

# A GOVERNANCE CULTURE



**NIGEL  
STEIN**  
Chairman



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## DEAR SHAREHOLDER

I am pleased to present the Corporate Governance Report for the year ended 31 December 2018. The next few sections explain how the Board and its Committees have discharged their duties throughout the year and I hope you find it informative.

## OUR BUSINESSES

As part of my induction, I have been able to travel to several markets to meet colleagues and learn more about the business. The Board also travelled to Singapore for its annual overseas meeting in October 2018. The visit provided an opportunity for our Non-Executive Directors to meet personally with colleagues and observe how Ignite is being implemented within our markets. The Board visited the Inchcape Lexus Boutique and Toyota World and also spent time at the Suzuki dealership. The local teams updated the Board on the latest customer initiatives being introduced across the region, including the automated Leads Distribution System and other digitalisation projects which are enhancing our sales capabilities.

The Board also received presentations on industry trends including on future mobility from Mr Yutaka Okayma from Toyota Asia Pacific and Professor Lee Der Horng, a leading transport academic in Singapore. Industry insights such as these increased the Board's knowledge on specialist areas and are vital for Non-Executive Directors who are not involved in the day-to-day running of the business.

A clear understanding of future industry trends is imperative for the Board to aid its decision making process and an overview of the trends is given on page 11.

## GOVERNANCE AND CULTURE

As previously mentioned the Board approved a new Code of Conduct which is being rolled out globally. The Code sets out the minimum standards of behaviour expected from our employees to act with honesty and integrity. The Code gives clear guidance on ethical decision making, the identification of misconduct and whistleblowing procedures. The Code also sets out our commitment to all our stakeholders. These concepts are at the heart of our vision to be the world's most trusted automotive Distributor and Retailer and create the cornerstone of the culture within Inchcape.

2018 saw a considerable number of governance and regulatory changes which were duly discussed by the Board. The new UK Corporate Governance Code was published in July 2018 and the Board agreed the actions it needed to take to comply during 2019. The Board is considering how and what information it receives from key stakeholders and whether these engagement mechanisms are appropriate. The Board has also considered engagement with the workforce and the three options given in the new Code. The Board feels that a designated Non-Executive Director is the most appropriate method at this time and has appointed Till Vestring, Chair of the CSR Committee, to take up the role. Till will set out how the CSR Committee intends to engage with our employees during the year. The Board will review periodically to ensure that both the Board and our employees are getting value from the engagement process.

## BOARD COMPOSITION

As mentioned in my statement on page 1, Nigel Northridge will retire following the AGM, and I am delighted to confirm Jerry Buhlmann will succeed him as Senior Independent Director. Further details are given on page 66. As a result of the planned Board changes, I have been considering our succession process to ensure that we are planning ahead to have the right balance of skills and experience. I am focused on ensuring that we have 33% female representation by 2020. To help us achieve this we are looking at our candidate selection processes to ensure a truly diverse range of candidates are being considered. Further details of succession planning are given in the Nomination Committee Report on pages 65 to 66.

I thank you for your support during 2018 and look forward to the coming year.

