue during the year for the purposes of diluted EPS	**417,362,064**	420,763,816

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. 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:

	2018 £m	2017 £m
Interim dividend for the six months ended 30 June 2018 of 8.9p per share (30 June 2017 – 7.9p per share)	**36.9**	32.7
Final dividend for the year ended 31 December 2017 of 18.9p per share (31 December 2016 – 16.8p per share)	**78.3**	70.0
	115.2	102.7

A final proposed dividend for the year ended 31 December 2018 of 17.9p per share amounting to £74.3m is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2018.

11 INTANGIBLE ASSETS

	Goodwill £m	Distribution agreements £m	Computer software £m	Other intangible assets £m	Total £m
Cost					
At 1 January 2017	599.0	162.4	163.1	0.9	925.4
Businesses acquired (see note 28)	8.0	9.2	(0.4)	(0.9)	15.9
Businesses sold	–	–	(0.3)	–	(0.3)
Additions	–	–	26.1	0.1	26.2
Disposals	–	–	(0.2)	–	(0.2)
Retirement of fully amortised assets not in use	–	–	(4.3)	–	(4.3)
Effect of foreign exchange rate changes	(2.0)	(0.9)	(1.8)	–	(4.7)
At 1 January 2018	**605.0**	**170.7**	**182.2**	**0.1**	**958.0**
Businesses acquired (see note 28)	**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 December 2018	**634.2**	**249.8**	**214.1**	**0.1**	**1,098.2**
Accumulated amortisation and impairment					
At 1 January 2017	(214.0)	–	(96.9)	–	(310.9)
Amortisation charge for the year	–	–	(13.8)	–	(13.8)
Businesses sold	–	–	0.2	–	0.2
Disposals	–	–	0.1	–	0.1
Retirement of fully amortised assets not in use	–	–	4.3	–	4.3
Effect of foreign exchange rate changes	0.8	–	0.8	–	1.6
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 31 December 2018	**(374.4)**	**–**	**(117.7)**	**(0.1)**	**(492.2)**
Net book value at 31 December 2018	**259.8**	**249.8**	**96.4**	**–**	**606.0**
Net book value at 31 December 2017	391.8	170.7	76.9	0.1	639.5

As at 31 December 2018, capitalised borrowing costs of £nil (2017 – £nil) were included within 'computer software'. No borrowing costs were capitalised during the year (2017 – £nil).

11 INTANGIBLE ASSETS CONTINUED

Goodwill

Goodwill acquired in a business combination is allocated to the cash generating units (CGUs) or group of CGUs (hereafter collectively referred to as 'CGU groups') that are expected to benefit from the synergies associated with that business combination. These CGU groups represent the lowest level within the Group at which the associated goodwill is monitored for management purposes.

The carrying amount of goodwill has been allocated to CGU groups within the following reporting segments:

Reporting segment	Discount rate	Long-term growth rate	CGU group	2018 £m	2017 £m
UK and Europe Retail	9.8%	2.0%	UK Retail	**90.3**	265.7
Emerging Markets Distribution	12.9% to 14.8%	2.5%	South America	**51.4**	54.7
			Central America	**46.6**	–
			Kenya	**1.1**	–
Asia	9.5%	2.0%	Singapore	**23.3**	22.4
Australasia Retail	10.5%	2.0%	Australia Retail	**45.2**	47.0
Australasia Distribution			Peugeot Citroën Australia	**1.9**	2.0
				259.8	391.8

Goodwill is subject to impairment testing annually, or more frequently where there are indications that the goodwill may be impaired. Impairment tests were performed for all CGU groups during the year ended 31 December 2018.

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. These calculations use cash flow projections based on five-year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to revenue growth, operating margins, the level of working capital required to support trading and capital expenditure, and have been based on past experience, recent trading and expectations of future changes in the operation of the business and changes in the relevant markets. They also reflect expectations about continuing relationships with key brand partners.

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 as the Group's weighted average cost of capital adjusted for a risk premium attributable to the relevant country.

Impairment

The Group has previously reported that the headroom attributable to the UK Retail CGU group was 24% (£144m) as at 31 December 2017 and that this had declined to 8% (£46m) as at 30 June 2018. During 2018, the UK New car market declined by 6.8% (source: SMMT), continuing the weak trend from 2017, with the sale of diesel vehicles down 29.6%. In addition, the supply imbalance and the elevated level of pre-registration activity resulted in pressure on both New and Used margins.

In light of this and the recent performance of the Retail business in the UK, the Board has reassessed its short and medium-term forecasts and has updated the impairment test for the UK Retail CGU group based on a value in use calculation. This calculation used cash flow projections based on revised five-year financial forecasts prepared by management. The key assumptions for these forecasts were those relating to volumes, gross margins, the level of working capital required to support trading and capital expenditure and have been based on past experience, recent trading and expectations of future changes in the market, consistent with external sources of information. Due to significant uncertainty around the mechanisms for the UK leaving the European Union, these forecasts assume a non-disorderly exit. The medium-term forecast for UK Retail assumes that the New vehicle gross margin will increase to 7.2% by 2023 consistent with the average achieved over the period 2013 to 2017.

A terminal value calculation was used to estimate the cash flows after year five using a long-term growth rate of 2.0% (2017 – 2.0%). These cash flows were then discounted back to present value using a pre-tax risk adjusted discount rate of 9.8% (2017 – 9.8%).

11 INTANGIBLE ASSETS CONTINUED

The results of the impairment review indicated that the value in use calculation was less than the carrying value of the assets attributable to the UK Retail CGU group and an impairment charge of £175m should be recognised. The forecasts are sensitive to changes in the key assumptions used. In addition, they are sensitive to a more disruptive consequence on the industry following a disorderly exit from the European Union. The table below shows the sensitivity of the value in use calculations 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**	**+/-£40m**
Used vehicle margins	**+/-20bps**	**+/-£35m**
Aftersales gross margins	**+/-150bps**	**+/-£40m**
Overheads	**+/-50bps**	**-/+£20m**

In light of the sensitivity of the value in use calculations to changes in the key assumptions, the Directors intend to review the carrying value of UK Retail goodwill on a regular basis.

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 UK Retail, a reasonably possible change in a key assumption will not cause a material impairment of goodwill in any of the CGU groups.

Distribution agreements

Distribution agreements with indefinite useful lives are also subject to impairment testing annually, or more frequently where there are indications that they may be impaired.

The recoverable amounts of the Distribution agreements were determined based on value in use calculations. These calculations use cash flow projections based on five-year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to revenue growth, operating margins and the level of working capital required to support trading and have been based on past experience, recent trading and expectations of future changes in the relevant markets. They also reflect expectations about continuing relationships with key brand partners.

