Interim Results 2020

Inchcape plc ("Inchcape" or the "Group"), the global automotive distributor, announces its half year results for the six months ended 30 June 2020.

Resilience in adverse markets – positioning business to come out stronger

FIRST-HALF HIGHLIGHTS:

- Group revenue £3.0bn, down 36% reported, and down 29% on an organic basis. Outperformance against the market[1]
- Pre-exceptional PBT of £9m (2019: £156m). Reported loss before tax of £188m, reflecting £198m of exceptional charges (largely impairments of Retail goodwill and sites globally)
- Duncan Tait joined the Group on 1 June, assuming full responsibilities as Group CEO on 1 July
- Net cash position of £89m at Jun-20 (Dec-19: £103m), with 1H20 Free Cash Flow of £(5)m; CCFF fully repaid (£100m) in July
- Cost restructuring programme targeting >£90m of annual savings is well-underway; anticipated completion by 1Q21
- Further portfolio progress: awarded the distribution contract for JLR in Poland, bolstering our brand presence in Europe

KEY FINANCIALS (UNAUDITED)

	1H 20	1H 19	Actual Currency YoY	Constant Currency YoY[2]	Organic Growth YoY[3]
Key Financials					
Revenue	**£3,019m**	£4,725m	(36)%	(35)%	(29)%
Operating profit (pre exceptionals)[2]	**£28m**	£180m	(84)%	(84)%	
Profit before tax (pre exceptionals)[2]	**£9m**	£156m	(94)%	(94)%	
Basic EPS (pre exceptionals)[2]	**(0.6)p**	28.6p	(102)%		
Dividend per share	**-**	8.9p	(100)%		
Statutory Financials					
Operating (loss) / profit	**£(169)m**	£177m			
(Loss) / Profit before tax	**£(188)m**	£154m			
Basic EPS	**(48.2)p**	27.8p			

1. Total industry volumes for new cars in Inchcape markets
2. These measures are Alternative Performance Measures, see note 15.
3. Organic growth is defined as sales growth in operations that have been open for at least a year at constant foreign exchange rates

DUNCAN TAIT, GROUP CEO OF INCHCAPE PLC, COMMENTED:

"Having joined the Group in June, I have been extremely impressed by what I have seen of the team, and the high-energy levels across all areas of the business. It is evident how much work has gone into helping steer the Group through this challenging environment, and this is evident in our topline outperformance versus the market. I would like to thank Inchcape colleagues around the world for their response and spirit during this unprecedented period, and to all of those who have contributed time, resource and capability to the needs of our communities impacted by the pandemic.

Unsurprisingly, the effect of Covid-19 has materially impacted the Group's performance in the first half, with either partial or complete shutdowns affecting a substantial proportion of our operations. In those markets that have reopened, we have implemented strict physical distancing and hygiene measures to protect the health and safety of our customers and colleagues.

The Covid-19 situation remains very dynamic, and it is unclear how the world will change once the virus has been contained. Nevertheless, the number one priority for the Group is to execute on the plans we have in place for the months ahead, with a particular focus on making our organisation leaner, and to get back to doing what we do, safely. I am confident that the strong momentum we were seeing prior to the pandemic will return and that our long-term strategy will continue to create value for all our stakeholders.

The Ignite strategy has created a solid foundation from which we will continue to grow. The focus on distribution, an expanding portfolio of high potential markets and a strong set of leading OEM partnerships remains fundamental to our future success.

I am delighted to have joined Inchcape at such an interesting time for the automotive industry. I am particularly excited about our ability to leverage the strong OEM partnerships, diverse geographical presence and robust balance sheet to grow our business. Early as this is in my tenure, I believe there are opportunities for us to accelerate our development in certain areas, and look forward to sharing our plans in due course."

OPERATIONAL REVIEW

Key Performance Indicators – results

	1H 20 £m	1H 19 £m	Reported YoY %	Constant Currency YoY %	Organic Growth YoY
Revenue	**3,019**	4,725	(36)%	(35)%	(29)%
Operating profit (pre exceptionals)[1]	**28**	180	(84)%	(84)%	
Operating margin (pre exceptionals)[1]	**0.9%**	3.8%	(2.9)ppt	(2.9)ppt	
Profit before tax (pre exceptionals)[1]	**9**	156	(94)%	(94)%	
Free Cash Flow[1]	**(5)**	25	(120)%		
Return on capital employed[2]	**14%**	19%			

1. See note 15 for definition of Key Performance Indicators and other Alternative Performance Measures.

2. ROCE is calculated on a trailing 12-month basis

PERFORMANCE REVIEW

Our performance in the first half of 2020 was materially impacted by Covid-19. The spread of the virus resulted in the closure of our operations in many markets – peaking in April. As of today, we are open in 30 markets (including Singapore and UK), and remain closed in three markets (Chile, Costa Rica and Panama).

Group revenue of £3.0bn was down 36% year-on-year reported and 35% in constant currency. While our performance to the end of February was ahead of internal expectations, in March, the onset of the virus started a wave of closures across all of our regions, and peaked in April. Since then, we have seen most of our markets start to gradually reopen, enabling us to serve our customers. Following the April low, we have seen sales performance sequentially improve in both May and June, as trading resumed across more markets. It remains too early to call out a trend based on what we have observed thus far, not least because of the distortion effect of pent-up demand as we reopen markets.

The Group delivered an **operating profit before exceptional items** of £28m, down 84% year-on-year in actual and constant currency. This reflects the drop-through from lost revenues resulting from the forced closure of our operations in many markets. In response to the disruption caused by Covid-19, the Group took prompt action to reduce discretionary costs (e.g. marketing, office, travel), we accessed government support schemes in some markets, and the Board/ senior management took a 20% reduction in fees/ salary in the second quarter. These cost-mitigation measures have helped support profitability during the second quarter, and in June enabled us to generate positive operating profit across all regions (bar Americas, where our largest market, Chile, remained closed). With the effects of Covid-19 likely to result in a prolonged economic impact, the Group has started to implement a comprehensive cost-restructuring programme (details below).

Profit before tax and exceptional items (PBT) of £9m is down 94% year-on-year in actual and constant currency. The absolute level of PBT decline is slightly lower than that observed at the operating profit level, owing to a lower (£5m) interest charge versus the prior year. Reported loss before tax fell to £(188)m, compared to a profit of £154m in the prior year.

In the first half of 2020, we booked **exceptional charges** of £198m, primarily due to the impact of Covid-19. The majority (£185m) of this relates to goodwill and site impairments, of which c£160m is attributable to Retail businesses. Our impairment review included all sites globally, and as part of that we have also impaired the value of some of our Distribution sites. As a result, the reported loss before tax was £188m, compared to a profit before tax of £154m in the comparable period.

In the first six months of the year, **Free Cash Flow** (FCF) saw a small outflow of £5m, against a £25m inflow in the comparable period. The significantly lower operating profit during the period was mitigated by a number of measures resulting in a meaningful improvement in the Group's working capital position, a near halving of net capex, and a lower outflow for tax and interest payments.

Other notable elements of the Group cash flow bridge include: net acquisitions, which amounted to £9m (relates to the acquisition of Daimler Colombia, and disposals of a few Retail sites), and share buybacks, £31m of £150m completed prior to termination.

At the end of June, the Group had total **liquidity** in excess of £1bn, comprising available cash of £480m (excludes cash where prior approval is required to transfer funds abroad) and £530m of headroom in our RCF. This position was further strengthened during the period with the confirmation of our eligibility to the UK CCFF scheme (zero drawn as of today). We closed the reporting period in a **net cash** position of £89m (excluding lease liabilities) – this compares to £103m at the end of December 2019. On an IFRS 16 basis, we ended the period with net debt of £262m (£250m at end of December).