Nigel Stein  
Chairman

# CORPORATE GOVERNANCE REPORT

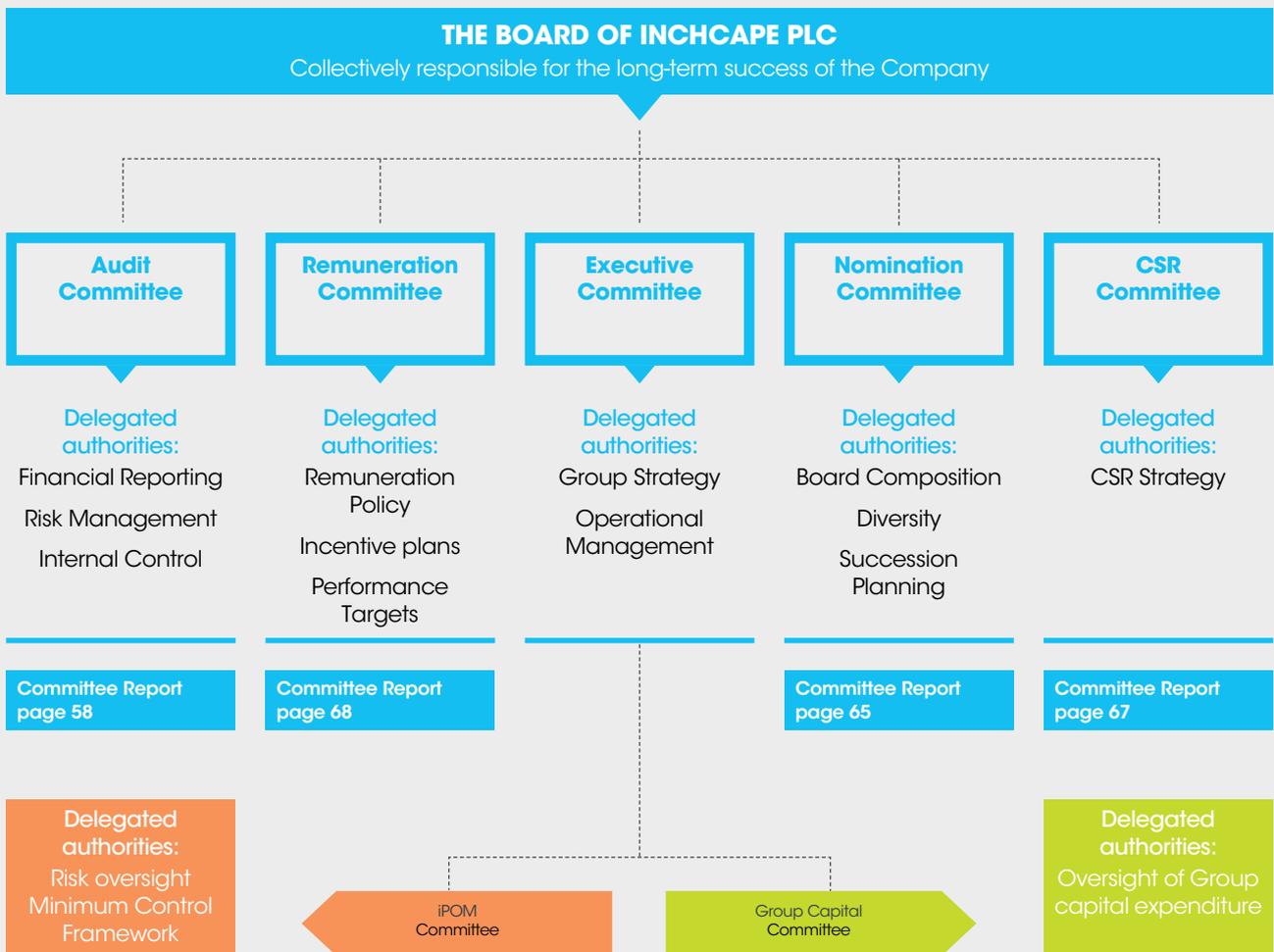
## Leadership

### STATEMENT OF CODE COMPLIANCE

The Company was compliant with the provisions of the 2016 UK Corporate Governance Code throughout the year. The Code can be found on the FRC's website [www.frc.org.uk](http://www.frc.org.uk)

The information required under DTR 7 is given on pages 51 to 87 and forms part of this report.

### GOVERNANCE STRUCTURE



## The Board

The Board is collectively responsible for the long-term success of the Company which it achieves by setting the strategic direction of the Group and ensuring that there are the necessary financial and human resources available to deliver the objectives. The Board also ensures that there are controls, processes and procedures in place to ensure that the right culture exists for the achievement of the strategic goals.



**Chairman**

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

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

**Senior Independent Director**

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

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

**Chief Executive Officer**

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

The Non-Executive Directors are appointed to offer a wide range of skills and experience which enable them to advise, support and constructively challenge management, to provide independent judgement on the Board's discussions and to help with the development of the Company's strategy.

The Non-Executive Directors met in 2018 without the presence of Stefan Bomhard and Nigel Stein to discuss their performance. If a Director has a concern about the running of the Company which cannot be resolved, it would be recorded in the Board minutes. No such concerns arose in 2018.

## Activities of the Board

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

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee	CSR Committee
	Scheduled/attended	Scheduled/attended	Scheduled/attended	Scheduled/attended	Scheduled/attended
Stefan Bomhard	6/6	-	-	-	2/2
Jerry Buhlmann	6/6	-	2/2	2/2	2/2
Rachel Empey	6/6	4/4	-	1/1	-
Ken Hanna*	2/2	-	1/1	1/1	1/1
Richard Howes	6/6	-	-	-	-
Jane Kingston*	3/3	-	1/1	1/1	-
John Langston	6/6	4/4	-	2/2	-
Coline McConville	6/6	-	2/2	2/2	2/2
Nigel Northridge	6/6	4/4	2/2	2/2	-
Nigel Stein	6/6	-	2/2	2/2	1/1
Till Vestring	6/6	-	2/2	2/2	2/2

\* Ken Hanna retired from the Company following the 2018 AGM. Jane Kingston joined the Company in July 2018.

The Board is collectively responsible for the long-term success of the Company and achieves this by setting its strategic aims whilst ensuring that the necessary financial and human resources are available. The Board also ensures that the correct controls are in place to drive the right culture throughout the organisation to achieve its strategic objectives in a sustainable manner. The Chairman ensures that there is a culture of openness and transparency on the Board to facilitate constructive debate on all matters considered during the year.

There is a schedule of formal matters reserved for the Board which can be found at [www.inchcape.com/governance](http://www.inchcape.com/governance).

<b>Focus in 2018</b>	<b>What we achieved</b>	<b>Focus for 2019</b>
Investor engagement	A Capital Markets Day was held in June 2018 which was designed to give investors a clear explanation of the Distribution business model, the drivers of growth for Inchcape and our view of future trends and our positioning against them.	<ul style="list-style-type: none"> <li>- Engagement with stakeholders other than shareholders</li> <li>- Workforce engagement</li> <li>- Consideration of s172 reporting</li> </ul>
Ignite strategy	<p>The Ignite M&amp;A programme had several successes in 2018 with Distribution contract wins in Kenya, Colombia, Lithuania and Guam and the acquisition of Grupo Rudelman in Central America.</p> <p>An important part of the Board's discussions is the capital allocation framework to ensure that cash is being utilised effectively. During the year the Board discussed dividend policy, capital expenditure and share buybacks. Further details can be found on page 16.</p>	<ul style="list-style-type: none"> <li>- Global industry trends</li> <li>- Disruptive and future industry trends</li> <li>- Strategy development</li> </ul>
Risk	The Board undertook a comprehensive risk appetite assessment during the year which included a focus on the impact of Brexit on the business. Further information can be found in the Risk Management Report on pages 35 to 46.	<ul style="list-style-type: none"> <li>- Annual review of principal risks and mitigating actions</li> <li>- Annual review of risk appetite</li> <li>- Brexit outcomes</li> </ul>
Financial reporting	The Board reviews the performance of the business on a regular basis and challenges management on the assumptions made and judgements used, with assurances provided by both internal and external sources to ensure that the information communicated to stakeholders is fair, balanced and understandable.	<ul style="list-style-type: none"> <li>- Approval of annual operating plan</li> <li>- Review of delegated authorities and capital expenditure processes</li> <li>- Value driver performance</li> <li>- New accounting standards</li> </ul>
Leadership	The Board discussed succession, talent development and diversity for the senior management population.	<ul style="list-style-type: none"> <li>- Group Executive Committee succession planning</li> <li>- Talent pipeline planning</li> <li>- Diversity and inclusion review</li> </ul>
Governance and culture	The Board approved the following: <ul style="list-style-type: none"> <li>- General Data Protection Regulations</li> <li>- Inchcape Code of Conduct</li> </ul>	<ul style="list-style-type: none"> <li>- Implementation of 2018 UK Corporate Governance Code</li> <li>- Review adoption of Code of Conduct across the Group</li> <li>- Anti-bribery and corruption training</li> </ul>
Partners	The Board regularly discusses the Group's OEM partners to ensure that the Group is offering the best possible service at every part of the value chain. See pages 8 to 9.	<ul style="list-style-type: none"> <li>- Management meetings with OEM counterparts</li> <li>- Deep dive of Ignite OEM Partner of Choice objective</li> </ul>