Cash flows after the five-year period are extrapolated for each market using declining growth rates which reduces the year five growth rate down to the long-term growth rate for each market of between 2.5% and 2.0%. 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 as the Group's weighted average cost of capital adjusted for a risk premium attributable to the relevant country. The pre-tax discount rates used vary between 10% and 15% and reflect long-term country risk.

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 2017	799.3	236.7	1,036.0	76.4	1,112.4
Adjustment for IFRS 15	–	–	–	(7.1)	(7.1)
At 1 January 2017 (restated)	799.3	236.7	1,036.0	69.3	1,105.3
Businesses acquired	0.8	(0.4)	0.4	–	0.4
Businesses sold	(3.4)	(0.8)	(4.2)	–	(4.2)
Additions	68.0	36.4	104.4	18.6	123.0
Disposals	(12.9)	(15.0)	(27.9)	–	(27.9)
Transferred to inventory	–	(1.4)	(1.4)	(21.8)	(23.2)
Retirement of fully depreciated assets not in use	–	0.4	0.4	–	0.4
Reclassified to assets held for sale (note 19)	(16.1)	–	(16.1)	–	(16.1)
Effect of foreign exchange rate changes	(12.6)	(8.8)	(21.4)	(1.7)	(23.1)
At 1 January 2018 (restated)	**823.1**	**247.1**	**1,070.2**	**64.4**	**1,134.6**
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**	**18.7**	**108.8**
Disposals	**(16.7)**	**(17.9)**	**(34.6)**	**–**	**(34.6)**
Reclassifications	**7.2**	**(6.5)**	**0.7**	**(0.7)**	**–**
Transferred to 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 (note 19)	**(4.9)**	**–**	**(4.9)**	**–**	**(4.9)**
Effect of foreign exchange rate changes	**(7.9)**	**1.0**	**(6.9)**	**1.4**	**(5.5)**
At 31 December 2018	**889.3**	**258.1**	**1,147.4**	**64.1**	**1,211.5**
Accumulated depreciation and impairment					
At 1 January 2017	(160.9)	(151.4)	(312.3)	(21.5)	(333.8)
Adjustment for IFRS 15	–	–	–	0.8	0.8
At 1 January 2017 (restated)	(160.9)	(151.4)	(312.3)	(20.7)	(333.0)
Businesses sold	1.3	0.6	1.9	–	1.9
Depreciation charge for the year	(19.3)	(24.5)	(43.8)	(8.9)	(52.7)
Disposals	3.3	10.5	13.8	–	13.8
Transferred to inventory	–	0.7	0.7	11.1	11.8
Retirement of fully depreciated assets not in use	–	(0.4)	(0.4)	–	(0.4)
Reclassified to assets held for sale (note 19)	4.4	–	4.4	–	4.4
Effect of foreign exchange rate changes	2.1	5.2	7.3	0.7	8.0
At 1 January 2018 (restated)	**(169.1)**	**(159.3)**	**(328.4)**	**(17.8)**	**(346.2)**
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)**
Impairment charge for the year	**(23.2)**	**–**	**(23.2)**	**–**	**(23.2)**
Disposals	**6.7**	**13.3**	**20.0**	**–**	**20.0**
Reclassifications	**–**	**(0.4)**	**(0.4)**	**0.4**	**–**
Transferred to 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 31 December 2018	**(203.6)**	**(167.8)**	**(371.4)**	**(17.2)**	**(388.6)**
Net book value at 31 December 2018	**685.7**	**90.3**	**776.0**	**46.9**	**822.9**
Net book value at 31 December 2017	654.0	87.8	741.8	46.6	788.4

The asset impairments of £23.2m, which arose following an impairment review of certain site-based assets in the UK and Europe, are included within exceptional items (refer 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

Assets held under finance leases have the following net book values:

	2018 £m	2017 £m
Leasehold buildings	**0.8**	0.9
Plant, machinery and equipment	**0.4**	–
	1.2	0.9

The book value of land and buildings is analysed between:

	2018 £m	2017 £m
Freehold	**484.9**	445.8
Leasehold with over 50 years unexpired	**47.4**	43.8
Short leasehold	**153.4**	164.4
	685.7	654.0

Land and buildings includes properties with a net book value of £12.3m (2017 – £10.8m) that are let to third parties on a short-term basis.

As at 31 December 2018, £5.6m (2017 – £5.1m) of capitalised borrowing costs were included within 'land and buildings', £0.5m of which was capitalised in 2018 (2017 – £0.1m).

13 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

Details of the interests held by the Group in joint ventures and associates can be found in note 15 to the Inchcape Plc Company financial statements on pages 175 to 183. Amounts recognised in the statement of financial position in respect of joint ventures and associates are as follows:

	2018 £m	2017 £m
At 1 January	**4.2**	4.1
Share of profit after tax of joint ventures and associates	**0.1**	–
Effect of foreign exchange rate changes	**–**	0.1
At 31 December	**4.3**	4.2

Net assets of joint ventures and associates

	2018 £m	2017 £m
Non-current assets	**–**	–
Current assets	**10.1**	9.9
Total assets	**10.1**	9.9
Current liabilities	**(1.5)**	(1.5)
Non-current liabilities	**–**	–
Total liabilities	**(1.5)**	(1.5)
Net assets	**8.6**	8.4

Results of joint ventures and associates

	2018 £m	2017 £m
Revenue	**0.2**	–
Expenses	**–**	–
Profit before tax	**0.2**	–
Tax	**–**	–
Profit after tax of joint ventures and associates	**0.2**	–

13 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

Summarised financial information of joint ventures and associates

	2018 £m	2017 £m
Opening net assets at 1 January	**8.4**	8.2
Profit for the year	**0.2**	–
Other comprehensive income for the year	**–**	0.2
Closing net assets at 31 December	**8.6**	8.4
Carrying value of interest in joint ventures and associates	**4.3**	4.2

As at 31 December 2018, no guarantees were provided in respect of joint ventures and associates' borrowings (2017 – £nil).

14 AVAILABLE FOR SALE FINANCIAL ASSETS

	2018 £m	2017 £m
At 1 January	**7.5**	3.8
Businesses acquired	**–**	4.4
Additions	**0.6**	–
Disposals	**(0.5)**	(0.1)
Effect of foreign exchange rate changes	**(0.2)**	(0.6)
At 31 December	**7.4**	7.5

Analysed as:

	2018 £m	2017 £m
Current	**0.8**	0.2
Non-current	**6.6**	7.3
	7.4	7.5

Assets held are analysed as follows:

	2018 £m	2017 £m
Equity securities	**7.2**	6.3
Bonds	**–**	0.5
Other	**0.2**	0.7
	7.4	7.5

'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.