Our **ROCE** over the period was 14%. This compares to 19% for the equivalent period last year, with the decline driven by the steep reduction in our profits.

COST RESTRUCTURING

As a direct response to the Covid-19 crisis, the Group is undertaking a major cost-restructuring programme that will ensure it emerges stronger, with a leaner platform, fit for focused growth. Once completed, the programme is expected to deliver a cost-benefit of >£90m (or c.11% of overheads), of which c50% will be retained when revenue recovers.

The savings will be achieved across three areas:

1) a reduction of our global workforce (a combination of sales-personnel and support staff),

2) negotiation of third-party expenditure, and

3) a further rationalisation of our footprint.

The anticipated restructuring costs will be c£70m (majority in 2020), with a cash cost of c£50m.

In addition to the annualised savings, the Group is consciously negotiating on everything we spend and continues to look for further cost-efficiencies by leveraging its global scale and conducting regular reviews of its portfolio.

STRATEGY UPDATE

The headline financial performance during the period masks the benefit the business continues to get from the successful Ignite strategy. Every aspect of Ignite contributed to the Group navigating the challenges posed by Covid-19, and will be the underpinning of a stronger business as our operations return to normal.

- **Customer experience:** we continue to leverage our digital investment, using tools (e.g. Salesforce) that enable a proactive approach to customer engagement. During the period, the Group's online platforms saw record traffic and we will continue to leverage this.
- **Partner of choice:** our strong relations with OEMs facilitated collaborative discussions and good progress on inventory management across markets. This crisis has given our partners greater insight into the robustness of our global Distribution capabilities.
- **Revenue streams:** the greater emphasis on more defensive, and profitable, streams (i.e. aftersales and used vehicles), and the ongoing F&I[1] opportunity, will provide an underpin to performance given the uncertainty surrounding new vehicle demand.
- **Global scale:** the extension of procurement initiatives across our markets has enabled further improvement of cost control. Our global purchasing system provides real-time visibility of spend commitments, which helped us reduce costs in the first half of 2020.
- **Invest for growth:** we completed the Daimler Colombia distribution deal in March, and in July, were awarded the JLR-distribution contract for Poland, bolstering our presence in Europe. The pipeline for consolidation opportunities remains healthy.

While the financial performance in 2020 will be weighed down by the impact of Covid-19, we will continue on our path to allocate capital towards the more attractive Distribution business – the segment of the Group that is faster growing, generates higher margins, has greater flexibility of costs, is less capital-intensive and has stronger cash generation characteristics.

PEOPLE

Covid-19 has had an unprecedented impact on people and economies worldwide. The dedication shown by our colleagues throughout this period is a real testament to the Inchcape spirit which is evident throughout the organisation. The strong ethos of operational discipline and an unrelenting focus on delivering outstanding customer service, has helped us navigate the challenges we faced during this extraordinary time. The Board and Management would like to express their sincere gratitude to colleagues around the world for their commitment and spirit in delivering these results in such a challenging environment.

CAPITAL ALLOCATION

Over the past five years the Group has paid c£450m in dividends, invested c£590m in acquisitions, and distributed c£330m of excess cash through share buybacks. This is in line with our disciplined capital allocation policy targeting optimal allocation of funds to enable both the continued development of the business (including both organic investments and value-creating acquisitions) and shareholder returns.

In light of the disruption caused by Covid-19, the Board decided to preserve cash by cancelling the payment of the final dividend (£70m) and suspending the share buyback programme (£31m completed of the £150m). Given the low level of earnings in the first half and limited visibility, we have decided not to declare an interim dividend.

Inchcape is a highly cash-generative business with a strong balance sheet. The Group is conscious of the importance of returns to shareholders and in the absence of any further material disruptions to our operations, the Group expects to be in a position to resume making shareholder distributions in accordance with the performance of our business.

SECTOR RECLASSIFICATION

Given the shift of the business away from retail towards distribution, the London Stock Exchange reconsidered the appropriateness of Inchcape's sector classification, and concluded that 'Business Support Services' is more appropriate (previously 'Speciality Retail'). The change became effective as of 19th June 2020.

OUTLOOK

The Board announced on 20 March 2020 that it put on hold any forward guidance until such time that the overall impact of Covid-19 on the Group became clearer. While the majority of our markets have now reopened, given the lack of visibility of underlying demand, coupled with the ongoing uncertainty regarding a potential second wave of the virus, it is still too early to provide a forward-looking view of the Group's performance.

As highlighted by our performance in the first half, we have continued to outgrow the market, shown effective cash-flow management and maintained a robust balance sheet. We expect this resilience will continue, and are focused on making the business leaner and stronger, ready to capitalise on the exciting growth opportunities that lie ahead.

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[1] Finance & Insurance

OPERATING AND FINANCIAL REVIEW

Our results are stated at actual rates of exchange. However, to enhance comparability we also present year-on-year changes in sales and operating profit in constant currency, thereby isolating the impact of translational exchange rate effects. Unless otherwise stated, changes in revenue and operating profit in the operating review are at constant currency. All figures are stated before exceptional items.

Following an internal reorganisation of management structure we have redefined our regions. This has resulted in a reclassification of our retail business in Russia from 'Emerging Markets' to within 'UK & Europe', and 'Emerging Markets' has been redefined as 'Americas & Africa'. We have also consolidated our Asia and Australasia businesses to form a new region; 'APAC'. Given Australasia's contribution to the overall Group we have decided to continue to disclose its results. We had historically disclosed Central costs separately, which we now fully allocate to each segment.

Segmental detail can also be found in the condensed consolidated interim financial statements.

DISTRIBUTION

The Distribution segment saw revenues down 27% year-on-year, with performance in the second quarter significantly impacted by market closures related to Covid-19. As a result, operating profit declined from £160m in the prior year to £46m. Distribution operating profit margin fell 4ppt to 2.7%, with margins contracting across all regions.

	1H 20 £m	1H 19 £m	Reported YoY %	Constant Currency YoY %	Organic Growth YoY %
Revenue					
Asia	450.5	784.1	(43)%	(43)%	(43)%
Australasia	421.5	517.2	(19)%	(14)%	(14)%
APAC	872.0	1,301.3	(33)%	(32)%	(32)%
Europe	527.5	660.5	(20)%	(20)%	(22)%
Americas & Africa	330.9	459.3	(28)%	(22)%	(30)%
Total Distribution	**1,730.4**	**2,421.1**	**(29)%**	**(27)%**	**(29)%**
Operating profit					
Asia	28.6	86.1	(67)%	(67)%	
Australasia	4.2	30.4	(86)%	(85)%	
APAC	32.8	116.5	(72)%	(72)%	
Europe	9.1	19.8	(54)%	(54)%	
Americas & Africa	4.2	23.5	(82)%	(81)%	
Total Distribution	**46.1**	**159.8**	**(71)%**	**(71)%**	
Operating profit margin					
Asia	6.3%	11.0%	(4.7)ppt	(4.6)ppt	
Australasia	1.0%	5.9%	(4.9)ppt	(4.9)ppt	
APAC	3.8%	9.0%	(5.2)ppt	(5.3)ppt	
Europe	1.7%	3.0%	(1.3)ppt	(1.3)ppt	
Americas & Africa	1.3%	5.1%	(3.8)ppt	(3.9)ppt	
Total Distribution	**2.7%**	**6.6%**	**(3.9)ppt**	**(4.0)ppt**	