# Effectiveness

## COMPOSITION OF AND APPOINTMENTS TO THE BOARD

The Board is comprised of eight independent Non-Executive Directors and two Executive Directors, whose biographies are given on pages 48 to 49. Nigel Northridge completed nine years' service in July 2018. The Board agreed that Nigel would remain on the Board until May 2019 to assist with the Chairman transition. He will retire from the Board following the AGM.

Nigel Stein was considered independent on his appointment as Chairman. All other Non-Executive Directors are considered independent in accordance with the UK Corporate Governance Code.

Non-Executive Directors are appointed for a period of three years. After each three-year period the performance of the Director is reviewed by the Chairman, and the Nomination Committee approves any further terms. All appointments are subject to annual re-election at the AGM. Details of the Board succession planning process can be found in the Nomination Committee Report on pages 65 to 66.

## COMMITMENT

The Directors are required to allocate sufficient time to the Company to discharge their responsibilities and Board dates are agreed two years in advance to ensure that Directors are able to plan accordingly and for other commitments to be taken into account.

Non-Executive Directors are informed of the time commitment expected from them upon appointment and this is reviewed annually to ensure that the time expected is still relevant in light of the Company's strategic agenda.

The Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office and at the AGM.

The Board understands that the Executive Directors can gain valuable business experience as a Non-Executive Director of another company. The Group's policy is to limit Non-Executive Directorships within a FTSE 100 company to one appointment only. Stefan Bomhard is also a Non-Executive Director of Compass Group PLC. Details of the fees paid to him are given on page 87 of the Directors' Report on Remuneration.

### Induction process

#### The Inchcape framework

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

#### Meet key management / advisors

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

#### Visit the businesses

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



Jane Kingston

As Jane is new to the industry, her induction was tailored to ensure that she received in-depth sessions with key employees

In addition to management, Jane also met with Mercer | Kepler, to gain an understanding of the Company's remuneration framework and culture

In addition to the Board's Singapore visit, Jane also met with the UK CEO at VW Chiswick, to learn about the UK automotive industry



Nigel Stein

Nigel's induction involved several overseas visits to enable him to gain a deeper understanding of the Group's operations, culture, risks and opportunities

Nigel undertook a schedule of shareholder meetings upon appointment as Chairman to listen to their views on the business and its longer-term opportunities

Nigel visited our operations in Russia, Australia and Asia to learn more about the differences, challenges and opportunities for the Distribution and Retail businesses

## DEVELOPMENT

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

To ensure that the Directors have the appropriate knowledge to support their decision making, regular presentations from management are included in each Board meeting, along with industry updates and insights into trends affecting the industry.

Regional updates, designed to give a deeper view of the markets, are given throughout the year by the relevant market Chief Executive Officers. Details of the Board's activities are given on page 53. The Non-Executive Directors are expected to update their knowledge and skills regularly and training is provided for the Board and individual Directors as required.

## INFORMATION AND SUPPORT

The Group Company Secretary is responsible for ensuring the Board has access to relevant and accurate information. The Board agendas are agreed in advance by the Chairman and the Group Chief Executive Officer and include regular items such as reports from the Group Chief Executive Officer, the Chief Financial Officer and Investor Relations.

The information supplied to the Board and its Committees allows the Board to scrutinise the performance of management and to monitor performance against objectives. In addition to regular reports from key management, the Board also receives information on operational matters, financial performance and strategic developments.

The Group Company Secretary also supports the Board by providing advice and services, including access to independent advice, and ensures that an accurate record of the meeting is taken.

## BOARD EVALUATION

The 2017 Board evaluation was externally facilitated, and the table below sets out the progress against the actions raised from that process. The 2018 Board evaluation was an internally facilitated evaluation led by the Company Secretary. The results were similar to those of 2017 as many of the action points will be continuous improvement. Areas of focus during 2019 will be the Non-Executive Director appointment process and the remit of the CSR Committee in light of the new Code provision on workforce engagement.

### Action from 2017

Ensuring that future Board composition always maximises challenge to management as they crystallise the longer-term strategy beyond Ignite, by keeping Board skills and terms under regular review and in line with strategy.

Expanding the work of the Nomination Committee to enable broader discussions amongst Board members about NED and executive succession, development and learning, and maintain the balance between experienced Directors, future Chairs and newer 'PLC' NEDs.

Expanding the work of the Nomination Committee to cover items of governance to ensure appropriate focus for the Group.

Reviewing the Board pack to broaden the spectrum of information provided to the Board, for example on competitors, or international territories, especially as future strategy discussions develop.

### Progress in 2018

The Nomination Committee considered the future skills requirement for the Board.

Please see the Nomination Committee Report on page 66 for further details.

In addition to the annual senior management talent planning session carried out by the Board, it was agreed that an informal session take place each year to allow the Board to discuss with the CEO the performance of the Group Executive Committee.

The Nomination Committee is considering how to add value to the Board's deliberations and will review its terms of reference to ensure they are appropriate.