15 TRADE AND OTHER RECEIVABLES

	Current		Non-current	
	2018 £m	2017 (Restated) £m	**2018 £m**	2017 (Restated) £m
Trade receivables	**337.4**	309.4	**10.0**	–
Less: provision for impairment of trade receivables	**(11.4)**	(10.2)	**–**	–
Net trade receivables	**326.0**	299.2	**10.0**	–
Prepayments and accrued income	**127.5**	123.2	**49.8**	51.1
Other receivables	**59.3**	42.6	**11.1**	7.9
	512.8	465.0	**70.9**	59.0

Movements in the provision for impairment of receivables were as follows:

	2018 £m	2017 £m
At 1 January	**(10.2)**	(8.6)
Businesses acquired	**(1.7)**	(1.9)
Charge for the year	**(1.3)**	(1.6)
Amounts written off	**1.2**	0.3
Unused amounts reversed	**0.7**	1.2
Effect of foreign exchange rate changes	**(0.1)**	0.4
At 31 December	**(11.4)**	(10.2)

At 31 December, the analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	Past due but not impaired 0 – 30 days £m	Past due but not impaired 30 – 90 days £m	Past due but not impaired > 90 days £m	Impaired £m
2018	**347.4**	**252.4**	**47.0**	**21.9**	**14.7**	**11.4**
2017	309.4	195.1	54.0	29.0	21.1	10.2

Trade receivables are non-interest bearing and are generally on credit terms of 30 to 60 days.

Management considers the carrying amount of trade and other receivables to approximate to their fair value. Long-term receivables have been discounted where the time value of money is considered to be material.

Concentration of credit risk with respect to trade receivables is very limited due to the Group's broad customer base across a number of geographic regions.

16 DEFERRED TAX

Net deferred tax (liability) / asset	Pension and other post-retirement benefits £m	Cash flow hedges £m	Share-based payments £m	Tax losses £m	Accelerated tax depreciation £m	Provisions and other timing differences £m	Distribution agreements £m	Total £m
At 1 January 2018	**(16.6)**	**2.7**	**3.2**	**8.2**	**(2.8)**	**13.7**	**(49.9)**	**(41.5)**
Adjustment for IFRS 15						**(0.4)**		**(0.4)**
At 1 January 2018 (restated)	**(16.6)**	**2.7**	**3.2**	**8.2**	**(2.8)**	**13.3**	**(49.9)**	**(41.9)**
Credited / (Charged) to the consolidated income statement	**2.3**	**(0.2)**	**(1.0)**	**3.7**	**0.7**	**(3.0)**	**-**	**2.5**
(Charged) / credited to equity and other comprehensive income	**(0.1)**	**(5.8)**	**(0.2)**	**-**	**-**	**-**	**-**	**(6.1)**
Businesses acquired / disposed	**-**	**-**	**-**	**(0.5)**	**(2.7)**	**2.6**	**(23.6)**	**(24.2)**
Effect of foreign exchange rate changes	**-**	**(0.1)**	**-**	**(0.3)**	**-**	**(0.2)**	**0.4**	**(0.2)**
At 31 December 2018	**(14.4)**	**(3.4)**	**2.0**	**11.1**	**(4.8)**	**12.7**	**(73.1)**	**(69.9)**

Analysed as:

	2018 £m	2017 (Restated) £m
Deferred tax assets	**30.8**	36.7
Deferred tax liabilities	**(100.7)**	(78.6)
	(69.9)	(41.9)

Measured at relevant local statutory rates, the Group has an unrecognised deferred tax asset of £29m (2017 – £36m) relating to tax relief on trading losses. The unrecognised asset represents £140m (2017 – £174m) 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 £23m (2017 – £23m) relating to capital losses. The asset represents £136m (2017 – £136m) of losses at the UK standard rate of 17.0% (2017 – 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 £2.5m (2017 – £3.3m) 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 £12.5m (2017 – £13.8m) offset by deferred tax assets on trade related accounting provisions in the Group's operating companies £25.2m (2017 – £27.1m restated).

The deferred tax liability on distribution agreements of £73.1m (2017 – £49.9m) has been recorded as a result of the business acquisitions during 2016 & 2018.

The deferred tax asset on tax trading losses of £11.1m (2017 – £8.2m) relates to territories and entities where future taxable profits are considered probable.

17 INVENTORIES

	2018 £m	2017 £m
Raw materials and work in progress	**31.0**	20.3
Finished goods and merchandise	**1,820.9**	1,748.3
	1,851.9	1,768.6

Vehicles held on consignment which are in substance assets of the Group amount to £205.6m (2017 – £189.5m). 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 £49.9m (2017 – £56.5m) 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 £7,466.7m (2017 – £7,173.0m). The write-down of inventory to net realisable value recognised as an expense during the year was £57.9m (2017 – £47.7m). All of these items have been included within 'cost of sales' in the consolidated income statement.

18 CASH AND CASH EQUIVALENTS

	2018 £m	2017 £m
Cash at bank and cash equivalents	**370.3**	820.0
Short-term deposits	**219.0**	106.9
	589.3	926.9

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 2018, the weighted average floating rate was 0.45% (2017 – 0.3%).

£100.1m (2017 – £67.3m) of cash and cash equivalents is held in countries where prior approval is required to transfer funds abroad, and currency may not be available locally to effect such transfers.

At 31 December 2018, short-term deposits have a weighted average period to maturity of 20 days (2017 – 21 days).

19 ASSETS HELD FOR SALE

	2018 £m	2017 £m
Assets held for sale	**8.9**	13.8

Assets held for sale relate to surplus properties within the UK, Russia and Colombia which are actively marketed with a view to sale.

20 TRADE AND OTHER PAYABLES

	Current		Non-current	
	2018 £m	2017 (Restated) £m	**2018 £m**	2017 (Restated) £m
Trade payables	**225.0**	232.4	**3.5**	4.0
Payments received on account	**87.7**	75.6	**3.7**	1.0
Vehicle funding agreements	**1,621.6**	1,547.8	**–**	–
Other taxation and social security payable	**62.7**	58.2	**–**	–
Accruals and deferred income	**339.9**	302.1	**58.0**	50.8
Amounts payable to related parties	**0.1**	0.1	**–**	–
Other payables	**19.5**	18.4	**2.1**	3.1
	2,356.5	2,234.6	**63.7**	58.9

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 2018, amounts outstanding under vehicle funding facilities and on which interest was payable were subject to a weighted average interest rate of 2.5% (2017 – 2.3%).

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:

	2018 £m	2017 £m
Extended warranties	**42.0**	31.2
Service packages	**34.0**	29.9
Other services	**45.7**	26.9
	121.7	88.0

Analysed as:

	2018 £m	2017 £m
Current	**63.7**	37.2
Non-current	**58.0**	50.8
	121.7	88.0

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. road side 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.