1: Operating profit stated pre-exceptionals

- **Asia** revenues contracted 43%, and operating profit was down 67%. While the majority of our markets remained open throughout the first half, the spread of the virus weighed significantly on our performance across the region. Our Singapore business endured a prolonged closure (from early April to mid-June), contributing to additional pressure in a market that we had expected would contract c25% in 2020 (pre-Covid-19). Since reopening, the government has said that the Certificate of Entitlement quota (that was missed following the suspension of bidding) will be phased over the next 12 months. As a result, we now expect total industry volumes for 2020 will be c40% below the prior year level. While our operations in Hong Kong remained open, demand was clearly subdued, and our performance softened further when the protests escalated in May. More recently, a spike in Covid-19 cases has led to the enforcement of greater restrictions in the market.
- **Australasia** revenues contracted 14%, and operating profit was down 85%. Our operations in Australia remained open throughout the first half, while our business in New Zealand closed for a seven-week period. Despite remaining open, profitability in Australia was severely impacted in the second quarter as gross margins came under pressure owing to lower volumes and competitive pressures, but also unfavourable currency effects. The transactional currency (AUD:JPY) headwind in the period was around £10m.
- **Europe** revenues contracted 20%, and operating profit was down 54%. Prior to Covid-19 enforced closures, our performance had been solid. Shutdowns started to weigh on the region's performance in mid-March, reaching a peak in April. By the second week of May, all impacted markets had reopened, and we have seen business activity ahead of our expectations, particularly in aftersales. While the environment continues to be challenging, we are encouraged by our performance relative to the market in the second quarter.
- **Americas & Africa** revenues contracted 22%, and operating profit was down 81%. Performance in the first quarter until lockdowns was above the prior year level. However, Americas was hardest hit in terms of number of markets forced to close to help control the spread of the virus. While the majority of markets have now reopened, a few markets (namely Chile, Costa Rica and Panama) remain shut. The geographic diversification within the region meant that there were some pockets of good performance that has helped offset losses elsewhere. Performance in Ethiopia was good against a weak comparative in 2019 as it was affected by limited currency availability. Despite the setback caused by Covid-19, given the low penetration of vehicles, we are optimistic about the growth prospects of the Americas & Africa region over the medium term.

RETAIL

The Retail segment saw revenues down 43% year-on-year, or down 30% on an organic basis (adjusting for the Retail disposals made over the course of the last 12 months), with performance in the second quarter significantly impacted by market closures – both UK and Russia remained shut throughout April and May. As a result, the Retail segment fell into an operating loss of £(18)m (1H19: an operating profit of £20m), and the operating profit margin fell 2.3ppt to (1.4)%.

	1H 20 £m	1H 19 £m	Reported YoY %	Constant Currency YoY %	Organic Growth YoY %
Revenue					
Asia	-	81.7	(100)%	(100)%	n/a
Australasia	9.4	168.4	(94)%	(94)%	n/a
APAC	9.4	250.1	(96)%	(96)%	n/a
UK & Europe	1,279.3	2,053.9	(38)%	(37)%	(30)%
Total Retail	**1,288.7**	**2,304.0**	**(44)%**	**(43)%**	**(30)%**
Operating profit					
Asia	-	4.1	(100)%	(100)%	
Australasia	0.4	0.4	-	-	
APAC	0.4	4.5	(91)%	(91)%	
UK & Europe	(18.0)	15.5	(216)%	(219)%	
Total Retail	**(17.6)**	**20.0**	**(188)%**	**(190)%**	
Operating profit margin					
Asia	-	5.0%	n/a	n/a	
Australasia	4.3%	0.2%	4.1ppt	4.2ppt	
APAC	4.3%	1.8%	2.5ppt	2.5ppt	
UK & Europe	(1.4)%	0.8%	(2.2)ppt	(2.1)ppt	
Total Retail	**(1.4)%**	**0.9%**	**(2.3)ppt**	**(2.3)ppt**	

1: Operating profit stated pre-exceptionals

- **UK and Europe** is home to all of the Group's remaining Retail operations in the UK, Russia and Poland. Revenues for the region were down 37% year-on-year (down 30% on an organic basis), as closures from late-March weighed on the performance of both the UK and Russia businesses. Prior to the shutdowns, sales in Russia and Poland had been strong, while the UK had traded in line with our expectations. However, the sudden nature of the closures in both markets had a material impact on profitability. During the six-month period, the region generated operating losses of £18m (vs a profit of £16m in the prior period, which included profits from businesses disposed in December 2019, including IFS). Since our operations restarted in June, both the UK and Russia have traded well, recording a profit in the month of June.
- **Asia:** the China Retail business (disposed in December 2019) was reclassified from Distribution-Asia to Retail-Asia, and did not provide any contribution to the region's performance in 2020.
- **Australasia:** the majority of the Retail business in Australia was sold during 2019. Two additional sites were sold in 2020, and their contribution until the date of disposal has been included. The comparative includes these two sites, and the rest of the Australian Retail business that was sold in 2019. Following the disposals, there will be no further contribution to this segment.

VALUE DRIVERS

We provide disclosure on the value drivers behind our gross profit (pre-exceptional). This includes:

- Gross profit attributable to Vehicles - New Vehicles, Used Vehicles and the associated F&I (Finance & Insurance) income; and
- Gross profit attributable to Aftersales - Service and Parts.

		Gross profit £m		Reported YoY %	Constant Currency YoY %
		1H 20	1H 19		
Group	Vehicles	205.5	398.3	(48)%	(47)%
	Aftersales	168.5	242.9	(31)%	(29)%
	Total	**374.0**	**641.2**	**(42)%**	**(41)%**

Weighed down by the effects of market closures caused by the spread of Covid-19, over the reporting period we saw a 47% decrease in Vehicles gross profit, while Aftersales gross profit was more resilient, decreasing 29%.

We operate across the automotive value chain and over the first half of 2020, we generated 45% of gross profit through Aftersales, compared to 38% in the prior year.

OTHER FINANCIAL ITEMS

CENTRAL COSTS

The Group has historically reported the performance of its reporting segments before unallocated central costs. These represent costs of Group functions and, previously, these costs were reported separately from the results of the Group's reportable segments. The Group now fully allocates these costs in arriving at the results reported for each segment.

GOVERNMENT SUPPORT SCHEMES

In the first half of the year, the Group has recognised an amount of £27.2m as a credit against employee costs and £3.3m as a credit against other operating expenses. These have been presented net within operating costs before exceptional items and the majority (£22.7m) was received by the UK Retail business. In some cases salaries were paid in excess of the amount received under the government support schemes, and these schemes were utilised instead of other cost reduction measures that would have adversely impacted employees (e.g. redundancies). The Group has also benefitted from payment deferrals in relation to taxes where these have been made available by the appropriate tax authorities.

OPERATING EXCEPTIONAL ITEMS

In the first half of the year, we have incurred £197.8m of exceptional charges. Due to the impact of Covid-19, the charge in 2020 is comprised of goodwill and other asset impairments of £184.6m, costs of £9.8m relating to the write down of inventory and other provisions and restructuring costs of £9.1m. In addition, a net cost of £2.7m relating to acquisitions and disposals, and a gain of £8.4m primarily relating to the recycling of foreign exchange gains previously recognised in other comprehensive income, following the liquidation of a subsidiary. In the first half of 2019, the Group recorded exceptional operating costs of £2.6m. These costs were incurred in relation to acquisition and integration of the BMW business in Lithuania and the disposal of retail operations in the UK and Australia. Further details can be found in note 3 to the interim financial statements.

NET FINANCING COSTS

Net finance costs were £19.0m (H1 19: £23.5m). The decrease is largely due to a reduction in the cost of financing inventory following the retail disposals in Australia, the UK and China in 2019 and the first quarter of 2020. The interest charge is stated on an IFRS 16 basis, and excluding interest relating to leases, our net finance charge was £11.7m compared to £13.9m in the same period last year.