An effective Board report is a strategic extension of day-to-day information-gathering and provides the platform on which boards can work with management to add real value and to gain a critical understanding of the business. The information provided to the Board has been reviewed to ensure that it remains appropriate.

## Accountability

### FINANCIAL AND BUSINESS REPORTING

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects in the Annual Report and Accounts, the interim financial statements and the trading updates. The Board is satisfied that appropriate processes are in place to provide the necessary information on position and performance, business model and strategy to allow users to make a fair assessment of the business and to enable the Board to make this statement.

The Board considers the information received and discussions and decisions made throughout the year when asking the following questions:

Has equal weight been given to all messages and is any information omitted?

Is the narrative reporting consistent with the financial statements?

Are the principal risks, business model and strategy in line with the Board's understanding of the business?

Are the key performance indicators appropriate?

Are the Strategic Report, governance report and financial statements balanced?

Will stakeholders be able to understand the business, its position and prospects from reading the Annual Report?

Do the significant issues referred to in the Audit Committee Report reflect those considered by the auditor?

The Board also satisfies itself that the statements made are supported by verification documents, monthly performance reports and the annual operating plan.

A statement of the Directors' responsibilities is set out on pages 91 to 92. The going concern statement is set out on page 92 and the strategy and business model are set out on pages 2 to 18.

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board carried out a robust assessment of the Group's principal risks including those that would threaten its business model, future performance, solvency or liquidity during the year. Following this review, the Board agreed changes to the articulation of certain risks which had previously been reviewed and approved by the Group Executive Committee.

The Board also considered the impact of Brexit on the business and a statement of its findings in relation to Brexit and the Group's principal risks is given on pages 35 to 46.

The Board also discussed, and agreed, its risk appetite in relation to each of the principal risks. Consideration was given to:

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

A description of risks, an explanation of how they are being managed and mitigated and the Board's viability statement can be found in the Risk Management Report on pages 35 to 46. The Board also reviewed and approved the viability statement including its assessment of the methodology used by management to reach its conclusion.

The Board has delegated responsibility for reviewing the effectiveness of the system of internal controls to the Audit Committee. Further information can be found in the Audit Committee Report on pages 58 to 64.

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

The Board has determined that there were no significant failings or weaknesses identified during the review of the risk management and internal control processes during the year and further confirms that these systems were in place during 2018 and up to the date of this report.

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

# Relations with Shareholders

The Head of Investor Relations, Group Chief Executive Officer and Chief Financial Officer met with approx. 270 investors and potential investors during the year at roadshows, investor events and one-to-one meetings. Nigel Stein also met with several major shareholders to discuss various strategic and governance topics as part of the Chairman induction programme.

A dialogue with shareholders ensures that the Company is fully aware of shareholders' views and their expectations of the Group's strategy and performance both in the short and long-term. The views of shareholders are communicated to the Board after each meeting and through regular Investor Relations reports, and analysts and brokers briefings.

## Capital Markets Day

A Capital Markets Day was held on 6 June 2018. The aim of the investor day was to give an in-depth view of the business, the drivers of growth and future trends. There were presentations on the Distribution business model, operational excellence, consolidation, future trends and opportunities and multi-layered earnings growth. In addition, Mr Yoshi Inaba, Special Advisor to Toyota Motor Corporation, spoke to investors about the long-standing relationship with Inchcape, Toyota's view on distribution and the strength of Inchcape's business model.

The Capital Markets Day presentations can be found on the Company's website [www.inchcape.com/investors/CapitalMarketsDay](http://www.inchcape.com/investors/CapitalMarketsDay)

## CONSTRUCTIVE USE OF GENERAL MEETINGS

The AGM gives shareholders an opportunity to meet the Board and ask any questions they have regarding the Group, its performance and its strategy.

The Board encourages participation of private shareholders at the AGM, however, the Board understands that it is not always possible for shareholders to attend in person. Shareholders are encouraged to contact the Company with any questions they wish to raise with the Board of Directors via the Company Secretary.

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

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

All Directors are required to attend the AGM.

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

# ENSURING INTEGRITY AND CONTROLS



**JOHN LANGSTON**

Chair of the Audit Committee

## DEAR SHAREHOLDER

I am pleased to present the report of the Audit Committee for the year ended 31 December 2018. The aim of the report is to provide an overview of the significant issues considered by the Committee during the year, how the Committee has discharged its responsibilities, and to highlight some of the matters presented by management on various aspects of the business. These presentations from management ensure that the Committee can assess the risks and the effectiveness of any mitigating actions and challenge management on the control environment and any failures.

### External auditor

Following the successful external audit tender in 2017, I am pleased that shareholders supported the appointment of Deloitte LLP as the Group's auditor.

Deloitte took over the role from PwC in May 2018 however the team had shadowed PwC during the 2017 year-end audit and spent time with management getting to know the business. As part of the transition programme the team visited a number of businesses across various markets to enhance their understanding of the business and assessment of audit risks and focus.

Anna Marks is the lead audit partner.

### Non-audit services

There were certain non-permitted non-audit services fees accrued by Deloitte during the year, which relate to tax compliance and computations for 2017 in relation to Guam, Saipan and Macau where Deloitte had already been engaged to perform the work prior to their appointment as Group auditor. The Committee reviewed the provision of these services and concluded that it would not be likely to affect their objectivity and independence. The Committee kept the non-audit services under review during the year and further details are given on page 63.

### Accounting standards

Several new accounting standards have been introduced with IFRS 9, Financial Instruments and IFRS 15, Revenue Recognition effective from 1 January 2018, both of which were disclosed in last year's Annual Report and IFRS 16, Leases, effective from 1 January 2019. The Committee spent considerable time with management and the external auditor assessing the accounting impacts, transition options, and relevant disclosures.

