Resilience in a dynamic environment

Last year, the Chairman highlighted a resilient underlying performance in the face of short-term challenges. 2020 has presented a different set of risks and the resilience of our global business was again tested.

2020 marked the start of a decade in which the automotive industry will undergo a period of rapid change and disruption, driven by new technology and a changing climate. A decade in which flexibility and resilience will be key. It has begun with the arrival of the COVID-19 pandemic, which impacted our people and our operations worldwide and tested the resilience of our business. Risk levels in many areas – including cyber and health and safety – have increased and will remain elevated. We responded quickly to minimise the impact of the virus on our people, our operations and our financial performance. We reduced our cost base and deployed new ways to trade. We are encouraged that our results have exceeded expectations, but are mindful that the situation remains dynamic. Put in context, COVID-19 is just one of a number of material risks which all businesses in our sector must successfully navigate. Our approach to risk management and internal control will continue to evolve to meet these challenges.

We seek to identify and address our most material risks through our systems of risk management and internal control. In this section of the report, we summarise how this system works, along with management's assessment of our Principal Risks. We comment on our response to COVID-19 specifically, as well as our plans to evaluate and address longer-term, climate-related risks. In the Viability Statement, we consider the financial viability of the Company, should one or more of these risks materialise in a catastrophic manner.

Inchcape's systems of risk management and internal control

Throughout the year, the Group has maintained and improved its systems of risk management and internal control, which are designed around an established 'three lines of defence' model (see page 42). This model engages management teams, corporate functions and independent assurance to manage risk, overseen by the Board and its Committees.

These three 'lines of defence' implement, oversee and test the Company's system of risk management and internal control. This system is made up of a number of inter-connected activities and processes, including: our strategy and operating plans; budgeting and planning activities; our framework of policies and procedures; performance monitoring; internal controls (such as those over financial reporting or IT security, for example); our framework for managing enterprise-wide risks; our legal and regulatory compliance programmes; and our internal audit programme. Together, these and other activities identify, prioritise, manage and monitor key risks to our business. Our enterprise risk framework brings all of this information together to provide management with a single view of risk and control, allowing resources to be allocated efficiently to the areas of greatest risk.

In 2020, we improved our approach to internal financial controls, strengthening the Group's defences against risks of fraud and financial mis-statement.

As we approach a period of rapid change in our industry, the Group will continue to review and improve the effectiveness of its system of risk management and internal control each year.

Our response to COVID-19

COVID-19 began impacting our business at the start of the year, initially in Asia, before rapidly spreading to all markets. In the short term, the virus threatened the health and safety of our employees and our customers, forcing the closure of our operations and disrupting our OEM partners and our supply chain. In the longer term, the pandemic has the potential to continually disrupt operations through health exposures to employees and customers, to suppress demand, to reduce the availability of credit and to possibly delay the launch of new vehicles and models. It may accelerate the introduction of disruptive business models and it may trigger consolidation in our market place.

The Company responded quickly to address the immediate challenges, introducing a set of safe operating practices in all markets and auditing compliance. Employee wellbeing programmes were introduced and more frequent employee surveys were conducted. Website and other digital trading capabilities were upgraded during the year. We liaised with our OEM partners to optimise the allocation of vehicles and prevent the accumulation of excess stock. The Company accessed various government-sponsored 'furlough' schemes in the UK, Australia and Singapore and it secured a temporary £100m borrowing facility under the UK CCFF programme. This borrowing was repaid in full. The Board of Directors and senior management agreed to a temporary 20% reduction in their remuneration. Dividend payments and the share buyback scheme were suspended. The Group undertook a cost-reduction programme, which delivered over £90m in savings. These and other factors, such as our geographic diversity, enabled us to deliver resilient results for shareholders.

Looking further ahead, the Company began a review of its strategy to assess its continued relevance in light of current industry trends, many of which have been accelerated by the pandemic. The Company will also be reviewing its contingency planning arrangements in 2021.

Despite these measures, the impact of the virus remains material and will be closely monitored through 2021.

Our approach to risk management and internal control

Inchcape deploys 'three lines of defence' to manage risk, overseen by the Board and its Committees.

Board, Audit Committee and Executive Committee
Sets strategy; sets risk appetite; reviews principal and emerging risks twice per year; reviews system of risk management and internal control

Risk, control and assurance reports.

1st LINE
Front line business operations

Implement strategy, policies, procedures and controls.

Manage risks on a day-to-day basis.

2nd LINE
Corporate functions

Set policies and procedures.

Monitor risks and controls .

Oversee risk improvement programmes.

3rd LINE
Independent assurance

Tests the design and effectiveness of policies, procedures and controls implemented by the 1st and 2nd lines.