TAX

The Group's effective tax rate for the period is 113.7% before exceptional items (H1 19: 22.5%). This high effective tax rate is a consequence of the performance impact of Covid-19 and the separate calculation of tax in each market. Although tax continues to be charged in profitable markets, it is no longer possible to recognise the tax credit associated with losses in certain markets. Therefore, the first half effective tax rate represents the aggregate tax charge on local taxable profits that are in excess of the overall net Group profit before tax. For these reasons the effective tax rate is not comparable to prior years. The effective rate after exceptional items is (0.5)% (23.2% for the same period last year).

NON-CONTROLLING INTERESTS

Profits attributable to our non-controlling interests were £1.2m in the first half of 2020 (H1 19: £3.0m). The Group's non-controlling interests principally comprise a 33% minority holding in UAB Vitvela in Lithuania, a 30% share in NBT Brunei, a 10% share of Subaru Australia and 6% of the Motor Engineering Company of Ethiopia.

FOREIGN CURRENCY

The Group incurred a loss of £0.4m (H1 19: a gain of £3.2m) from the translation of its overseas profits before tax into sterling at the average exchange rate over the first half when compared with the average exchange rates used over the comparable period for translation in 2019.

DIVIDEND

The Directors do not propose the payment of an interim dividend.

CASH FLOW AND NET DEBT

The Group delivered a Free Cash Outflow of £4.9m (H1 19: an inflow of £25.0m). After the acquisition of businesses in the year as well as disposal proceeds relating to the Retail disposals, and £32.1m of share buybacks, the Group had net debt of £262.2m (£507.7m as at 30 June 2019; £249.9m as at 31 December 2019). Net funds excluding lease liabilities was £89.2m (net debt of £77.0m as at 30 June 2019; net funds of £102.9m as at 31 December 2019).

CAPITAL EXPENDITURE

Net capital expenditure in the first half of 2020 was £16.4m (H1 19: £30.8m) reflecting the prompt action taken to reduce all expenditure.

FINANCING

During the reporting period, the Group was confirmed as an eligible issuer under the UK Government's Covid Corporate Financing Facility (CCFF). £100m was issued under this facility in May 2020 and repaid on 17 July 2020. As at 30 June 2020, the committed funding facilities of the Group comprised a syndicated revolving credit facility of £700m (31 December 2019 - £700m) and sterling Private Placement loan notes totalling £210m (31 December 2019 - £210m). As at 30 June 2020, £170m of the £700m syndicated revolving credit facility was drawn (31 December 2019 - £60m).

PENSIONS

At 30 June 2020, the IAS 19 net post-retirement surplus was £4.5m (30 June 2019 - £63.5m; 31 December 2019 - £9.5m). In the first half of the year, and in-line with the funding programme agreed with the Trustees, the Group made additional cash contributions to the UK pension schemes amounting to £1.6m (H1 19: £1.6m).

ACQUISITIONS AND DISPOSALS

During the first six months of 2020, the Group acquired the Mercedes-Benz passenger car and private vans distribution operations in Colombia from Daimler Colombia S.A., for a total cash consideration of £27.1m. The business was acquired to strengthen the Group's partnership with Daimler-Mercedes-Benz in South America and follows the acquisition in December 2019 of Autolider.

During the reporting period, the Group has continued to optimise its retail portfolio and has disposed of four retail sites in the UK and two retail sites in Australia generating disposal proceeds of £14.2m. The Group has also received £3.7m of deferred consideration relating to the disposal of retail operations in China in 2019.

In the first half of 2019, the Group acquired Krasta Auto in Lithuania, an authorised dealer of BMW Group, for a total cash consideration of £16.0m (net of cash acquired) and disposed of Honda and Mitsubishi retail operations in Australia, generating disposal proceeds of £10.4m.

CLARIFYING OUR FINANCIAL METRICS

The following table shows the key profit measures that we use throughout this report to most accurately describe underlying operating performance and how they relate to statutory measures.

Metric	£m	Use of Metric
Gross Profit	**364.5**	Direct profit contribution from Value Drivers (e.g. Vehicles and Aftersales)
Add back: Exceptional items charged to gross profit	9.5	
Gross Profit (pre-exceptional items)	**374.0**	
Less: Segment operating expenses	(345.5)	
Operating Profit (pre-exceptional Items)	**28.5**	Underlying profit generated by the Group
Less: Exceptional Items	(197.8)	
Operating Loss	**(169.3)**	Statutory measure of Operating Profit
Less: Net Finance Costs and JV profit	(19.0)	
Loss before Tax	**(188.3)**	Statutory measure of profit after the costs of financing the Group
Add back: Exceptional Items	197.8	
Profit Before Tax & Exceptional Items	**9.5**	One of the Group's KPIs

RECONCILIATION OF FREE CASH FLOW

	1H 20 £m	**1H 20 £m**	1H 19 £m	1H 19 £m
Net cash generated from operating activities	**32.5**			89.4
Add back: Payments in respect of exceptional items	**8.9**			2.5
Net cash generated from operating activities, before exceptional items		**41.4**		91.9
Purchase of property, plant and equipment	**(10.5)**		(29.1)	
Purchase of intangible assets	**(7.2)**		(8.8)	
Proceeds from disposal of property, plant and equipment	**1.3**		7.1	
Net capital expenditure		**(16.4)**		(30.8)
Net payment in relation to leases		**(27.4)**		(30.9)
Dividends paid to non-controlling interests		**(2.5)**		(5.2)
Free Cash Flow		**(4.9)**		25.0

Included within Free Cash Flow are movements in cash balances where prior approval is required to transfer funds abroad, as described in note 9

RETURN ON CAPITAL EMPLOYED

	1H 20 £m	1H 19 £m
Operating profit (before exceptional items)	**28.5**	179.8
Operating profit (before exceptional items) for the previous 6 month period	**193.3**	198.0
Operating profit (before exceptional items) on a 12 month basis	**221.8**	377.8
Net assets	**1,122.8**	1,364.5
Add net debt	**262.2**	507.7
Capital employed	**1,385.0**	1,872.2
Effect of averaging	**243.6**	108.0
Average capital employed	**1,628.6**	1,980.2
ROCE	**13.6%**	19.1%

RISKS

Principal business risks

The Board set out in the Annual Report and Accounts 2019 a number of principal business risks which could impact the performance of the Group. These included:

- Increased digitisation of the customer relationship threatens our position in the value chain as new entrants, OEMs and/or existing competitors provide alternative, digitally based, routes to market;
- Failure to achieve sufficient return on investment through our acquisition strategy leads to reduced returns on investment, higher leverage, reduced EPS and / or deterioration of our relationships with our brand partners;
- Loss of one or more Distribution contracts which individually or together, account for a material part of the Group's revenue or profits;
- Major loss or misappropriation of confidential or sensitive data results in financial penalty and/or reputational damage;
- Material damage to OEM brand or product reputation, or major interruption to OEM operations or product supply negatively impacts vehicle sales;
- Political and Social instability leads to economic uncertainty, market interruption and/or threat to safety;
- Changes in legislation or the way that legislation is applied directly affects customer demand for certain vehicle types or our ability to generate income from aftersales; and
- Major cyber incident leads to loss of confidential or sensitive data, fraud or business interruption;

During the first half of the year, the Group's operations and performance have been materially impacted by the Covid-19 pandemic. The Group has actively responded to the challenges presented by Covid-19 with particular focus upon the health and safety of our people and the ongoing sustainability of our business. The Group has also specifically considered the further risks that may arise as a result of Covid-19 and the mitigating actions that are available to the Group to address those.

The Group Inchcape Peace of Mind (iPOM) Committee has delegated authority from the Executive Committee to manage Inchcape's Risk Management process. The iPOM committee's aim is to ensure that Risk Management is core to all decision-making and has a broad remit and responsibility to:

- Ensure systematic risks are effectively managed through the development of coherent policies, process, control framework and effective assurance monitoring processes;
- Ensure dynamic and emerging risks are identified at a market level and for the Group as a whole, mitigation actions are identified and implemented, and cross-market best practice is shared.