The management team are also working with the Group Reward team to assess the impact of IFRS 16 on the key remuneration performance metrics. Further details on IFRS 9, 15 and 16 are given in the notes to the financial statements on pages 107 to 110. The Committee's consideration of IFRS 16 is also given on the significant issues disclosure on page 64.

The key activities of the Committee are given in the table on page 60 and the following pages set out the work carried out by the Committee during the year, the significant issues considered, and the key decisions made by the Committee.

A handwritten signature in black ink that reads "J Langston".

John Langston  
Chair of the Audit Committee

## COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

		Feb	May	Jul	Nov
John Langston	Committee Chair	✓	✓	✓	✓
Rachel Empey	Independent Non-Executive Director	✓	✓	✓	✓
Nigel Northridge	Independent Non-Executive Director	✓	✓	✓	✓

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

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

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

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

The Committee's terms of reference can be found on [www.inchcape.com/governance](http://www.inchcape.com/governance)

The Committee is supported by a number of sources of internal assurance from within the Group in order to review the control environment. The Committee also assesses the effectiveness of the system of internal control on an annual basis by considering any material control weaknesses identified by the external auditor as a result of their audit. There have been no significant changes to the control environment and the Audit Committee has concluded that the Group's internal system of controls was effective during the year.

The significant issues considered by the Committee are given on page 64.

### Financial reporting

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

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

### Fair, balanced and understandable

The Board assesses the Annual Report and Accounts to ensure that it is a fair, balanced and understandable assessment of the Group. The Audit Committee, however, also carries out its own assessment of the financial statements, and the Annual Report as a whole, and is satisfied that it provides the necessary information for shareholders to assess the Group's position and performance, business model and strategy.

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

## AUDIT COMMITTEE REPORT CONTINUED

Our 2018 objectives	What we achieved	Focus for 2019
Annual Report and Accounts including financial statements, accounting judgements, impairment review, going concern, viability statement	<p>The Committee considered all key audit issues, accounting treatment and judgements in relation to the financial statements. This includes challenging management on the assumptions used and the judgements that have been applied, with assurances given from both external and internal sources.</p> <p>The information supplied also allows the Committee to assess key disclosures to ensure adequacy, clarity and completeness. Key disclosures include the viability statement on page 46, going concern, which can be found on page 92, and goodwill, which can be found on pages 139 to 140.</p> <p>Particular attention was given to the application and impact of the new accounting standards which have been or will be adopted by the Group.</p>	<ul style="list-style-type: none"> <li>- Impacts of new accounting standards</li> <li>- Review of key assumptions used by management on key accounting standards</li> </ul>
PwC audit report, PwC independence review	The Committee considered the report from the auditor in relation to the financial statements and the 2017 Annual Report and Accounts.	<ul style="list-style-type: none"> <li>- Deloitte audit report</li> <li>- Deloitte independence report</li> <li>- Deloitte report on internal controls</li> </ul>
Deloitte 2018 Audit Plan	The Committee discussed the audit plan and agreed materiality, scope and fees.	<ul style="list-style-type: none"> <li>- Review of the effectiveness of the external audit</li> </ul>
Internal Audit Report	<p>The Committee reviewed and monitored:</p> <ul style="list-style-type: none"> <li>- progress against the 2018 plan throughout the year;</li> <li>- the status of open audit issues;</li> <li>- any internal control failings; and</li> <li>- the appropriateness of mitigation actions put in place by management.</li> </ul> <p>The Committee also reconfirmed the Internal Audit Strategy and the Internal Audit Charter and approved the 2019 Internal Audit Plan.</p> <p>Further details can be found on pages 61 to 62.</p>	<ul style="list-style-type: none"> <li>- Monitor progress against 2019 plan</li> <li>- Progress made in resolving open audit issues</li> <li>- Monitor improvement plans in relation to identified internal control gaps</li> </ul>
Risk Management Report	The Committee consider the risk management environment, major whistleblowing reports and any mitigating plans implemented by management throughout the year. Progress against plans is monitored closely and management are challenged appropriately on areas where a satisfactory outcome is not evident. Further details can be found on pages 35 to 46.	<ul style="list-style-type: none"> <li>- Monitoring of whistleblowing cases and actions implemented to resolve issues</li> </ul>
Non-Audit Services Policy and review of non-audit services	Due to the change of auditor, the Committee undertook a comprehensive review of the non-audit services supplied by the external auditor. Further details can be found on page 63.	<ul style="list-style-type: none"> <li>- Review of non-audit services supplied</li> <li>- Application of the Non-Audit Services Policy</li> </ul>
Tax update and litigation update	The Committee reviewed the Group's tax costs, tax risks, efficiency and effectiveness of tax policies along with updates on tax audits. It also reviewed any significant litigation issues.	<ul style="list-style-type: none"> <li>- Monitor the tax strategies within markets and at Group level</li> <li>- Monitor the level, frequency and type of litigation within the Group</li> </ul>

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for reviewing and agreeing the Group's principal risks and for considering its risk appetite in relation to those risks. However, the Audit Committee has delegated responsibility for ensuring that:

- There is an appropriate mechanism in place to identify the risks the Group faces;
- Management teams have the correct focus on those risks and the action plans in place to mitigate or respond to those risks;
- A compliance programme is in place in all markets that meets or exceeds external benchmarks and is appropriate in terms of legal requirements, content, sector, cost and resources;
- Internal controls are appropriate, well designed and operating consistently across the Group; and
- The Group's whistleblowing programme is appropriately managed to reduce the risk of fraud or respond quickly and decisively in the event the Group falls victim to fraud.

The Audit Committee considers the risk management framework, any internal control issues which have arisen and all whistleblowing reports, and the mitigating actions, at each meeting. The reports provided to the Committee give an insight into the culture within the organisation and allow the Committee to assess progress against and effectiveness of any mitigation plans implemented by management.