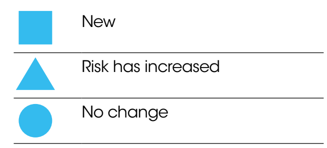
Risk management in 2020

Risk activity in 2020 was dominated by COVID-19 and its impact on the Group's risk profile. A dedicated taskforce was assembled early in the year to monitor and respond to the impacts of COVID-19. In addition to the immediate risks presented by the pandemic and managed by front line teams (1st line), elevated risks were identified by second line functions in relation to cyber risks, IT systems and health and safety. A series of internal audits (3rd line) were launched to test the effectiveness of key controls in light of COVID - especially those requiring a physical presence. As part of the routine risk management cycle, leadership teams in all markets and regions met twice during the year to reassess significant risks of all types; to review current mitigation and, if necessary, to initiate action plans. Reports were submitted to the Group Risk team, highlighting the most important risks and the measures being taken to address them. The Group Executive Team met in June and again in November to review the reports from each region and to reassess the Group's principal risks. An enhanced cyber security programme was initiated following updated risk assessments. In November, the Audit Committee met to review the overall effectiveness of the Company's system of risk management and internal control. The Board met to consider the Group's principal risks and review the Group's risk appetite.

Risk appetite: where are we willing to take risk?

A cornerstone of the Group's approach to risk management is the Board's determination of its risk appetite. This definition provides direction to all three lines of defence on acceptable levels of risk. The Board considered its risk appetite in relation to each of the Group's principal risks, using three broad categories to define the nature and extent of risks it is willing, or required, to accept.

	Strategic risks	**Inherent risks**	**Managed risks**
	Risks directly addressed by our strategy	*External risks where our influence is limited*	*Risks where we can exert significant influence*
Appetite	Moderate to high	Moderate to high	Low to moderate
Principal risks	– Acquisition ROI – Portfolio optimisation – Digitisation – Loss of OEM contract – Mobility solutions – Electrification	– Availability of credit – OEM brand damage / supply chain disruption – Foreign exchange – Political risks – Legal and regulatory change – Pandemic (COVID-19) – 'Brexit'	– Cyber incident, data breach – IT systems failure – Health and safety – Legal and regulatory compliance – Fraud – People

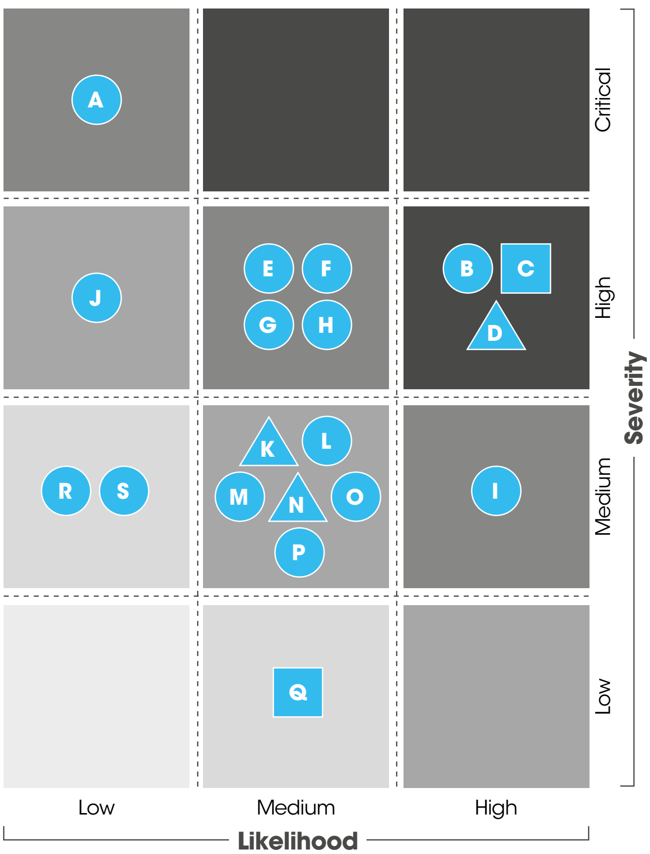


Principal risks to the achievement of our strategy

Changes this year

The COVID-19 pandemic and 'Brexit' were added to the heatmap of principal risks during the year under review. The potential for a material cyber incident or data breach (risk 'D') has increased, as the volume of cyber attacks increased during the pandemic. A major programme of work is underway to address recently-identified gaps in our cyber security capability. As a result, the related risk of IT systems failure or interruption (risk 'K') has also increased, particularly relating to some of our legacy technology systems and infrastructure. Health, safety and environment-related risks increased (risk 'N') as new ways of working were introduced and certain checks and controls operated less effectively during the pandemic. Health, safety and environmental risks were reassessed in more detail in 2020 and their rating has been increased as a result.

The risk heatmap below shows the Group's principal risks before mitigating measures are applied.