Regional and Market iPOM committees are embedded in each region and market. They operate according to Standard Terms of Reference and report to the Group iPOM committee. Consistent risk management tools are developed centrally and utilised Group-wide.

Brexit

The UK has now left the European Union and is in a transition period which is due to end on 31 December 2020. There are still significant uncertainties surrounding the terms of the UK/ EU relationship after that date, which is now dependent on the outcome of the trading negotiations between the UK government and the EU. In the absence of agreement, trading between the two parties will be based on WTO rules from 1 January 2021.

Our exposure to this risk is principally in our UK Retail business where we are the Retailer for the major German brands including BMW, Mercedes-Benz, Volkswagen, Audi and Porsche. We also import certain Toyota models which are manufactured in the UK into Greece, Belgium and the Balkans, and JLR and Mini into our Northern Europe operation.

Considering the content of the withdrawal agreement and political declaration and given that the UK and EU have a remaining transition period of five months to negotiate and conclude the future relationship all scenarios remain plausible and therefore our assessment of the potential impacts of the risks remains unchanged. In the absence of agreement, we would anticipate three broad impacts:

- Loss of freedom of movement in goods, services, capital and people;
- Divergence of regulation between the EU and the UK; and
- Macroeconomic instability, principally in the UK.

The Board has considered these in detail and, given the nature of our business and the actions that we and our partners have already taken, does not foresee significant impacts related to the loss of freedom of movement in services, capital or people, or caused by the divergence of regulation (except in so far as this might have an effect on the product mix offered by our OEM partners in the UK).

Some uncertainty however remains around the impact of tariffs and non-tariff barriers, in particular related to the impact on the supply chain for new vehicles and parts. Given the nature of our business, much depends upon the actions taken by our OEM partners in response to those impacts and we continue to work closely with those partners in order to make the necessary preparations to mitigate the potential impact.

The medium-term macroeconomic impact on the UK economy also remains uncertain. This is naturally very difficult to forecast and has been exacerbated by the Covid-19 pandemic. It will no doubt change as trading negotiations progress, but we stand ready to act should circumstances so dictate. The Board and Group Executive Committee continue to actively monitor the situation and, as the outcomes of the trading negotiations become clearer, we will continue to take appropriate action as and when necessary.

Further details of the Group's principal risks and risk management process can be found on pages 39 – 51 of the Annual Report and Accounts 2019.

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American Depository Receipts
Inchcape American Depositary Receipts are traded in the US on the OTC Pink market: (OTC Pink: INCPY)
http://www.otcmarkets.com/stock/INCPY/quote

Consolidated Income Statement

For the six months ended 30 June 2020

		Six months to 30 Jun 2020			Six months to 30 Jun 2019		
	Notes	**Before exceptional items £m**	**Exceptional items (notes 3,6) £m**	**Total £m**	Before exceptional items £m	Exceptional items (notes 3,6) £m	Total £m
Revenue	2	**3,019.1**	**–**	**3,019.1**	4,725.1	–	4,725.1
Cost of sales		**(2,645.1)**	**(9.5)**	**(2,654.6)**	(4,083.9)	–	(4,083.9)
Gross profit		**374.0**	**(9.5)**	**364.5**	641.2	–	641.2
Net operating expenses		**(345.5)**	**(188.3)**	**(533.8)**	(461.4)	(2.6)	(464.0)
Operating profit / (loss)	2	**28.5**	**(197.8)**	**(169.3)**	179.8	(2.6)	177.2
Finance income	4	**8.1**	**–**	**8.1**	11.0	–	11.0
Finance costs	5	**(27.1)**	**–**	**(27.1)**	(34.5)	–	(34.5)
Profit / (loss) before tax		**9.5**	**(197.8)**	**(188.3)**	156.3	(2.6)	153.7
Tax	6	**(10.8)**	**9.9**	**(0.9)**	(35.1)	(0.5)	(35.6)
Profit / (loss) for the period		**(1.3)**	**(187.9)**	**(189.2)**	121.2	(3.1)	118.1
Profit / (loss) attributable to:							
– Owners of the parent				**(190.4)**			115.1
– Non-controlling interests				**1.2**			3.0
				(189.2)			118.1
Basic (loss) / earnings per share (pence)	7			**(48.2)**			27.8
Diluted (loss) / earnings per share (pence)	7			**(48.2)**			27.7

The notes on pages 14 to 25 are an integral part of these condensed consolidated interim financial statements.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Six months to 30 Jun 2020 £m	Six months to 30 Jun 2019 £m
(Loss) / profit for the period	**(189.2)**	118.1
Other comprehensive income / (loss):		
Items that will not be reclassified to the consolidated income statement		
Defined benefit pension scheme remeasurements	**(1.7)**	(19.7)
Deferred tax recognised in consolidated statement of comprehensive income	**(0.2)**	3.1
	(1.9)	(16.6)
Items that may be reclassified subsequently to the consolidated income statement		
Cash flow hedges	**10.9**	(12.9)
Exchange differences on translation of foreign operations	**39.3**	32.0
Deferred tax recognised in consolidated statement of comprehensive income	**(3.1)**	2.5
	47.1	21.6
Other comprehensive income for the period, net of tax	**45.2**	5.0
Total comprehensive (loss) / income for the period	**(144.0)**	123.1
Total comprehensive income attributable to:		
– Owners of the parent	**(146.8)**	120.9
– Non-controlling interests	**2.8**	2.2
	(144.0)	123.1

The notes on pages 14 to 25 are an integral part of these condensed consolidated interim financial statements.

Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	As at 30 Jun 2020 £m	As at 31 Dec 2019 £m
Non-current assets			
Intangible assets		**501.9**	577.9
Property, plant and equipment		**632.1**	695.1
Right-of-use assets		**276.3**	313.3
Investments in joint ventures and associates		**4.4**	4.3
Financial assets at fair value through other comprehensive income	11d	**6.5**	6.9
Trade and other receivables		**43.3**	38.7
Deferred tax assets		**53.2**	58.3
Retirement benefit asset		**90.6**	78.7
		1,608.3	1,773.2
Current assets			
Inventories		**1,527.6**	1,566.9
Trade and other receivables		**397.6**	512.3
Financial assets at fair value through other comprehensive income	11d	**0.2**	0.2
Derivative financial instruments	11d	**39.6**	16.2
Current tax assets		**32.9**	21.6
Cash and cash equivalents	9b	**591.4**	423.0
		2,589.3	2,540.2
Assets held for sale and disposal group	12	**44.8**	149.4
		2,634.1	2,689.6
Total assets		**4,242.4**	4,462.8
Current liabilities			
Trade and other payables		**(1,854.8)**	(1,996.4)
Derivative financial instruments	11d	**(41.5)**	(27.4)
Current tax liabilities		**(86.4)**	(82.4)
Provisions		**(30.5)**	(23.0)
Lease liabilities	9b	**(58.9)**	(56.8)
Borrowings	9b	**(122.9)**	(50.1)
		(2,195.0)	(2,236.1)
Liabilities directly associated with the disposal group	12	**(7.1)**	(106.1)
		(2,202.1)	(2,342.2)
Non-current liabilities			
Trade and other payables		**(67.4)**	(77.2)
Provisions		**(14.3)**	(12.9)
Deferred tax liabilities		**(77.9)**	(96.7)
Lease liabilities	9b	**(292.5)**	(296.0)
Borrowings	9b	**(379.3)**	(270.0)
Retirement benefit liability		**(86.1)**	(69.2)
		(917.5)	(822.0)
Total liabilities		**(3,119.6)**	(3,164.2)
Net assets		**1,122.8**	1,298.6
Equity			
Share capital	8	**39.4**	40.0
Share premium		**146.7**	146.7
Capital redemption reserve	8	**141.2**	140.6
Other reserves		**(144.9)**	(190.4)
Retained earnings		**919.8**	1,141.4
Equity attributable to owners of the parent		**1,102.2**	1,278.3
Non-controlling interests		**20.6**	20.3
Total equity		**1,122.8**	1,298.6