21 PROVISIONS

	Product warranty £m	Vacant leasehold £m	Litigation £m	Other £m	Total £m
At 1 January 2018	**37.3**	**1.7**	**1.6**	**18.9**	**59.5**
Adjustment for IFRS 15	**(26.8)**	**–**	**–**	**–**	**(26.8)**
At 1 January 2018 (restated)	**10.5**	**1.7**	**1.6**	**18.9**	**32.7**
Businesses acquired	**–**	**–**	**–**	**2.5**	**2.5**
Charged to the consolidated income statement	**3.2**	**0.8**	**0.3**	**5.0**	**9.3**
Released to the consolidated income statement	**(2.3)**	**(0.4)**	**(0.1)**	**(2.1)**	**(4.9)**
Effect of unwinding of discount factor	**0.1**	**–**	**–**	**–**	**0.1**
Utilised during the year	**(2.2)**	**(1.4)**	**(0.3)**	**(3.0)**	**(6.9)**
Effect of foreign exchange rate changes	**(0.3)**	**–**	**–**	**0.5**	**0.2**
At 31 December 2018	**9.0**	**0.7**	**1.5**	**21.8**	**33.0**

Analysed as:

	2018 £m	2017 (Restated) £m
Current	**18.5**	21.2
Non-current	**14.5**	11.5
	33.0	32.7

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 three years and / or specific mileage limits. Provision is made for the expected cost of labour and parts based on historical claims experience and expected future trends. These assumptions are reviewed regularly.

Vacant leasehold
The Group is committed to certain leasehold premises for which it no longer has a commercial use. These are principally located in the UK, Australia and Hong Kong. Provision has been made to the extent of the estimated future net cost. This includes taking into account existing subtenant arrangements. The expected utilisation period of these provisions is generally over the next 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 residual values on leased vehicles and provisions relating to restructuring activities. These provisions are expected to be utilised within three years.

22 BORROWINGS

2018	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**
Finance leases	**–**	**–**	**0.1**	**7.0**	**0.1**	**–**	**0.1**
	416.9	**1.1**	**0.1**	**7.0**	**417.0**	**0.1**	**417.1**
Non-current							
Bank loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Private Placement	**–**	**–**	**210.0**	**3.0**	**210.0**	**–**	**210.0**
Finance leases	**–**	**–**	**1.7**	**7.0**	**1.7**	**–**	**1.7**
	–	**–**	**211.7**	**3.0**	**211.7**	**–**	**211.7**
Total borrowings	**416.9**	**1.1**	**211.8**	**3.0**	**628.7**	**0.1**	**628.8**

Bank overdrafts include £125.9m (2017 – £508.0m) held in cash pooling arrangements which have not been offset in the consolidated statement of financial position (see note 23b).

2017	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	2017 Total £m
Current							
Bank overdrafts	510.3	0.5	–	–	510.3	–	510.3
Bank loans	19.9	1.1	2.6	5.3	22.5	–	22.5
Finance leases	–	–	1.7	3.7	1.7	–	1.7
	530.2	0.5	4.3	4.7	534.5	–	534.5
Non-current							
Bank loans	37.0	0.9	4.1	5.3	41.1	–	41.1
Private Placement	109.4	1.1	210.0	3.0	319.4	–	319.4
Finance leases	–	–	1.4	7.0	1.4	–	1.4
	146.4	1.0	215.5	3.1	361.9	–	361.9
Total borrowings	676.6	0.6	219.8	3.1	896.4	–	896.4

The above analysis is presented after taking account of the cross currency fixed to floating interest rate swap on the US dollar Private Placement loan notes of US$161m (2017 – US$161m).

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 £208.6m (2017 – £215.0m) calculated from discounted cashflow 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.

£38.2m of the Group's bank loans are secured by term deposits placed under a standby letter of credit and related facility arrangements (2017 – £15.6m). The Group's bank overdrafts are secured by related offsetting cash balances held under pooling arrangements. The Group's remaining borrowings are unsecured.

At 31 December 2018, the committed funding facilities of the Group comprised a syndicated revolving credit facility of £400m (2017 – £400m), bilateral revolving credit facilities of £221m (2017 – £101m), US dollar Private Placement loan notes totalling US$161m (2017 – US$161m) and sterling Private Placement loan notes totalling £210m (2017 – £210m).

The £400m syndicated revolving credit facility was entered into in January 2015 and after exercising extension options the expiry date is January 2022. At 31 December 2018, £nil of the £400m was drawn down (2017 – £25m). Three bilateral revolving credit facilities totalling £101m were entered into in 2017, with expiry dates of January 2022, and were undrawn as at 31 December 2018 (2017 – £12m drawn). In March 2018, a further bilateral revolving credit facility totalling £120m was entered into with an expiry date of September 2019 and this facility was fully drawn at 31 December 2018.

22 BORROWINGS CONTINUED

In February 2019, the syndicated revolving credit facility and the three bilateral revolving credit facilities totalling £101m were replaced with a syndicated revolving credit facility of £700m with an initial expiry date of February 2024 and options to renew until 2026.

In December 2016, the Group concluded a US Private Placement transaction raising £210m to refinance existing US 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 are swapped into Sterling and are all repayable in May 2019.

The table below sets out the maturity profile of the Group's existing borrowings that are exposed to interest rate risk. This analysis is presented after taking account of the cross currency fixed to floating interest rate swap on US$161m (2017 – US$161m) of the Private Placement.

2018	**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							
Bank loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Private Placement	**–**	**–**	**–**	**–**	**–**	**210.0**	**210.0**
Finance leases	**0.1**	**0.1**	**0.1**	**0.3**	**1.2**	**–**	**1.8**
Floating rate							
Bank overdrafts	**121.7**	**–**	**–**	**–**	**–**	**–**	**121.7**
Bank loans	**163.6**	**–**	**–**	**–**	**–**	**–**	**163.7**
Private Placement	**127.4**	**–**	**–**	**–**	**–**	**–**	**127.4**

2017	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							
Bank loans	2.6	2.8	1.3	–	–	–	6.7
Private Placement	–	–	–	–	–	210.0	210.0
Finance leases	1.7	–	0.1	0.1	0.1	1.1	3.1
Floating rate							
Bank overdrafts	510.3	–	–	–	–	–	510.3
Bank loans	19.9	–	–	–	37.0	–	56.9
Private Placement	–	109.4	–	–	–	–	109.4

23 FINANCIAL INSTRUMENTS

The Group's financial liabilities, other than derivatives, comprise overdrafts, loan notes, finance leases and trade and other payables. The main purpose of these instruments is to raise finance for the Group's operations. The Group also has various financial assets such as trade and other receivables, cash and short-term deposits which arise from its trading operations.

The Group's primary derivative transactions are forward and swap currency contracts, and cross currency interest rate swaps. The purpose is to manage the currency and interest rate risks arising from the Group's trading operations and its sources of finance. Group policy is that there is no trading or speculation in derivatives.