Risk

A	Loss of Distribution contract	**K**	IT systems failure / interruption
B	Digitisation	**L**	People: retention & development
C	COVID-19	**M**	Credit retrenchment
D	Cyber incident, data breach	**N**	Health, safety, environment incident
E	OEM brand damage / supply chain interruption	**O**	Disruption: go-to-market model
F	Acquisition ROI	**P**	Fraud, financial mis-statement
G	Political risk, social unrest	**Q**	'Brexit'
H	Legal / regulatory compliance	**R**	Electrification of the drivetrain
I	Legal / regulatory change	**S**	Portfolio optimisation
J	Foreign exchange		

The materialisation of these risks could have an adverse effect on the Group's results or financial condition. If more than one of these risks occur, the combined overall effect of such events may be compounded.

The chart shows management's assessment of material risks before mitigation. Various strategies are employed to reduce these inherent risks to an acceptable level. These are summarised in the tables on the following pages. The effectiveness of these mitigation strategies can change over time, for example with the acquisition or disposal of businesses. Some of these risks remain beyond the direct control of management. The Risk Management programme, including risk assessments, can therefore only provide reasonable but not absolute assurance that risks are managed to an acceptable level.

The Group faces many other risks which, although important and subject to regular review, have been assessed as less significant and are not listed here. These include, for example, natural catastrophe and business interruption risks and certain financial risks. A summary of financial risks and their management is provided in note 24 on pages 161-168.

Risks and opportunities presented by climate change

As a distributor and retailer of petrol and diesel vehicles, climate change and the transition to a low-carbon economy present inherent risks and opportunities for Inchcape plc. Some of these are already Principal Risks for the Company, including the increasing electrification of vehicle drivetrains or future legislation banning the sale of petrol or diesel vehicles. These risks will materialise in some markets quicker than others and could impact the business model in various ways in the medium and longer term. To date the impacts of climate change have been best estimates. During 2021, the Company is undertaking an assessment of climate-related transition and physical risks as proposed by the Task Force on Climate-related Financial Disclosures and will report on those findings next year.

The following pages provide further information on each of our principal risks – what they are, how they have changed and how they are managed.

The Group's principal risks

A – Loss of Distribution contract

Risk level before mitigation:		Trend
Severity: Critical	Likelihood: Low	↔

Description and impact

The Group has individual Distribution contracts, many of which are long-standing. The loss of such contracts would have a significant impact on revenue and profit, as well as future growth opportunities. The cancellation of a number of smaller contracts at the same time could have a similar impact.

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

- Unattractive value proposition for OEM partners;
- Failure to meet OEM standards;
- Non-compliance with the terms of Distribution agreements;
- Failure to deliver growth strategy;
- New competitors;
- Major fraud, bribery, data security or other operational failure.

Commentary for 2020

During the year, the Group won new Distribution contracts in South America and Europe. This further diversifies our contract base.

During the pandemic, we have strengthened ties with many of our key OEM partners, who have worked closely alongside us to jointly address the challenges presented this year.

Mitigating actions

- OEM relationships held at all management levels.
- Regular performance reviews of OEM standards and targets.
- Partner Development Teams to solve common global issues.
- Executive 'deep-dives' into core brand partners.
- Dedicated training programmes on OEM criteria and expectations.
- Employee reward linked to delivery of OEM standards.
- Investments to improve customer experience and to efficiently deliver to volume expectations.
- Targeted M&A.
- Legal and regulatory compliance programmes.
- Compliance and internal audit reviews to monitor adherence to OEM standards.

B – Digitisation

Risk level before mitigation:		Trend
Severity: High	Likelihood: High	↔

Description and impact

The digitisation of the customer journey and growth of online customer platforms present the opportunity to improve the customer offering and grow market share.

At the same time, digital platforms may enable our OEM partners, or new competitors with new business models, to directly access our customer base. These trends might change the nature of both vehicle distribution and retail.

If we fail to keep pace with the digital solutions offered by our competitors and others, we may lose market share, our OEM relationships may be weakened and our position in the value chain may be threatened.

Commentary for 2020

COVID-19 has accelerated the need to transact digitally, with less physical interaction.

Our OEM partners and new competitors continue to pilot and develop direct sales capabilities based on digital sales platforms. This may change the role of our Retail business in the sales process, or may make it redundant. It may change the way in which we stock and distribute vehicles.

Mitigating actions

- Strategy review to ensure our plans for the future of the business reflect the latest market dynamics.
- Execution of omni-channel experience, through development of digital capability: including enhanced data analytics, marketing capabilities, online service bookings, digital walk-around checks and e-commerce capabilities for parts and accessories.
- Group and market level monitoring and management of social media sentiment.
- Proactive engagement with our OEM partners to understand their 'Connected Vehicle' strategies.