The notes on pages 14 to 25 are an integral part of these condensed consolidated interim financial statements.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Equity attributable to equity owners of the parent £m	Non-controlling interests £m	Total shareholders' equity £m
At 1 January 2019		41.6	146.7	139.0	(75.9)	1,087.0	1,338.4	23.3	1,361.7
Adjustment for IFRIC 23		–	–	–	–	6.1	6.1	–	6.1
Profit for the period ended 30 June 2019		–	–	–	–	115.1	115.1	3.0	118.1
Other comprehensive income for the period		–	–	–	22.4	(16.6)	5.8	(0.8)	5.0
Total comprehensive income for the period		–	–	–	22.4	98.5	120.9	2.2	123.1
Share-based payments, net of tax		–	–	–	–	3.4	3.4	–	3.4
Share buyback programme		(0.3)	–	0.3	–	(39.2)	(39.2)	–	(39.2)
Net purchase of own shares by the Inchcape Employee Trust		–	–	–	–	(5.1)	(5.1)	–	(5.1)
Dividends:									
– Owners of the parent	8b	–	–	–	–	(74.2)	(74.2)	–	(74.2)
– Non-controlling interests		–	–	–	–	–	–	(5.2)	(5.2)
At 30 June 2019		41.3	146.7	139.3	(53.5)	1,076.5	1,350.3	20.3	1,370.6
Profit for the period		–	–	–	–	207.8	207.8	2.8	210.6
Other comprehensive loss for the period		–	–	–	(136.9)	(45.0)	(181.9)	(2.2)	(184.1)
Total comprehensive income for the period		–	–	–	(136.9)	162.8	25.9	0.6	26.5
Share-based payments, net of tax		–	–	–	–	3.4	3.4	–	3.4
Share buyback programme		(1.3)	–	1.3	–	(60.8)	(60.8)	–	(60.8)
Net purchase of own shares by the Inchcape Employee Trust		–	–	–	–	(4.2)	(4.2)	–	(4.2)
Dividends:									
– Owners of the parent	8b	–	–	–	–	(36.3)	(36.3)	–	(36.3)
– Non-controlling interests		–	–	–	–	–	–	(0.6)	(0.6)
At 1 January 2020		**40.0**	**146.7**	**140.6**	**(190.4)**	**1,141.4**	**1,278.3**	**20.3**	**1,298.6**
(Loss) / profit for the period		**–**	**–**	**–**	**–**	**(190.4)**	**(190.4)**	**1.2**	**(189.2)**
Other comprehensive income / (loss) for the period		**–**	**–**	**–**	**45.5**	**(1.9)**	**43.6**	**1.6**	**45.2**
Total comprehensive (loss) / income for the period		**–**	**–**	**–**	**45.5**	**(192.3)**	**(146.8)**	**2.8**	**(144.0)**
Share-based payments, net of tax		**–**	**–**	**–**	**–**	**2.1**	**2.1**	**–**	**2.1**
Share buyback programme	8a	**(0.6)**	**–**	**0.6**	**–**	**(31.4)**	**(31.4)**	**–**	**(31.4)**
Net purchase of own shares by the Inchcape Employee Trust		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends:									
– Owners of the parent	8b	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(2.5)**	**(2.5)**
At 30 June 2020		**39.4**	**146.7**	**141.2**	**(144.9)**	**919.8**	**1,102.2**	**20.6**	**1,122.8**

The notes on pages 14 to 25 are an integral part of these condensed consolidated interim financial statements.

Share-based payments include a deferred tax charge of £0.8m (30 June 2019 – deferred tax charge of £0.2m; 31 December 2019 – deferred tax credit of £0.7m)

Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Notes	**Six months to 30 Jun 2020 £m**	Six months to 30 Jun 2019 £m
Cash generated from operating activities			
Cash generated from operations	9a	**78.7**	159.4
Tax paid		**(28.4)**	(47.0)
Interest received		**7.9**	10.3
Interest paid		**(25.7)**	(33.3)
Net cash generated from operating activities		**32.5**	89.4
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired	10	**(27.1)**	(16.0)
Net cash inflow from sale of businesses	10	**17.9**	10.4
Purchase of property, plant and equipment		**(10.5)**	(29.1)
Purchase of intangible assets		**(7.2)**	(8.8)
Proceeds from disposal of property, plant and equipment		**1.3**	7.1
Receipt from sub-lease receivables		**0.4**	0.2
Net cash used in investing activities		**(25.2)**	(36.2)
Cash flows from financing activities			
Share buyback programme		**(32.1)**	(18.8)
Net purchase of own shares by the Inchcape Employee Trust		**–**	(5.1)
Cash inflow from Covid Corporate Financing Facility	9b	**99.6**	–
Repayment of Private Placement loan notes	9b	**–**	(75.4)
Net cash inflow from other borrowings	9b	**105.1**	51.9
Payment of capital element of lease liabilities	9b	**(27.8)**	(31.1)
Equity dividends paid	8b	**–**	(74.2)
Dividends paid to non-controlling interests		**(2.5)**	(5.2)
Net cash generated from / (used in) financing activities		**142.3**	(157.9)
Net increase / (decrease) in cash and cash equivalents	9b	**149.6**	(104.7)
Cash and cash equivalents at beginning of the period		**379.2**	463.4
Effect of foreign exchange rate changes		**41.2**	(2.8)
Cash and cash equivalents at end of the period		**570.0**	355.9
Cash and cash equivalents consist of:			
– Cash at bank and cash equivalents		**311.5**	354.2
– Short-term deposits		**279.9**	105.0
– Bank overdrafts		**(21.4)**	(103.3)
		570.0	355.9

The notes on pages 14 to 25 are an integral part of these condensed consolidated interim financial statements.

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated interim financial statements for the period ended 30 June 2020 have been prepared on a going concern basis in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules of the Financial Conduct Authority. These condensed consolidated interim financial statements should be read in conjunction with the Annual Report and Accounts 2019, which have been prepared in accordance with IFRSs as adopted by the European Union and International Financial Reporting Interpretation Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These condensed consolidated interim financial statements are unaudited but have been reviewed by the external auditors. The condensed consolidated interim financial statements in the Interim Report do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Group's published consolidated financial statements for the year ended 31 December 2019 were approved by the Board of Directors on 26 February 2020 and delivered to the Registrar of Companies.

The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph or a statement under section 498 of the Companies Act 2006. The condensed consolidated interim financial statements on pages 10 to 25 were approved by the Board of Directors on 29 July 2020.

Going concern

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its committed facilities for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing its financial statements. In assessing whether the Group is a going concern, the implications of Covid-19 have been considered and the measures taken to mitigate its impact on the Group. In making this assessment the Group has considered available liquidity in relation to net debt and committed facilities, the Group's latest forecasts for 2020 and 2021 cash flows together with Covid-19 adjusted scenarios. The forecasts used reflected the likely economic downturn triggered by Covid-19, with a key emphasis on the Group's forecast revenue and gross profit in 2021 relative to the original Board approved plan for 2020.

Given the global political and economic uncertainty resulting from the Covid-19 pandemic, we expect to see volatility and business disruption in the markets in which the Group operates reducing our expected performance in 2020 and 2021. In the first half of the year, we have already felt the impact of the government action to the control the Covid-19 pandemic with a number of the Group's businesses being closed to a greater or lesser extent.