The Group has adopted the three lines of defence model. The first line of defence is the Group's organisational activities, policies and procedures implemented by local management teams. The second line of defence comprises oversight functions and Group or regional management who set direction and define policy. The third line of defence is Internal Audit, supported, if necessary, by external experts. Each function provides independent challenge to the levels of assurance provided by the first two lines of defence.

Further information on risk management and the Group's principal risks can be found in the Risk Management Report on pages 35 to 46 and the Corporate Governance Report on page 56.

## WHISTLEBLOWING

SpeakUp, the Group's externally hosted whistleblowing line, is a compliance and ethics reporting solution which allows both hotline and web reporting capabilities in multiple languages, integrated with case management software to support efficient and effective investigation, remediation and reporting.

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

## INTERNAL AUDIT

The aim of the Internal Audit function is to provide independent objective assurance and advisory services designed to add value and improve the Company's operations, by bringing a systematic and disciplined approach to evaluate the effectiveness of the risk management, governance, control and compliance processes and support management in their continuous improvement.

The Committee assesses the effectiveness of the Internal Audit function by reviewing progress against plans and also reviews the experience and expertise of the Internal Audit team to ensure the right people are recruited to carry out the function.

As part of its remit, the Internal Audit team regularly assesses the effectiveness of internal controls over financial reporting as well as the preparation of financial statements based on the framework contained in the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the UK Corporate Governance Code and reports its findings to the Audit Committee on a regular basis. The Group's Minimum Control Framework (MCF) ensures facilitation of this process across its broad range of operations globally.

The Audit Committee agreed that a review of the effectiveness of the Internal Audit function should take place in 2019.

A new Internal Audit strategy was rolled out at the beginning of the year with a focus on internal control governance, implementation of regional internal audit functions and audit process improvements, which are aligned to the Ignite strategy and key risks. The key components of the improved Internal Audit model, and progress made during the year, are detailed on page 62.

## AUDIT COMMITTEE REPORT CONTINUED

Key components of Internal Audit model	Progress during 2018
<b>Regional delivery</b> <ul style="list-style-type: none"> <li>- Introduction of the regional operating model</li> <li>- Small but focused base for independent assurance located closer to the business</li> <li>- Shifting of the execution from the centre</li> <li>- Building partnership with the business</li> </ul>	<ul style="list-style-type: none"> <li>- New regional Internal Audit employees recruited</li> <li>- One fully resourced regional team in South America integrated and extended to Central America</li> <li>- Shifting ownership of audit and related matters to new regional functions</li> <li>- Good progress facilitated through participation in Group-led projects by business and finance teams</li> </ul>
<b>Internal controls custodianship</b> <ul style="list-style-type: none"> <li>- Focused internal controls team</li> <li>- Alignment with second line of defence</li> <li>- Centrally led team of experts</li> <li>- Alignment, support and collaboration</li> <li>- Transparency of risk mitigations</li> </ul>	<ul style="list-style-type: none"> <li>- A central point of focus for internal controls</li> <li>- Building partnerships with IT and Finance functions</li> <li>- Designing the mandate of internal controls functions in the markets</li> <li>- Creating a reliable self assessment toolset for the Minimum Control Framework</li> </ul>
<b>Global Audit Centre of Excellence</b> <ul style="list-style-type: none"> <li>- Central team re-positioned to provide guidance and expertise</li> <li>- Assurance over Group risks and centrally led project</li> <li>- Focus on disruptive risks and strategy support</li> <li>- Training and upskilling hub</li> </ul>	<ul style="list-style-type: none"> <li>- One central team, under one leadership</li> <li>- Refreshing of the methodology and implementation of the new toolset</li> <li>- Implementation of regional ways of working</li> <li>- Training and upskilling commenced</li> </ul>

### 2019 Internal Audit Plan

The Committee reviewed the 2019 Internal Audit Plan which will continue to deliver assurance for the control environment, based on MCF testing as well as key regulatory risks pertinent to the Group.

The 2019 plan will also incorporate an operational risk universe development with a pilot in Latin America, to prepare the foundations for the risk-based planning process. The Committee approved the planning approach, resourcing, the risk-based reviews (anti-money laundering, risk management and data protection) and IT audit.

The key elements of the 2019 plan are:

Assurance theme	Overview	Proportion of audit time
<b>Compliance</b>	Testing compliance against the Minimum Control Framework and expected controls	40%
<b>Risk-based reviews</b>	Performing global and local reviews to evaluate how the business manages key risks outside MCF	35%
<b>IT audit</b>	Reviewing how the business manages key risks around IT	11%
<b>Management assistance</b>	Internal Audit's input on fraud investigations and direct requests from management for assistance	
<b>Advisory activities</b>	Assurance activities in new areas not previously covered by Internal Audit but which represent either key strategic priorities or emerging risks	14%

## EXTERNAL AUDIT

### Auditor effectiveness and independence

The Committee assesses the robustness of the external audit process by:

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

The Committee satisfies itself that the auditor remains independent and objective by:

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

Due to the change in auditor, the effectiveness review will take place in 2019 once Deloitte have completed their first audit.

The review is designed to provide the Committee with information on the overall efficiency, integrity and effectiveness of the external audit, with the views of senior finance personnel in each of the Group's principal territories together with Group Finance, Tax and Company Secretariat taken into account.

When assessing the effectiveness of the external audit the Committee considers:

#### Audit planning and design

- Audit team structure and leadership
- The approach to the audit
- Sources of assurance
- Key risks to the audit quality

#### Audit policies and procedures

- Independence and quality control procedures
- Review of non-audit services provided

#### Audit execution

- Professional judgement, mindset and culture of audit firm
- Technical excellence, skills and judgement

#### Role of management

## NON-AUDIT SERVICES

The policy for non-audit services sets out the permitted and non-permitted non-audit services as well as the approval levels required by the Audit Committee. The policy is designed to ensure that the external auditor's objectivity is not compromised by earning a disproportionate level of fees for non-audit services or by performing work that, by its nature, may compromise the auditor's independence. However, using advisors who have an understanding of the Group's business can be a benefit and the Committee will consider non-audit services supplied on an ongoing basis. The provision of permitted non-audit services will only be approved by the Audit Committee if:

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

Permitted non-audit services above a certain level are approved on a case-by-case basis by the Audit Committee. The fee paid to the auditor for audit-related services was £0.1m, and for permitted non-audit services was £0.4m. The ratio for audit/non-audit work is 0.12:1.