C – COVID-19 pandemic

Risk level before mitigation:		Trend
Severity: High	Likelihood: High	NEW

Description and impact

This risk relates to the possibility of continued or more severe incidences of COVID-19, along with continued restrictions on movement and commercial trading. These restrictions may stretch through H1 2021 with a subsequent delayed economic recovery beyond that period.

A continuation or worsening of the pandemic could threaten the health and wellbeing of our colleagues and our customers. It would impact the Group's global trading performance and cash flows. It may lead to increased pressure on margins from OEMs; reduced capital availability for both the Company and for our customers; and supply chain interruptions. There is the potential for political and social unrest.

In the longer term, it may accelerate trends such as digitisation and introduce new business models or new ways of working, to which the Group must successfully adapt (see risk 'B').

Commentary for 2020

Following the initial impact of the virus in Q2, business performance has been resilient. The business saw an improving trend in New, Used and Aftersales revenue streams. The Group outperformed market volumes and cash flow generation was positive.

Although regulatory approval for a vaccine has arrived in many markets, the virus continues to mutate and the situation remains dynamic and unpredictable. The long-term macro-economic impact of the pandemic is yet to be determined.

Mitigating actions

- Measures at all sites to reduce infection risk.
- Non-customer-facing staff working at home.
- Pandemic plans established, along with other health and safety measures and guidance for colleagues; a wellbeing programme to support colleagues through the pandemic and increased frequency of Employee surveys.
- Frequent customer communications by email and on our websites.
- Cost-reduction programmes; enhanced monitoring of working capital and delaying discretionary spend.
- Accelerated roll-out of digital trading capabilities.
- Optimising inventory levels and liaising with OEM partners to allocate supply.
- Use of government-sponsored 'furlough' schemes in the UK, Australia and Singapore.
- Temporary £100m borrowing facility under the UK CCFF programme, repaid in full.

D – Cyber incident / data breach

Risk level before mitigation: Severity: High | Likelihood: High

Trend ↑

Description and impact

As we invest in our digital capability, gather and hold more data and rely ever more heavily on technology and mobile devices, we open up new opportunities for cyber attacks, many of which are well-funded and well-organised. Attacks can be aimed at accessing confidential data, extracting money, or causing business interruption.

The Group operates many websites and IT systems across its markets, some of which have been operating for many years. Some of these systems are provided by our OEM partners and are not under Inchcape's direct control.

During the year, businesses in some markets experienced attacks, which interrupted business operations. While not material to the Group, these successful attacks indicate the challenges present in fully protecting our systems and data from an ever-changing threat.

Commentary for 2020

A combination of factors drove an increase in the Group's exposure to cyber risks in 2020. There has been a general increase in the frequency and intensity of cyber attacks during the pandemic.

As the Group grows its digital capabilities, it becomes more reliant on fewer IT systems and the data they hold.

During the year, an assessment of the Group's IT security landscape was completed and a programme of work launched to address gaps identified. We appointed a new Chief Digital Officer in October and refreshed and strengthened our framework of IT security controls.

Mitigating actions

- Data management policy and approach.
- Dedicated Information Security resources.
- IT security policy, setting out the standards and controls expected of each business.
- Audits and other reviews to monitor compliance with those standards.
- Mandatory cyber security training.
- Global, standardised anti-virus and web-proxy solutions.
- Programme of investment to address weaknesses identified.
- Security assessments of third party vendors, which is vetted by the Group's Information Security Officer.
- Incident response and disaster recovery plans.

E – OEM brand damage / supply chain disruption

Risk level before mitigation: Severity: High | Likelihood: Medium

Trend ↔

Description and impact

As a distributor and retailer, our performance is intrinsically linked with that of our OEM partners.

Our partners may be exposed to risks such as adverse publicity, product recalls or supply chain interruptions. Such events may adversely affect our customer experience and demand for the vehicles we offer. It may lead to reputational damage for our brand or may lead us to be involved in product recalls.

While we work closely with our OEM partners to foresee and address issues, we may have limited control over the prevention and management of these risks.

Commentary for 2020

COVID-19 has caused production backlogs at a number of our OEM partners, as manufacturing sites have been required to close or operate at reduced capacity. This has affected some brands in some markets, but has been managed and it has not materialised in a way that is significant to the Group.

There remains the potential for short-term supply chain disruptions between the UK and EU member states as new trading arrangements become operational.

Mitigating actions

- Brand and geographic diversity.
- Close engagement and dialogue with our key OEM partners.
- Business continuity planning.
- Inventory management and monitoring procedures.
- Customer communication.

F – Acquisition Return on Investment (ROI)

Risk level before mitigation: Severity: High | Likelihood: Medium

Trend ↔

Description and impact

This risk relates to a failure to achieve sufficient return on investment from our acquisition strategy. This in turn would lead to higher leverage, reduced EPS and/or deterioration of relationships with OEM partners.