The main risks arising from the Group's financial instruments are interest rate risk, currency risk, credit risk and liquidity risk.

a. Classification of financial instruments

2018	**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				
Available for sale financial assets	**–**	**7.4**	**–**	**7.4**
Trade and other receivables	**397.6**	**–**	**–**	**397.6**
Derivative financial instruments	**–**	**16.8**	**75.3**	**92.1**
Cash and cash equivalents	**589.3**	**–**	**–**	**589.3**
Total financial assets	**986.9**	**24.2**	**75.3**	**1,086.4**
Financial liabilities				
Trade and other payables	**(2,225.7)**	**–**	**–**	**(2,225.7)**
Derivative financial instruments	**–**	**(1.2)**	**(12.1)**	**(13.3)**
Borrowings	**(628.8)**	**–**	**–**	**(628.8)**
Total financial liabilities	**(2,854.5)**	**(1.2)**	**(12.1)**	**(2,867.8)**
	(1,867.6)	**23.0**	**63.2**	**(1,781.4)**

2017	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				
Available for sale financial assets	–	7.5	–	7.5
Trade and other receivables	419.0	–	–	419.0
Derivative financial instruments	–	0.8	51.6	52.4
Cash and cash equivalents	926.9	–	–	926.9
Total financial assets	1,345.9	8.3	51.6	1,405.8
Financial liabilities				
Trade and other payables	(2,068.2)	–	–	(2,068.2)
Derivative financial instruments	–	(7.4)	(14.2)	(21.6)
Borrowings	(896.4)	–	–	(896.4)
Total financial liabilities	(2,964.6)	(7.4)	(14.2)	(2,986.2)
	(1,618.7)	0.9	37.4	(1,580.4)

23 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 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**
Other receivables	**–**	**–**	**–**	**–**	**–**	**–**
Total	**687.7**	**(6.3)**	**681.4**	**(137.8)**	**–**	**543.6**
As at 31 December 2017						
Derivative financial assets	56.9	(4.5)	52.4	(2.7)	–	49.7
Cash and cash equivalents	926.9	–	926.9	(508.0)	–	418.9
Other receivables	1.0	(0.3)	0.7	–	–	0.7
Total	984.8	(4.8)	980.0	(510.7)	–	469.3

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 2018						
Derivative financial liabilities	**(19.5)**	**6.3**	**(13.2)**	**11.9**	**–**	**(1.3)**
Bank overdrafts	**(125.9)**	**–**	**(125.9)**	**125.9**	**–**	**–**
Other payables	**–**	**–**	**–**	**–**	**–**	**–**
Total	**(145.4)**	**6.3**	**(139.1)**	**137.8**	**–**	**(1.3)**
As at 31 December 2017						
Derivative financial liabilities	(26.1)	4.5	(21.6)	2.7	–	(18.9)
Bank overdrafts	(510.3)	–	(510.3)	508.0	–	(2.3)
Other payables	(0.3)	0.3	–	–	–	–
Total	(536.7)	4.8	(531.9)	510.7	–	(21.2)

For the financial assets and liabilities subject to enforceable netting arrangements or similar agreements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities if the amounts relate to the same transaction and are in the same currency. If the parties subject to the agreement do not elect to settle on a net basis, financial assets and liabilities will be settled on a gross basis. However, each party to the netting agreement will have the option to settle all such amounts on a net basis in the event of a default of the other party.

23 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 expire in 2019, bank borrowings, supplier-related finance and the returns available on surplus cash. In December 2016 the Group entered into agreements to issue new 3.0% fixed interest rate Private Placement loan notes to refinance the floating rate loan notes that matured in May 2017 (see note 22).

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 2018 with all other variables held constant.

	Increase in basis points	Effect on profit before tax £m
2018		
Sterling	**75**	**(9.6)**
Euro	**50**	**0.1**
Russian rouble	**500**	**0.4**
Australian dollar	**100**	**1.2**
US Dollar	**75**	**0.9**
2017		
Sterling	75	(4.8)
Euro	50	–
Russian rouble	500	(0.9)
Australian dollar	100	(2.7)

23 FINANCIAL INSTRUMENTS CONTINUED

e. Foreign currency risk

The Group publishes its consolidated financial statements in Sterling and faces currency risk on the translation of its earnings and net assets, a significant proportion of which are in currencies other than Sterling.

Transaction exposure hedging

The Group has transactional currency exposures, where sales or purchases by an operating unit are in currencies other than 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

The Group uses cross currency interest rate swaps to hedge the forward foreign currency risk associated with the US$161m Private Placement (2017 – US$161m). The effective portion on the gain or loss of the hedge is recognised in the consolidated income statement at the same time as the underlying hedged transaction affects the consolidated income statement.

Foreign currency risk table

The following table shows the Group sensitivity to a reasonably possible change in foreign exchange rates on its Japanese yen financial instruments. In this table, financial instruments are only considered sensitive to foreign exchange rates when they are not in the functional currency of the entity that holds them.

	Increase / (decrease) in exchange rate	Effect on equity £m
2018		
Yen	**+10%**	**–**
Yen	**-10%**	**(0.1)**
2017		
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.

The table below analyses the Group's short-term deposits and derivative assets by credit exposure excluding bank balances and cash in hand:

	2018		2017	
Credit rating of counterparty	**Derivative assets £m**	**Short-term deposits £m**	Derivative assets £m	Short-term deposits £m
AA-	**43.4**	**–**	29.5	3.1
A+	**32.5**	**68.1**	22.5	–
A	**–**	**–**	–	37.8
A-	**12.0**	**32.0**	–	–
BBB+	**0.9**	**0.7**	0.4	0.6
BBB-	**0.1**	**19.9**	–	12.0
No rating*	**3.2**	**98.3**	–	53.4
	92.1	**219.0**	52.4	106.9

* Counterparties in certain markets in which the Group operates do not have a credit rating.

23 FINANCIAL INSTRUMENTS CONTINUED

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties.

The maximum exposure to credit risk for cash at bank, receivables and other financial assets is represented by their carrying amount.

Total cash at bank of £370.3m (2017 – £820.0m) includes cash in the Group's regional pooling arrangements which are offset against borrowings for interest purposes. Netting of cash and overdraft balances in the consolidated statement of financial position only occurs to the extent that there is the legal ability and intention to settle net. As such, overdrafts are presented in current liabilities to the extent that there is no intention to offset with the cash balance.