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

### Permitted non-audit services

- Assistance with GDPR compliance
- Australia Retail review

### Non-permitted non-audit services

- Guam, Saipan and Macau – assistance with tax compliance and computations for 2017.

Deloitte had already been engaged to perform the tax work prior to their appointment as Group auditor and although these services are not permitted under our policy, they are permitted under the Audit regulation as they are non-EU countries. In addition, separate teams were engaged and used to provide all non-audit services and appropriate safeguards were implemented to ensure that there was no threat to Deloitte's independence.

**SIGNIFICANT ISSUES**

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

<p><b>Acquisition accounting</b> (see note 28 on page 161)</p>	<p><b>The issue and management’s view</b> Management presented details on the acquisition accounting for the Central American business acquired in March 2018, and the judgements applied in preparing the Group’s results for the year ended 31 December 2018 and the period ended 30 June 2018. These judgements included the initial purchase price allocation, the alignment of accounting policies and the determination of any associated fair value adjustments.</p> <p><b>Conclusion reached by the Committee</b> The Committee concluded that the business combination had been accounted for appropriately and in line with the principles set out in IFRS 3, Business Combinations.</p>
	<p><b>Rationale for the Committee’s conclusion</b> The Committee received reports from management which covered the acquisition accounting process and which demonstrated how the accounting principles had been applied. The Committee reviewed the judgements made and considered the application of the accounting principles to be appropriate.</p>
<p><b>Goodwill/Asset impairment</b> (see notes 11 and 12 on pages 139 to 141)</p>	<p><b>The issue and management’s view</b> Management presented a detailed overview of impairment testing to the Committee covering goodwill; a number of properties; and the indefinite life intangibles arising as a result of business acquisitions. The Committee reviewed and challenged value-in-use calculations, sensitivity analysis and a review of the draft disclosure in the financial statements.</p> <p><b>Conclusion reached by the Committee</b> The Committee concluded that an impairment of UK goodwill of £175m and of site based assets in the UK and Europe of £23.2m was required. Further details can be found on pages 139 to 141.</p>
	<p><b>Rationale for the Committee’s conclusion</b> The Committee reviewed the outlook for the UK business which had declined during 2018. Management kept the Committee updated throughout the year with regular reports on goodwill and site based asset assumptions being considered. The Committee concluded that the sensitivity analysis prepared by management on the UK goodwill value-in-use model incorporated reasonably possible changes to the key assumptions and that the outcome of the sensitivity analysis indicated that an impairment was required.</p>
<p><b>Minimum Control Framework (“MCF”)</b></p>	<p><b>The issue and management’s view</b> The Committee reviews control issues identified by the MCF on a regular basis with management reporting on any significant issues and the actions taken to resolve the control gaps.</p>
	<p><b>Conclusion reached by the Committee</b> The Committee satisfied itself that management had taken the appropriate action for any significant issues identified during the year and received regular updates on progress against plan. The Committee concluded that engagement with underlying adherence to the MCF standards was improving across the Group.</p>
	<p><b>Rationale for the Committee’s conclusion</b> The Committee received updates from the Group Head of Internal Audit at each meeting setting out the compliance across the Group, detailed findings from audits and recommended mitigation plans for identified control gaps. The regional Finance Directors report to the Committee on any specific issues throughout the year.</p>
<p><b>IFRS 16</b> (see pages 109 and 110)</p>	<p><b>The issue and management’s view</b> During the year, management presented to the Committee on the implications of IFRS 16 and the accepted approaches to transition. Management carried out a comprehensive awareness programme globally to ensure that the markets were informed of the new standard.</p>
	<p><b>Conclusion reached by the Committee</b> The Committee was regularly informed of the Group’s position and the transition approaches recommended by the IASB and management provided a detailed analysis of each. After due consideration, the Committee agreed to adopt a fully retrospective transition approach to IFRS 16.</p>
	<p><b>Rationale for the Committee’s conclusion</b> The Committee reviewed the accounting and reporting implications from the perspective of the balance sheet, income statement and cash flow. The Committee also considered other implications including net debt and gearing, net assets, EBITDA and ROCE which contributed to the Committee’s decision on the accounting treatment for IFRS16.</p>

# CREATING AN EFFECTIVE BOARD



## NIGEL STEIN

Chair of the Nomination Committee

Committee when Coline steps down from the Committee and the Board in July 2019 and I am sure that the Committee will be in good hands.

Nigel Northridge, the Senior Independent Director, will retire in 2019 after more than nine years' service. Nigel agreed to stay on the Board to assist me in settling into the chairmanship role and I appreciate his support during that time. Nigel has been a valuable asset to the Board and we wish him success in the future.

The Board approved the appointment of Jerry Buhlmann to succeed Nigel Northridge as Senior Independent Director. Further details are given on page 66.

As a Board we have agreed not to set targets within our Diversity Policy Statement however we aim to achieve the guidelines set out in both the Hampton-Alexander Report and the Parker Review. We will work with the recruitment consultants to ensure that the Board is informed of a wide range of potential candidates.

Nigel Stein  
Chairman

### DEAR SHAREHOLDER

I am pleased to present the report of the Nomination Committee for the year ended 31 December 2018.