Inorganic growth through selected acquisitions forms an active part of the Group's current strategy. Management will continue to actively pursue opportunities as they arise. Many of those opportunities are in developing markets or in markets that are new to us. Such acquisitions may comprise smaller operations with less sophisticated systems and processes.

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

Commentary for 2020

Impairments were recorded in 2020 for previous acquisitions made.

The Company continues to pursue inorganic growth opportunities and this risk remains relevant. In 2020, the Company completed new deals with Daimler in Colombia and El Salvador, MINI in Chile and Peru, BMW Motorrad in Peru and with JLR in Poland.

Mitigating actions

- Regionally-driven integration strategy, supported by Group specialist functions.
- M&A Committee and Board oversight of process.
- Top-down and bottom-up approach to target identification.
- Dedicated business development team to project manage M&A.
- Partnering with OEM where appropriate to align expectations and requirements.
- Valuation and due diligence processes, supported by specialist advisors.
- Additional performance focus for newly acquired businesses.
- Implementation of Group policies, procedures and control framework in each new business.
- Internal Audit focus within six months of acquisition.

Key
Climate change-related risk

G – Political risk, social unrest

Risk level before mitigation: Severity: High | Likelihood: Medium

Trend ↔

Description and impact

There is a risk that political and social instability in one or more of our markets leads to economic uncertainty, market interruption and/or threats to the safety of our employees.

The Group operates in emerging markets where there may be greater volatility in the political, economic and social environment.

We accept that there is a risk of social and political instability globally and that certain political and social issues could have a destabilising effect on the global economy. Rising eco-activism could impact the automotive industry.

Commentary for 2020

There was political and social unrest in some markets, including in Chile, Africa and Hong Kong during the year, which caused the temporary closure of some of our dealerships.

There is the potential for further social unrest and political change as governments in all markets (including mature democracies) impose restrictions on individual freedoms in an effort to tackle COVID-19.

Mitigating actions

- Close monitoring of political situation in higher-risk markets.
- Business continuity planning.
- Collaboration with OEM partners on stock allocation flexibility.
- Greater emphasis on digital marketing and sales initiatives.
- Where appropriate, industry-wide collaboration in response to political or social unrest.

H – Legal / regulatory compliance

Risk level before mitigation: Severity: High | Likelihood: Medium

Trend ↔

Description and impact

The Group, and its businesses, are subject to a wide range of existing laws and regulations across a range of markets, from those where regulatory frameworks are still developing to mature, highly-regulated markets. The consequences of a failure to comply with those laws and regulations can vary from small fines, and orders to take remedial actions, to significant financial consequences, reputational damage and imprisonment of directors and officers.

Regulation to which the Group is subject includes, for example, anti-bribery and corruption, data protection, health and safety and anti-money laundering regulation or rules relating to the distribution and sale of finance and insurance products.

Commentary for 2020

Restrictions on travel arising from the current pandemic have impacted aspects of our compliance monitoring programme, e.g. the ability to physically inspect sites or conduct certain audits to monitor compliance with health and safety legislation. We do not believe these constraints have had a material impact on our ability to meet our legal and regulatory compliance obligations.

Mitigating actions

- Group-wide Code of Conduct, with associated training.
- Nominated legal representative and/or retained counsel in major markets to monitor existing and emerging legislation.
- Online training relating to specific laws and regulations.
- Market-level policies and procedures, supported by Group-wide policies for higher risk areas.

I – Legal / regulatory change

Risk level before mitigation: Severity: Medium | Likelihood: High

Trend ↔

Description and impact

This risk relates to changes in legislation or the way that legislation is applied. These changes may directly affect customer demand for certain vehicle types or our ability to generate income from Aftersales.

The most significant changes relate to proposed restrictions on vehicle emissions or restrictions on the sale of new petrol or diesel cars.

Commentary for 2020

In response to a changing climate, governments in some markets have this year proposed legislation to further curb vehicle emissions or to ban sales of petrol and diesel vehicles beyond a certain date (e.g. UK – 2030). Other markets, such as Singapore and the EU, have also signalled their intention to introduce similar legislation.

Mitigating actions

- Review of current strategy in light of changing market trends.
- Nominated legal representative in major markets to monitor emerging legislation.
- Close liaison with OEM partners on product development.
- Natural hedge provided by working with a range of OEM partners in a range of markets.

J – Foreign exchange

Risk level before mitigation: Severity: High | Likelihood: Low

Trend ↔

Description and impact

This risk relates to fluctuations in exchange rates with negative impact on financial performance.

We operate in many different countries with different functional currencies. In doing so we accept the risk that, outside of normal hedged transactions, we are exposed to currency fluctuations. These can be both positive and negative.