During the period, actions have been taken to further strengthen the Group's liquidity position in light of the current environment. These have included:

- Cost saving initiatives, such as reducing advertising and promotional expenditure, reducing executive pay, freezing other pay and recruitment and reductions in operating expenditure;
- utilisation of government cost support measures such as the UK job retention scheme combined with UK business rates suspension and international government support measures where available;
- collaborating closely with OEMs to manage inventory levels;
- negotiating extended terms for vehicle funding arrangements in key markets;
- suspending the share buyback programme; and
- cancelling the final dividend for 2019.

In addition, the Group was successful in its application for the UK Government's Covid Corporate Financing Facility (CCFF) scheme. However, for the purposes of the going concern assessment, the CCFF is not considered to be a committed facility other than in respect of the £100m issued as at 30 June 2020 and repaid on 17 July 2020.

Committed bank facilities and Private Placement borrowings totalling £910m, of which £380m was drawn at 30 June 2020, are subject to the same interest cover covenant based on an adjusted EBITA measure to interest on consolidated borrowings measured on a trailing 12 month basis at June and December. The Group's latest forecasts for 2020 and 2021 indicate that the Group is expected to be compliant with this covenant throughout the forecast period.

A range of sensitivities have been applied to the forecasts to assess the Group's compliance with its covenant requirements over the 18 month period to 31 December 2021. These sensitivities included a reduction in gross profit achieved, as a result of further periods of restrictions across the Group's markets, an appreciation in sterling against the Group's main trading companies and a "no deal" Brexit scenario, together with working capital sensitivities. The Group tested the possibility of the debt covenant being breached in December 2020, June 2021 and December 2021. June 2021 is the most sensitive period, mainly as a result of the assumed reduction in trade, due to the impact of restrictions, included in the forecasts. However, the sensitised forecasts indicate that the Group is expected to be compliant with this covenant throughout the forecast period and have sufficient funds to meet cash flow requirements.

In addition, reverse stress test scenario analysis has been applied to the sensitised forecasts to assess particular scenarios in which the Group would breach its covenant or have insufficient funds to meet cash flow requirements. As a result, the Board concluded that the Group will be able to operate within the level of its committed facilities for the foreseeable future and the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial statements.

Newly adopted accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those of the Group's Annual Report and Accounts 2019 with the exception of standards, amendments and interpretations, which have been newly adopted from 1 January 2020:

- Amendments to IAS 1 and IAS 8 – Definition of Material;
- Amendment to IFRS 3, Business combinations; and
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform

The adoption of the standards and interpretations listed above has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group

The Group has not early adopted other standards, amendments to standards or interpretations that have been issued but are not yet effective.

Standards not yet effective

The following standards were in issue but were not yet effective at the balance sheet date. These standards have not yet been early adopted by the Group, and will be applied for the Group's financial years commencing on or after 1 January 2021:

- IFRS 17 – Insurance contracts;
- Amendments to IAS 1 – Classification of liabilities; and
- Amendment to IFRS 16 in relation to Coivid-19 Related rent concessions

Management are currently reviewing the new standards to assess the impact that they may have on the Group's reported position and performance.

Management do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group.

Critical accounting judgements and sources of estimation uncertainty

The preparation of these condensed consolidated interim financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The Directors have made a number of estimates and assumptions regarding the future and made some significant judgements in applying the Group's accounting policies. The critical accounting judgements and key sources of estimation uncertainty remain consistent with those presented in the accounting policies note within the Group's 2019 Annual Report and Accounts. Those that are significant to the preparation of the interim financial statements are presented below.

Sources of estimation uncertainty

Impairment of goodwill, other indefinite life intangible assets and other non-financial assets

The key source of estimation uncertainty for the Group, involves the estimation of future cash flows included within value in use calculations. This has remained a key source of estimation uncertainty during the period, especially given the significant uncertainty around the duration of site closures and the impact of consumer confidence on the Group's products, arising from the Covid-19 pandemic.

Deferred tax

The recognition of deferred tax assets is dependent upon an estimation of future taxable profits that will be available against which deductible temporary differences can be utilised (see note 6). In the event that actual taxable profits are different, such differences may impact the carrying value of such deferred tax assets in future periods or extend the period over which the deferred tax assets are utilised.

Other key areas of critical accounting judgement and estimation uncertainty that have the most significant effect on the consolidated financial statements are further disclosed in the accounting policies within the Annual Report and Accounts for the year ended 31 December 2019.

Significant accounting policies

Impairment of goodwill and other indefinite life intangible assets

The carrying amount of goodwill, prior to any impairment charges, has been allocated to CGU groups within the following reporting segments:

Reporting segment	CGU group	**2020 £m**	2019 £m
UK and Europe Retail	UK Retail	**80.2**	80.2
UK and Europe Distribution	Baltics	**6.2**	5.8
Americas & Africa Distribution	South America – Daimler	**5.3**	3.8
	South America – Other	**44.7**	45.7
	Central America	**48.1**	44.8
	Kenya	**1.3**	1.2
APAC Distribution	Singapore	**23.5**	22.8
	Australia Retail	**9.4**	9.6
	Peugeot Citroën Australia	**1.7**	1.8
		220.4	215.7

In accordance with the Group's accounting policy, goodwill and other indefinite life intangible assets are tested at least annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable. The ongoing impact of the Covid-19 pandemic and its effect on the Group's markets represents an indicator of impairment in accordance with IAS 36. As a result, all goodwill and other indefinite life intangible assets have been tested for impairment for the six months ended 30 June 2020. The recoverable amounts of all CGU groups are determined based on the higher of the fair value less costs to sell and value in use calculations. The recoverable amount is determined firstly through value in use calculations. Where this is insufficient to cover the carrying value of the relevant asset being tested, fair value less costs to sell is also determined.

The value in use calculations use cash flow projections based on five-year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to volumes, revenue, gross margins, overheads, the level of working capital required to support trading and capital expenditure.

The assumptions used in the value in use calculations are based on past experience, recent trading and expectations of future changes in the operation of the business and changes in the relevant markets including the anticipated impact of Covid-19. They also reflect expectations about continuing relationships with key brand partners. The forecast cash flows do not include uncommitted restructuring or improvements and enhancements to existing assets.

For CGU groups in less developed markets, cash flows after the five-year period are extrapolated for a further five years using declining growth rates which reduces the year five growth rate down to the appropriate long-term growth rate, to better reflect the medium-term growth expectations for those markets. A terminal value calculation is used to estimate the cash flows after year ten using these long-term growth rates. For all other markets, a terminal value calculation is used to estimate the cash flows after year five.

The Group has adopted a probability weighted scenario approach, based on externally available data, for the discounted cashflows used in the impairment assessment. A range of expected outcomes were modelled including a base case, which reflected management's best estimate of future performance, an optimistic case scenario incorporating a better than expected recovery from Covid-19 and a pessimistic scenario incorporating an extended closure period / lower recovery from Covid-19.

Cash flows are discounted back to present value using a discount rate specific to each CGU. The discount rates used are calculated based on a weighted average cost of capital adjusted for a risk premium attributable to the relevant country. The Group uses several inputs to calculate a range for the weighted average cost of capital from which an absolute measure of the weighted average cost of capital is determined. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate.

Key assumptions used – Goodwill

Pre-tax discount rates, compound annual growth rates (CAGR) for revenue and long-term discount rates used in the value in use calculations for each of the Group's CGUs are shown below:

	UK Retail	Baltics	South America – Daimler	South America – Other	Central America	Kenya	Singapore	Australia Retail	Peugeot Citroën Australia
Pre-tax discount rate (%)	7.8	6.3	12.0	9.9	11.4	12.1	7.4	10.3	10.3
Revenue CAGR (%)	0.2	2.0	8.0	3.1	4.4	14.3	(4.9)	1.9	(4.4)
Long term growth rate (%)	2.0	2.2	3.4	2.7	2.8	5.0	1.5	2.0	2.0

Goodwill – UK Retail

In 2019, the UK New car market declined by a further 2.4% (source: SMMT) broadly in line with previous forecasts and the UK Retail business made meaningful progress in reshaping its retail footprint through the selective sale of less productive UK Retail sites. In light of the reduction in the UK Retail footprint, the Board revisited its short and medium-term forecast for the UK Retail CGU group and updated the value in use calculations. The results of the impairment review indicated that the value in use calculation exceeded the carrying value of the assets attributable to the UK Retail CGU group by c£70m as at 31 December 2019.