Trade receivables include amounts due from a number of finance houses in respect of vehicles sold to customers on finance arranged through the Group. An independent credit rating agency is used to assess the credit standing of each finance house. Limits for the maximum outstanding with each finance house are set accordingly.

g. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial assets and liabilities at 31 December 2018 based on contractual expected undiscounted cash flows:

2018	**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	**356.2**	**31.1**	**10.3**	**–**	**397.6**
Available for sale financial assets	**0.2**	**–**	**7.2**	**–**	**7.4**
Derivative financial instruments	**24.7**	**141.8**	**–**	**–**	**166.5**
	954.8	**188.5**	**17.5**	**–**	**1,160.8**
Financial liabilities					
Interest bearing loans and borrowings	**(164.6)**	**(253.6)**	**(25.9)**	**(229.7)**	**(673.8)**
Trade and other payables	**(1,913.6)**	**(299.2)**	**(12.9)**	**–**	**(2,225.7)**
Derivative financial instruments	**(13.4)**	**(76.4)**	**–**	**–**	**(89.8)**
	(2,091.6)	**(629.2)**	**(38.8)**	**(229.7)**	**(2,989.3)**
Net outflows	**(1,136.8)**	**(440.7)**	**(21.3)**	**(229.7)**	**(1,828.5)**

2017	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	895.3	31.6	–	–	926.9
Trade and other receivables	390.7	19.0	8.2	1.1	419.0
Available for sale financial assets	–	0.2	–	7.3	7.5
Derivative financial instruments	1.7	10.8	178.3	–	190.8
	1,287.7	61.6	186.5	8.4	1,544.2
Financial liabilities					
Interest bearing loans and borrowings	(516.0)	(31.9)	(173.2)	(242.5)	(963.6)
Trade and other payables	(1,981.1)	(79.5)	(7.6)	–	(2,068.2)
Derivative financial instruments	(12.5)	(12.4)	(131.4)	–	(156.3)
	(2,509.6)	(123.8)	(312.2)	(242.5)	(3,188.1)
Net outflows	(1,221.9)	(62.2)	(125.7)	(234.1)	(1,643.9)

23 FINANCIAL INSTRUMENTS CONTINUED

h. Fair value measurement

In accordance with IFRS 13, disclosure is required for financial instruments that are measured in the consolidated statement of financial position at fair value. This requires disclosure of fair value measurements by level for the following fair value measurement hierarchy:

- quoted prices in active markets (level 1);
- inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (level 2); or
- inputs for the asset or liability that are not based on observable market data (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value:

				2018				2017
	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	**–**	**92.1**	**–**	**92.1**	–	52.4	–	52.4
Available for sale financial assets	**0.5**	**–**	**6.9**	**7.4**	1.3	–	6.2	7.5
	0.5	**92.1**	**6.9**	**99.5**	1.3	52.4	6.2	59.9
Liabilities								
Derivatives used for hedging	**–**	**(13.3)**	**–**	**(13.3)**	–	(21.6)	–	(21.6)

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 2018.

The Group's derivative financial instruments comprise the following:

		Assets		Liabilities
	2018 £m	2017 £m	**2018 £m**	2017 £m
Cross currency interest rate swaps	**52.2**	49.7	**–**	–
Forward foreign exchange contracts	**39.9**	2.7	**(13.3)**	(21.6)
	92.1	52.4	**(13.3)**	(21.6)

The ineffective portion recognised in the consolidated income statement that arises from fair value hedges amounts to a loss of £0.6m (2017 – Gain of £1.2m). The ineffective portion recognised in the consolidated income statement that arises from cash flow hedges amounts to a gain of £nil (2017 – £nil).

23 FINANCIAL INSTRUMENTS CONTINUED

Cash flow hedges

The Group principally uses forward foreign exchange contracts to hedge purchases in a non-functional currency against movements in exchange rates. The cash flows relating to these contracts are generally expected to occur within 12 months (2017 – 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 2018 was £810.5m (2017 – £910.4m).

Net fair value gains and losses recognised in the hedging reserve in shareholders' equity (see note 25) on forward foreign exchange contracts as at 31 December 2018 are expected to be released to the consolidated income statement within 12 months of the end of the reporting period (2017 – 12 months).

Fair value hedge

At 31 December 2018, the Group had in place three cross currency interest rate swaps. Two of these total US$200m which hedge changes in the fair value of the Group's 12-year loan notes that are due to mature in May 2019. Under these swaps the Group receives fixed rate US dollar interest of 6.04% on US$200m and pays 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 pays US dollar interest of 6.04% on US$39.2m and receives LIBOR +214bps. The loan notes and cross currency interest rate swaps have the same critical terms.

i. Capital management

The Group's capital structure consists of equity and debt. Equity represents funds raised from shareholders and debt represents funds raised from banks and other financial institutions. The primary objective of the Group's management of debt and equity is to ensure that it maintains a strong credit rating and healthy capital ratios in order to finance the Group's activities, both now and in the future, and to maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Directors consider the Group's capital structure and dividend policy at least twice a year prior to the announcement of results, taking into account the Group's ability to continue as a going concern and the requirements of its business plan.

The Group uses return on capital employed (ROCE) as a measure of its ability to drive better returns on the capital invested in the Group's operations.

	2018	2017
Return on capital employed	**27.8%**	30.1%

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.

	2018	2017
Adjusted EBITA interest cover (times) *	**62.0**	60.0
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.

24 SHARE CAPITAL

a. Allotted, called up and fully paid up

	2018 Number	2017 Number	2018 £m	2017 £m
Ordinary shares (nominal value of 10.0p each)				
At 1 January	**415,018,286**	421,004,809	**41.6**	42.2
Allotted under share option schemes	**109,167**	142,505	**–**	–
Cancelled under share buyback	**–**	(6,129,028)	**–**	(0.6)
At 31 December	**415,127,453**	415,018,286	**41.6**	41.6

b. Share buyback programme

During the year, there were no repurchases of own shares. In 2017, the Group repurchased 6,129,028 of its own shares through purchases on the London Stock Exchange at a cost of £49.8m. The shares repurchased during the year were cancelled, with none held within treasury shares at the end of the reporting period. An amount of £0.6m, equivalent to the nominal value of the cancelled shares, was transferred to the capital redemption reserve. Costs of £0.4m associated with the transfer to the Group of the repurchased shares and their subsequent cancellation were 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 27 February 2019 under the provisions of the Companies Act 2006 have been disclosed in the significant shareholdings section of the Corporate Governance Report.

d. Share options

At 31 December 2018, options to acquire ordinary shares of 10.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Number of ordinary shares of 10.0p each	Exercisable until	Option price (£)	Number of ordinary shares of 10.0p each	Exercisable until	Option price (£)
The Inchcape 1999 Share Option Plan			**The Inchcape SAYE Share Option Scheme**		
– approved (Part II – UK)			**– approved**		
2	19 May 2019	2.00	453,464	1 May 2019	5.78
3	7 April 2020	3.10	438,351	1 May 2020	5.63
			410,683	1 May 2021	6.66
			1,273,731	1 May 2022	5.54
– unapproved (Part I – UK)			**Recruitment and Retention Plan**		
1,000	19 May 2019	2.00	74,504	10 April 2026	0.10
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 771,211 (2017 – 493,012) 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 2018 was £5.1m (2017 – £3.5m). The market value of these shares at 31 December 2018 and 27 February 2019 was £4.3m and £4.6m respectively (31 December 2017 – £3.9m, 26 February 2018 – £3.5m).