Commentary for 2020

Currency markets have been significantly impacted by the COVID-19 pandemic in 2020.

Mitigating actions

- Natural hedging from geographical diversity.
- Local billing arrangements with brand partners in most markets (excl. certain brands in Australia and Americas).
- Use of forward currency exchange contracts to hedge transactional exposures (e.g. Yen and AUD).
- Analysis / stress testing of Group sensitivity to foreign exchange exposures.

K – IT systems failure / interruption

Risk level before mitigation: Severity: Medium | Likelihood: Medium

Trend ↑

Description and impact

Our business performance and our ability to service our customers and OEM partners depends upon the ability of our systems to meet expected levels of operational reliability.

We have a diverse and complex IT landscape with multiple potential points of failure. Some of our legacy IT systems have been operating for many years. We operate in emerging markets where technology infrastructures, such as the internet, may be unstable.

Many of our core services are held on, or reliant on, cloud-based services provided by third parties.

Commentary for 2020

We have continued our programme to standardise the core applications, processes and controls, which support our business.

We appointed a new Chief Digital Officer in October.

We refreshed our IT General Controls and our IT Security Controls. These changes are being implemented. They include for example, the increased use of two-factor authentication and the consistent deployment of anti-virus solutions.

Mitigating actions

- Back-ups and built in resilience for all major systems.
- Resilience testing for all new implementations prior to go-live.
- Incident management, disaster recovery and continuity plans.
- IT General Controls in place and audited.
- Availability criteria built into SLAs with third-party hosts.
- Service providers all appropriately accredited.
- Third-party providers are security risk-assessed.
- Physical and logical security in place with active monitoring for core systems.

L – People retention and development

Risk level before mitigation: Severity: Medium | Likelihood: Medium

Trend ↔

Description and impact

The fragmented nature of the automotive sector, coupled with remuneration strategies which typically reward short-term performance, mean that the industry is characterised by inherently high turnover rates, especially in retail businesses. Our strategy, as well as the impact of disruptive trends and emerging technologies in the automotive industry, mean that the skills and capabilities needed to succeed are constantly changing. Not having the right talent succession plans, and diversity at all levels, may compromise our ability to deliver our strategy.

Commentary for 2020

COVID-19 has impacted our people in many ways. We have new operational procedures at our sites around the world and many colleagues are working from home. In response to COVID-19, we implemented a cost-reduction programme and parts of our business have undergone organisational restructures. All of these factors may adversely affect the motivation and engagement levels of our employees.

Mitigating actions

- Employee survey and measurement in all markets.
- 'Together in Spirit' programme.
- Global Talent Strategy to ensure resources are aligned to strategy.
- Annual talent review of leadership and management teams in all markets and functions.
- Organisational Health, Talent and Succession review with Executive team.
- Recruitment, induction and continuous development policies in all markets.
- Drive5 performance drivers (behaviours) underpin development process.
- Performance-related pay structure calibrated to incentivise and drive talent retention.
- Restructuring where necessary to right-skill the business.

M – Credit retrenchment impacts demand

Risk level before mitigation: Severity: Medium | Likelihood: Medium

Trend ↔

Description and impact

Global economic uncertainty may ultimately lead to a reduction in readily-available, affordable credit. This is fundamental to our customers' ability to buy, and to our, and our dealers' ability to operate. Whilst we have various local initiatives in place to help our customers and dealers access appropriate finance, we are also reliant on our banking and OEM partners to provide suitably attractive options.

Commentary for 2020

This risk did not materialise in 2020 in a way that has materially impacted our business.

The longer-term impacts of COVID-19 are as yet unclear. Material macro-economic impacts, including a reduction in available credit, may materialise.

Mitigating actions

- Monitoring of credit availability.
- If required, the Company would take appropriate cost-reduction or other measures to respond to a downturn in economic activity.

Key
Climate change-related risk

N – Health, safety, environmental incident

Risk level before mitigation: Severity: Medium | Likelihood: Medium

Trend ↑

Description and impact

The Group's activities include manual activities and the operation of machinery and vehicles, sometimes in confined spaces. These activities expose our colleagues to the risk of serious or fatal injury. The use of and disposal of chemicals and other substances risks harm to the environment.

Our colleagues' mental and physical wellbeing could be harmed as a result of workload, organisational restructuring or as a result of external factors (such as the current pandemic).

Commentary for 2020

We changed a number of our operating procedures in response to COVID-19. This, combined with reduced staffing levels in some locations, has restricted our ability to undertake certain physical checks and inspections and may temporarily increase health and safety exposures. We also reviewed and reassessed health and safety risks across the Group and continue to implement a new framework for managing health and safety risks.

Employee uncertainty increased during the year as we faced the impact of COVID-19 and business cost reduction.