During the year the focus of the Committee was on Non-Executive Director succession planning and Jane Kingston was appointed in July 2018. Jane brings a wealth of remuneration experience and joined the Remuneration Committee upon appointment. Jane will succeed Coline McConville as Chair of the Remuneration

### COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

		Feb	Nov
Nigel Stein	Chairman	✓	✓
Jerry Buhlmann	Independent Non-Executive Director	✓	✓
Rachel Empey	Independent Non-Executive Director	✓	✓
Jane Kingston*	Independent Non-Executive Director	-	✓
John Langston	Independent Non-Executive Director	✓	✓
Coline McConville	Independent Non-Executive Director	✓	✓
Nigel Northridge	Independent Non-Executive Director	✓	✓
Till Vestring	Independent Non-Executive Director	✓	✓

\*Jane Kingston joined in July 2018

Focus for 2018	What we achieved in 2018	Focus for 2019
Board succession planning	Successful integration of Board Chairman Appointment of Jane Kingston in July 2018	- Review of selection process to ensure wide range of candidates is presented to the Board for consideration
Governance	The Committee discussed the new UK Corporate Governance Code and the provisions which impacted the Committee	- Review of policy on multiple board appointments to avoid 'overboarding'
External evaluation actions	There were several actions arising from the 2017 external evaluation	- Focus on Board composition and skills required to support long-term strategy

## BOARD SKILLS AND EXPERIENCE

The review of skills and experience is carried out by the Committee annually by way of a skills assessment completed by the Board members.

The Board has a broad range of skills and experience covering automotive, retail, reward and human resources, finance, consultancy, strategy and media. The skills review identified digital / technology as an area which could be further strengthened on the Board as digital is a rapidly evolving area for the automotive industry and as such is a key consideration for succession planning. The future trends affecting the industry are given on page 11.

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

## APPOINTMENT PROCESS

The Inzito Partnership was appointed to assist with the search for Non-Executive Directors during the year. The team at Inzito has worked with the Group for several years and is familiar with the current Board's skills set and the potential requirements for the future.

During the recruitment process, I meet with the consultants to review our needs and to draw up a long-list of suitable candidates for consideration. When a short-list has been established, potential candidates will meet with other Board members, after which the Committee will decide on the most suitable candidate and recommend the appointment of the Non-Executive Director to the Board for its approval. The Inzito Partnership is a signatory to the Voluntary Code of Conduct for Executive Search Firms and does not have any other connection to the Company.

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

The Chairman led the recruitment process for the new Senior Independent Director and met with a broad range of candidates. The short-list was discussed in detail with the Committee members and ultimately it was agreed that Jerry Buhlmann was the most suitable candidate. The Committee believes that Jerry's recent CEO and international board experience is an asset and he has

the skills and capability to perform the role effectively. As Senior Independent Director, he will serve as a sounding board for the Chairman and act as an intermediary for other Directors. He will also be responsible for holding annual meetings with Non-Executives, without the Chairman present, to appraise the Chairman's performance, and will be available as an alternative point of contact for investors.

## DIVERSITY POLICY STATEMENT

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

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

During 2018, Jane Kingston was appointed to the Board, therefore as at the date of this report women represent 30% of the Board membership.

The Board philosophy on diversity is also reflected throughout Inchcape where we employ a diverse workforce across 32 countries. We value the unique contribution that each person brings to Inchcape and we aim to employ people who reflect the diverse nature of society, regardless of age, sex, disability, sexual orientation, race, colour, religion, ethnic origin and political belief.

The Committee's terms of reference can be found at [www.inchcape.com/governance](http://www.inchcape.com/governance).

# BUILDING SUSTAINABILITY



**TILL VESTRING**  
Chair of the CSR Committee

we engage with them and the outcome of the engagement processes. Creating dialogue with stakeholders enables us to build on our vision to be the world's most trusted automotive Distributor and Retailer and we will continue to build on this during 2019. Further details are given on page 29.

Another area of consideration for the Committee has been the new UK Corporate Governance Code requirement for engagement with the workforce. I am pleased to report that the Board has agreed to delegate responsibility to the CSR Committee with myself as the designated Non-Executive Director. The Committee will spend the first few months of 2019 agreeing actions, processes and reporting procedures to ensure that we are in a good position to engage with the workforce in a meaningful way. Our employee experience surveys and focus groups will go some way to provide valuable information but we feel this would be enhanced by other mechanisms such as Board members' attendance at town hall meetings and further site visits to meet employees and listen to their views.

I am excited for the opportunities this presents for the Committee and I look forward to reporting on our activities in next year's Annual Report and Accounts.

**Till Vestring**  
Chair of the CR Committee

## DEAR SHAREHOLDER

I am pleased to present the report of the CSR Committee for the year ended 31 December 2018.

During the year, the Committee reviewed progress on our three core pillars, our people, health & safety and the environment. I am pleased that progress is being made on the people and health & safety agendas and we also continue to work on minimising our environmental footprint. Further information can be found in the CSR Report on pages 28 to 33.

The Committee also looked at each of our key stakeholders, how we create value for each of them, how

## COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

		Feb	Nov
Till Vestring	Committee Chair	✓	✓
Jerry Buhlmann	Independent Non-Executive Director	✓	✓
Stefan Bomhard	Group Chief Executive Officer	✓	✓
Alison Clarke	Chief Human Resources Officer	✓	✓
Coline McConville	Independent Non-Executive Director	✓	✓
Nigel Stein	Chairman	✓	✓

Focus for 2018	Progress made	Focus for 2019
CSR strategy	A review of the CSR strategy was undertaken during the year by an employee working group to determine whether the strategy was still relevant to the changing business.	<ul style="list-style-type: none"> <li>Workforce engagement</li> <li>Stakeholder engagement</li> </ul>
Stakeholder engagement	After receiving feedback from investors and customers we participated in the 2018 CDP climate change project.	<ul style="list-style-type: none"> <li>2019 CDP submission</li> <li>Review of areas for improvement and subsequent action plans</li> </ul>