25 OTHER RESERVES

	Translation reserve (Restated)[1] £m	Hedging reserve £m	Total other reserves (Restated)[1] £m
At 1 January 2017	0.2	(25.8)	(25.6)
Cash flow hedges:			
– Fair value movements	–	30.5	30.5
– Reclassified and reported in inventories	–	(16.5)	(16.5)
– Tax on cash flow hedges	–	(4.7)	(4.7)
Effect of foreign exchange rate changes	(67.2)	–	(67.2)
At 1 January 2018	**(67.0)**	**(16.5)**	**(83.5)**
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)**
Effect of foreign exchange rate changes	**(10.5)**	**–**	**(10.5)**
At 31 December 2018	**(77.5)**	**1.2**	**(76.3)**

1. See note 32.

The effect of foreign exchange rate changes includes a gain of £2.8m (2017 – gain of £2.0m) 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.

Available for sale reserve
Gains and losses on available for sale financial assets are recognised in the 'available for sale reserve' until the asset is sold or is considered to be impaired, at which time the cumulative gain or loss is included in the consolidated income statement.

Translation reserve
The translation reserve is used to record foreign exchange rate changes relating to the translation of the results of foreign subsidiaries arising after 1 January 2004. It is also used to record foreign exchange differences arising on long-term foreign currency borrowings used to finance or hedge foreign currency investments.

Hedging reserve
For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that are determined to be an effective hedge are recognised directly in shareholders' equity. When the hedged firm commitment results in the recognition of a non-financial asset or liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in shareholders' equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

26 RETAINED EARNINGS

	2018 £m	2017 (Restated)[1] £m
At 1 January	**1,183.5**	1,036.4
Total comprehensive income attributable to owners of the parent for the year:		
– Profit for the year	**48.2**	267.7
– Actuarial losses on defined pension benefits (note 5)	**36.4**	37.9
– Tax credited to reserves	**(6.2)**	(5.5)
Total comprehensive income for the year	**78.4**	300.1
Share-based payments, net of tax	**7.2**	11.0
Share buyback programme	**–**	(50.2)
Net purchase of own shares by Inchcape Employee Trust	**(12.6)**	(11.1)
Dividends paid (note 10)	**(115.2)**	(102.7)
At 31 December	**1,141.3**	1,183.5

1. See note 32.

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of cash generated from operations

	2018 £m	2017 £m
Cash flows from operating activities		
Operating profit	**174.3**	394.0
Exceptional items (see note 2)	**210.8**	12.6
Amortisation	**14.2**	13.8
Depreciation of property, plant and equipment	**43.9**	43.8
Profit on disposal of property, plant and equipment	**(2.1)**	(10.6)
Share-based payments charge	**7.5**	10.2
Increase in inventories	**(41.5)**	(239.6)
Increase in trade and other receivables	**(14.2)**	(36.1)
Increase in trade and other payables	**95.0**	350.8
Increase / (decrease) in provisions	**0.6**	(6.1)
Pension contributions less than the pension charge for the year*	**21.3**	3.1
Decrease / (increase) in interest in leased vehicles	**2.9**	(1.4)
Payments in respect of operating exceptional items	**(10.1)**	(32.1)
Other non-cash items	**(1.1)**	(2.0)
Cash generated from operations	**501.5**	500.4

* Includes additional payments of £2.7m (2017 – £2.7m) and a return of surplus of £16.8m (2017 – £nil).

b. Reconciliation of net cash flow to movement in net funds

	2018 £m	2017 £m
Net increase in cash and cash equivalents	**37.2**	50.5
Net cash (inflow) / outflow from borrowings and finance leases	**(33.8)**	49.2
Change in net cash and debt resulting from cash flows	**3.4**	99.7
Effect of foreign exchange rate changes on net cash and debt	**5.3**	(47.2)
Net movement in fair value	**(14.5)**	1.2
New finance leases	**(0.5)**	–
Net loans and finance leases relating to acquisitions and disposals	**(61.2)**	–
Movement in net funds	**(67.5)**	53.7
Opening net funds	**80.2**	26.5
Closing net funds	**12.7**	80.2

Net funds is analysed as follows:

	2018 £m	2017 £m
Cash and cash equivalents as per the statement of financial position	**589.3**	926.9
Borrowings – disclosed as current liabilities	**(417.1)**	(534.5)
Add back: amounts treated as debt financing (see below)	**291.2**	24.2
Cash and cash equivalents as per the statement of cash flows	**463.4**	416.6
Debt financing		
Borrowings – disclosed as current liabilities and treated as debt financing (see above)	**(291.2)**	(24.2)
Borrowings – disclosed as non-current liabilities	**(211.7)**	(361.9)
Fair value of cross currency interest rate swaps	**52.2**	49.7
Debt financing	**(450.7)**	(336.4)
Net funds	**12.7**	80.2

28 ACQUISITIONS AND DISPOSALS

a. Acquisitions

On 26 March 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.

Details of the provisional fair values of the identifiable assets and liabilities as at the date of acquisition are set out below:

	Acquisition book values £m	Fair value adjustments £m	Final fair values £m
Assets and liabilities acquired			
Intangible assets	0.2	–	0.2
Distribution agreements recognised on acquisition (see note 11)	–	80.1	80.1
Property, plant and equipment	38.2	6.6	44.8
Tax assets	0.3	1.4	1.7
Inventory	58.0	(1.6)	56.4
Trade and other receivables	29.3	11.5	40.8
Cash and cash equivalents	8.5	–	8.5
Trade and other payables	(17.0)	(2.1)	(19.1)
Provisions	(0.9)	(1.6)	(2.5)
Borrowings	(61.2)	–	(61.2)
Tax liabilities[1]	(1.7)	(34.6)	(36.3)
Net assets acquired	**53.7**	**59.7**	**113.4**
Goodwill			42.1
Purchase consideration			**155.5**

[1] Includes deferred tax liabilities arising in connection with the Distribution agreements recognised on acquisition.

The acquired business contributed £140.4m revenue and £12.2m operating profit before exceptional items to the Group's reported figures between the date of acquisition and 31 December 2018.