Mitigating actions

- HSE strategic plans developed in all markets.
- Risk assessments updated.
- Inchcape Global Standards of Safety continue to be implemented in local markets.
- Targeted risk management programmes being rolled out to address key exposures.
- Single H&S system and reporting tool implemented across 34 territories and 17 languages.
- HSE Director has undertaken a global audit of H&S practices and standards.
- Global Community of Practice implemented.
- Global and Local Health & Safety policy rollout compliant with local legislation.
- Qualified Health & Safety practitioners in major markets.
- First responders appointed and trained in most markets.
- Leading and lagging KPIs.

O – Disruption: go-to-market model

Risk level before mitigation: Severity: Medium | Likelihood: Medium

Trend ↔

Description and impact

Technological advances have enabled the rapid growth of on-demand and shared mobility through the likes of Uber, Grab and Lyft.

The impact of these services will vary by market, but provide both opportunity and threat to existing business models and to the way vehicles are distributed, retailed and used, particularly in major cities and advanced city states.

A rapid growth in shared mobility, for example, could reduce demand for new and used vehicles. It could change the way vehicles are distributed and purchased, potentially moving from the current business-to-consumer model, to more business-to-business transactions.

These changes may enable new entrants to enter our markets with new business models.

Commentary for 2020

The pandemic has resulted in fewer people choosing to use shared modes of transportation, temporarily halting the growth of shared mobility solutions.

It is yet to be determined if this change will be reversed once the pandemic is addressed.

Mitigating actions

- Review of strategy in light of changing market trends and alternative business models.
- Partnerships and pilot programmes with OEMs and emerging mobility-service businesses to better understand requirements and propositions.

P – Fraud, financial mis-statement

Risk level before mitigation: Severity: Medium | Likelihood: Medium

Trend ↔

Description and impact

The Group may be subject to fraud or its financial performance may be misstated, either in error or deliberately.

These risks may be heightened during the acquisition of new contracts in new markets; in periods of organisational restructuring or economic downturns; or when parts of the business are under-performing against targets.

Commentary for 2020

The effectiveness of some of our financial controls (e.g. physical stocktakes) were compromised during 2020 due to the pandemic.

During the year, the Group refreshed its system of internal financial controls, realigning controls to the areas of greatest risk of fraud or mis-statement.

Mitigating actions

- Code of Conduct.
- 'InControl' framework of internal financial controls, assessed quarterly and monitored by management and the Audit Committee.
- Fraud Management and Whistleblowing policies.
- Delegation of Authorities policy.
- Cyber security programme.
- Whistleblowing hotline available in all countries.
- Internal Audit monitoring.

Key
Climate change-related risk

Q – 'Brexit'

Risk level before mitigation:
Severity: Low | **Likelihood: Medium**
Trend NEW

Description and impact

A change in the trading arrangements between the UK and the European Union has the potential to disrupt our business. This risk would be most acutely felt had both sides failed to reach an agreement on future trading arrangements. Our exposure to this risk is in our UK Retail business and our Northern Europe operation.

In the short term, the principal impact on the Company relates to disruptions in the supply of new vehicles and parts. The medium-term macro-economic impact on the UK economy also remains uncertain. A slowdown in economic activity or a retrenchment of credit availability in the UK would impact revenues and operating margins in our UK Retail business (see Risk 'M').

Commentary for 2020

In December 2020, the UK agreed the basis for its future trading arrangements with the EU. At that point, the Group's exposure to 'Brexit' risks reduced significantly.

Contingency plans had been actioned in 2020 in anticipation of any disruption. The Board is actively monitoring developments and will take further action as required.

Our analysis of the possible impacts was reviewed throughout the year.

Action plans were implemented and updated as negotiations progressed.

Mitigating actions

- Close liaison with OEMs to anticipate and prepare for supply chain disruptions.
- Optimisation of inventory levels.
- In the UK and other markets, communicating potential impacts to customers (e.g. delivery delays and potential price rises).
- Close monitoring of the macro-economic situation in the UK.

R – Electrification of the drivetrain

Risk level before mitigation:
Severity: Medium | **Likelihood: Low**
Trend ↔

Description and impact

In response to a changing climate, governments around the world are increasingly committing to phasing out fossil-fuel powered vehicles. This will happen at different speeds in different markets.

A greater penetration of electric vehicles ("EVs") may reduce margins available through the value chain, as OEMs, distributors and retailers make additional investments in infrastructure.

We have long-standing relationships with our OEM partners and rely on them to successfully bring new EV models to market. Some of these OEMs could fail to retain their current market share if they offer an unattractive range of EV products, impacting our performance.

Commentary for 2020

The growth in EV sales has continued in many markets in 2020, in spite of the pandemic.

Governments continue to signal their intentions to phase out petrol and diesel vehicles. The UK government, for example, has brought forward its ban on new sales of those vehicles to 2030.

We continued to bring market insights to our OEM partners to inform the planning, design and production volumes for new models, to support brand positioning and marketing.

Mitigating actions

- Review of our strategy in light of changing market dynamics and new legislation.
- Ongoing collaboration with OEMs regarding product design and planning, brand positioning and marketing in the light of local market requirements and characteristics.
- Preparation of Aftersales business in line with OEM EV requirements.

S – Portfolio optimisation

Risk level before mitigation:
Severity: Medium | **Likelihood: Low**
Trend ↔

Description and impact

As a global retailer we hold a significant portfolio of operational Retail assets. We acknowledge that the risk inherent in holding Retail-only assets is increasing. Our ongoing portfolio strategy is therefore focused on more attractive and less capital-intensive Distribution operations. Failure to dispose of Retail assets when maximum value creation has been achieved, or before anticipated internal or external factors lead to a sustained underperformance, may lead to inefficiency and impact on profit.

Commentary for 2020

We have continued to expand our Distribution footprint in 2020, acquiring contracts in South America and Europe. We continue to dispose of Retail assets when maximum value can be achieved.

Mitigating actions

- Continual monitoring of portfolio and disposal of assets where necessary.
- Regular impairment reviews undertaken.
- Disposal of non-strategic, higher risk Retail assets in progress.

Viability of Inchcape plc

Three-year assessment period

The Directors have assessed the viability of the Group over a three-year period to December 2023, taking account of the Group's current financial position and the potential impact of our most material principal risks (or a combination of them). The Directors have determined three years to be the most appropriate period for the viability assessment. Our continued viability is dependent upon the continuation of our relationships with OEMs and many of our OEM contracts have terms of less than three years; three years is a key timeline for new car changeover in mature retail markets with good personal finance penetration; and the number of Units in Operation (UIO) up to three years old is a key driver of our Aftersales business.

Process and scenarios considered

Our financial planning process incorporates an Annual Operating Plan ("AOP") for the next financial year (2021), together with financial forecasts for the remaining years covered by the Viability Assessment. These financial forecasts consider the Group's profitability, gearing, cash flows and other key financial metrics over the period to December 2023. These metrics are subjected to sensitivity analysis, in which a number of the main underlying assumptions are adjusted and tested to consider alternative risk-based scenarios. Using the Group's four most significant risks, unlikely but realistic worst-case scenarios are created and their impact projected onto the three-year projections. These risks are (i) loss of a material Distribution contract, (ii) continued and more severe incidence of the current pandemic, (iii) a major cyber incident and (iv) digital disruption to our markets and pricing. These risks have been modelled individually and concurrently, i.e. assuming all four materialise during the three-year period. Modelling these risks tests the Group's ability to withstand a material reduction in revenue (Distribution contract and COVID risks); a material degradation in margins (digital disruption); and the impact of an unexpected operational expense (cyber attack).

The models assume that a portion of our uncommitted facilities (inventory financing) are withdrawn. The testing recognises that some mitigating actions would remain available to management to partially mitigate the impact of these risks, including reductions in operational and capital expenditure.

In the most severe scenario modelled, the test indicates that the Company would not breach the single financial (interest) covenant on its committed facilities. Details of the Company's financing arrangements can be found in note 23 to the financial statements on pages 159-160.

Viability statement

Based on the outcomes of the scenarios and considering the Group's financial position and principal risks, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment. The Directors' statement regarding the adoption of the going concern basis for the preparation of the financial statements can be found on page 100.

UK trading arrangements with the European Union ('Brexit')

In late December 2020, the UK agreed the basis for its future trading arrangements with the European Union. At that point, the Group's exposure to 'Brexit' risks reduced significantly. The risk is still displayed on the heatmap of principal risks, as it had remained a material risk up to 23 December – the date on which an agreement was announced.

Any remaining exposure is not considered material and relates principally to our UK Retail business, where we are the retailer for major German brands. We also import certain Toyota and JLR models from the UK into Europe. In the short term, any impact on the Company relates to disruptions in the supply of new vehicles and parts, which we believe is manageable. Given the nature of our business, we are reliant upon the actions taken by our OEM partners in response to any disruption and we continue to work closely with them. The medium-term macro-economic impact on the UK economy also remains uncertain. A slowdown in economic activity or a retrenchment of credit availability in the UK would impact our UK Retail business.

Contingency plans were implemented in 2020 and in 2021 in anticipation of any disruption. The Board is actively monitoring developments and will take further action as required.

Directors' approval of the Strategic Report

Our 2020 Strategic Report, from pages 1-51, has been reviewed and approved by the Board of Directors on 24 February 2021.

Duncan Tait
Group Chief Executive