If the acquisition had occurred on 1 January 2018, the approximate revenue and operating profit before exceptional items for the year ended 31 December 2018 of the Group would have been £9,322.4m and £387.2m respectively.

b. Other acquisitions

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.

c. Disposals

In 2018, the Group disposed of its Jaguar Land Rover operations in Shaoxing and a dealership in the UK generating disposal proceeds of £13.4m.

d. 2017 acquisitions and disposals

In 2017 the Group acquired premium automotive operations in Estonia, focused on exclusive distribution for BMW Group, from United Motors AS, and entered into a Distribution contract with Groupe PSA to distribute the Peugeot and Citroen brands in Australia. The total cost of these acquisitions was £19.3m. In addition, the Group also made a completion payment of £4.4m in relation to the Subaru and Hino business in South America. The Group also disposed of its Lexus operations in Shanghai generating disposal proceeds of £5.6m.

29 GUARANTEES AND CONTINGENCIES

	2018 £m	2017 £m
Guarantees, performance bonds and contingent liabilities	**77.4**	101.4

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 23).

Franked Investment Income Group Litigation Order
Inchcape is a participant in an action in the United Kingdom against HM Revenue and Customs (HMRC) in the Franked Investment Income Group Litigation Order (FII GLO). There are 25 corporate groups in the FII GLO. The action concerns the treatment for UK corporate tax purposes of profits earned overseas and distributed to the UK.

As reported previously, the resolution of the test case in the FII GLO remains incomplete. Inchcape has in the meantime joined an action at the High Court to establish whether judgment should be entered for non-test claims, also involving the determination of some issues that do not arise in the test case. A positive judgment would result in the recovery by Inchcape of amounts claimed from HMRC. However, this judgment would remain subject to the final conclusion of the test case and so could be amended resulting in a reduction of the non-test case recoveries and thus a repayment to HMRC.

As at 31 December 2018, 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. In addition, following the judgment of the Supreme Court in Prudential Assurance Company Limited v The Commissioners for HM Revenue and Customs in July 2018, there is uncertainty regarding the value of the claim and it is likely to be lower than the previously reported amount (£35.8m).

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.

30 COMMITMENTS

a. Capital commitments
Contracts placed for future capital expenditure at the balance sheet date but not yet incurred are as follows:

	2018 £m	2017 £m
Property, plant and equipment	**20.6**	41.3
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.

Future minimum lease payments under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
Within one year	**67.6**	70.7
Between one and five years	**177.5**	171.2
After five years	**185.1**	168.8
	430.2	410.7

Operating lease commitments – Group as lessor
The Group has entered into non-cancellable operating leases on a number of its vehicles and certain properties. These leases have varying terms, escalation clauses and renewal rights and are not individually significant to the Group.

Future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
Within one year	**5.1**	5.1
Between one and five years	**6.8**	9.5
After five years	**4.8**	5.1
	16.7	19.7

30 COMMITMENTS CONTINUED

Finance leases and hire purchase contracts

The Group has finance leases and hire purchase contracts for various items of property, plant and equipment. These leases have varying terms, escalation clauses and renewal rights. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments (included within borrowings), are as follows:

	2018 £m	2017 £m
Minimum lease payments:		
– Within one year	**0.2**	1.8
– Between one and five years	**1.0**	0.6
– After five years	**1.9**	1.9
Total minimum lease payments	**3.1**	4.3
Less: Future finance charges	**(1.3)**	(1.2)
Present value of finance lease liabilities	**1.8**	3.1

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:

	2018 £m	2017 £m
Vehicles subject to residual value commitments	**81.9**	88.0

Residual value commitments comprise the total repurchase liability on all vehicles where the Group has a residual value commitment. These commitments are largely expected to be settled over the next three years.

Where the repurchase commitment is in respect of a vehicle sold by the Group, the repurchase commitment is included within 'trade and other payables'. Included within the above are £6.8m (2017 – £12.8m) of residual value commitments that are included within 'trade and other payables'.

31 RELATED PARTY DISCLOSURES

a. Trading transactions

Intra-group transactions have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	Transactions		Amounts outstanding	
	2018 £m	2017 £m	2018 £m	2017 £m
Other income paid to related parties	**0.8**	0.6	**0.1**	0.1

All of the transactions arise in the ordinary course of business and are on an arm's length basis. The amounts outstanding are unsecured and will be settled in cash. There have been no guarantees provided or received for any related party receivables. The Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2017 – £nil).

b. Compensation of key management personnel

The remuneration of the Board of Directors and the Executive Committee was as follows:

	2018 £m	2017 £m
Wages and salaries	**5.9**	6.7
Post-retirement benefits	**0.6**	0.6
Share-based payments	**2.4**	4.0
	8.9	11.3

The remuneration of the Directors and other key management is determined by the Remuneration Committee having regard to the performance of individuals and market trends. Further details of emoluments paid to the Directors are included in the Directors' Report on Remuneration.

32 RESTATEMENT ON INITIAL ADOPTION OF IFRS 15

The principal restatements as a result of the initial adoption of IFRS 15 *Revenue from contracts with customers* are set out in the following tables.

The impacts on the consolidated income statement are:

	Year to 31 Dec 2017 £m
Increase in revenue	4.1
Increase in cost of sales	(5.0)
Net decrease in gross profit, operating profit and profit before tax	(0.9)
Increase in tax charge	(0.3)
Decrease in profit for the period	(1.2)
Attributable to:	
Owners of the parent	(1.2)
Non-controlling interests	–

The impacts on the consolidated statement of financial position are:

	As at 31 Dec 2017 £m
Increase in non-current assets	0.3
Increase in current assets	1.5
Increase in total assets	1.8
Decrease in current liabilities	6.9
Increase in non-current liabilities	(15.6)
Increase in total liabilities	(8.7)
Decrease in net assets and total equity	(6.9)
Attributable to:	
Owners of the parent	(6.9)
Non-controlling interests	–

Refer to Note 1 for details of the change in accounting policies arising from the adoption of IFRS 15.

33 FOREIGN CURRENCY TRANSLATION

The main exchange rates used for translation purposes are as follows:

	Average rates		Year end rates	
	2018	2017	**2018**	2017
Australian dollar	**1.79**	1.69	**1.81**	1.73
Chilean peso	**853.58**	843.40	**885.33**	832.35
Euro	**1.13**	1.15	**1.11**	1.13
Hong Kong dollar	**10.45**	10.11	**9.99**	10.57
Russian rouble	**83.14**	75.56	**88.48**	77.88
Singapore dollar	**1.80**	1.79	**1.74**	1.81
US dollar	**1.33**	1.30	**1.28**	1.35

34 EVENTS AFTER THE REPORTING PERIOD

In February 2019, the syndicated revolving credit facility and the three bilateral revolving credit facilities totalling £101m were replaced with a syndicated revolving credit facility of £700m with an initial expiry date of February 2024 and options to renew until 2026.

Also in February 2019, the Group became the Distributor for BMW in Lithuania.