In the period to 30 June 20, the UK Retail business has been materially impacted by the Covid-19 pandemic with sites closed since late March and only reopening again in June. The Group has continued to reshape its retail footprint through further disposals of less productive UK Retail sites and, against a backdrop of an uncertain outlook, forecasts for the business have been updated for the goodwill impairment assessment. The cash flows used for impairment testing are based on the latest short-term forecasts for the business, covering a two-year period, and take into account historical performance and knowledge of the current market, including the expected volume and gross margin impact from Covid-19. Cash flows beyond the forecast initial period are extrapolated using externally sourced volume projections. Margin assumptions are largely aligned to the prior year impairment exercise and our expectation of future performance, again supported by historical performance and current market data available.

Cash flows were discounted back to present value using a pre-tax risk discount rate of 7.8% (2019 – 8.8%). The results of the impairment review carried out indicate that the estimated recoverable value was now less than the carrying value of the assets attributable to the UK Retail CGU group and an impairment charge of £80.2m should be recognised, fully impairing the remaining goodwill attributable to the UK Retail CGU group.

Goodwill – Australia Retail and Peugeot Citroën Australia

The impact of Covid-19 on the Australian economy has been severe and the country entered its first recession in 29 years in the period. The Retail business, having undertaken significant restructuring through the disposal of selective Retail operations that completed in February 2020, had expected to see an improvement in performance in 2020 and a return to previously achieved gross margins. The Peugeot Citroën Distribution business was initially expected to deliver an improvement in performance in 2020 in light of recent changes to operations within the country. However, the impact of Covid-19 has materially affected both businesses, with a material decline in performance expected over the forecast period, due to a reduction in new car sales leading to a decline in the car parc which, in turn, impacts higher margin aftersales.

The recoverable value of the two CGUs was determined based on value-in-use calculations, consistent with the approach used as at 31 December 2019. Cash flows were discounted back to present value using a pre-tax discount rate of 10.3% (2019 – 10.2%) and resulted in the full impairment of the goodwill balance of £11.1m attributable to these two CGUs.

Goodwill – Other CGUs

The Group's value in use calculations for the remaining CGU groups are sensitive to a change in the key assumptions used. However, except for cash generating units represented by Central America, the Baltics and the Daimler businesses in South America, a reasonably possible change in a key assumption will not cause a material impairment of goodwill in any of the CGU groups.

Due to the impact of Covid-19, the level of headroom for the groups of cash generating units represented by Central America, the Baltics and the Daimler businesses in South America has substantially decreased when compared to the impairment assessment carried out in 2019. Each of these models now indicate a low amount of headroom. As such, management has performed sensitivity analysis on the key assumptions in the models using reasonably possible changes in key assumptions to determine what change is required that would cause the carrying amount to exceed the recoverable amount calculated in the model.

The table below shows the sensitivity of the value in use calculations to a reasonably possible change in the key assumptions, while holding all other assumptions constant, which would cause the carrying amount for each CGU group to exceed the recoverable amount determined in the value in use model.

CGU group	Decrease in Forecast Annual Revenue	Decrease in Gross Margin %
Baltics	–2.8%	–20bps
South America – Daimler	–3.0%	–40bps
Central America	–7.2%	–150bps

Other indefinite life intangible assets

Other indefinite-life intangible assets represent Distribution agreements acquired in a business combination. At 30 June 2020, the Group held specific indefinite life intangible assets with a carrying value of £281.6m allocated to the following reporting segments:

Reporting segment	CGU group	**2020 £m**	2019 £m
UK and Europe Distribution	BMW Baltics	**29.3**	27.4
Americas & Africa Distribution	Hino South America	**45.0**	46.0
	Subaru South America	**86.8**	88.6
	Daimler South America	**29.1**	13.8
	Suzuki Central America	**91.4**	85.3
		281.6	261.1

Key assumptions used – Other indefinite life intangible assets

Pre-tax discount rates, compound annual growth rates (CAGR) for revenue and long-term discount rates used in the value in use calculations for each of the Group's CGUs are shown below:

	BMW Baltics	Hino South America	Subaru South America	Daimler South America	Suzuki Central America
Pre-tax discount rate (%)	6.3	10.4	9.8	12.0	11.4
Revenue CAGR (%)	2.4	3.3	3.7	8.0	4.0
Long-term growth rate (%)	2.2	3.0	2.7	3.4	2.8

The level of headroom in the models used to test the distribution agreements for Suzuki in Central America and Daimler and Hino in South America all indicate a limited amount of headroom. The value in use calculations prepared for these brands are sensitive to a change in the key assumptions used. As such, management has performed sensitivity analysis on the key assumptions in the models using reasonably possible changes in key assumptions to determine what change is required that would cause the carrying amount to exceed the recoverable amount calculated in the model.

The table below shows the sensitivity of the value in use calculations for these Distribution agreements to a reasonably possible change in the key assumptions, while holding all other assumptions constant, which would cause the carrying amount to exceed the recoverable amount determined in the value in use model.

CGU group	Decrease in Forecast Annual Revenue	Decrease in Gross Margin %
Hino South America	-3.9%	-70bps
Daimler South America	-3.5%	-40bps
Suzuki Central America	-7.2%	-160bps

Impairment of property, plant and equipment, intangible assets and right-of-use assets

Property, plant and equipment, intangible assets and right-of-use assets are reviewed for impairment if events or circumstances indicate that the carrying value may not be recoverable. When an impairment review is carried out, the recoverable value is determined based on the higher of value in use calculations, which require estimates to be made of future cash flows, or fair value less costs of disposal.

In light of the ongoing Covid-19 pandemic, impairment triggers were identified in a number of markets and impairment reviews were performed where appropriate. The approach to test property, plant and equipment, intangible assets and right-of-use assets for impairment was consistent with the approach used to test goodwill and other indefinite life intangible assets.

The results of the testing indicated that impairment charges totalling £93.3m were required against site and other assets, principally in relation to Retail businesses in the UK, Australia and Russia.

	£m
Intangible assets	8.8
Property, plant & equipment	51.5
Right-of-use assets	33.0
	93.3

Inventories

The Group reviewed the level of provisions required against inventory and receivables. Where the recognition of specific provisions was deemed to be as a direct consequence of the impact of Covid-19, these have also been reported as exceptional costs. The Group has identified inventory and recourse loan provisions totalling £9.8m as being directly related to Covid-19. Across the remainder of the Group's markets, while additional net realisable value provisions have been recognised, these are predominantly in relation to business as usual activities such as clearance of inventory prior to the launch of a new model and used car quality and pricing and the associated write-downs have been included within pre-exceptional results.

An inventory provision is recognised in situations where net realisable value is likely to be less than cost (such as obsolescence, deterioration, fall in selling price). When calculating the provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability, determined on conditions that exist at the end of the reporting period. With the exception of parts, generally net realisable value adjustments are applied on an item-by-item basis.

Government grants and assistance

In the first half of the year, the Group has recognised an amount of £27.2m as a credit against employee costs and £2.8m as a credit against occupancy costs, these have been presented net in operating costs before exceptional items. The majority (£22.7m) was recognised by the UK Retail business. In some cases, salaries were paid in excess of the amount received under the government support schemes and these schemes were utilised instead of other cost reduction measures that would have adversely impacted employees (e.g. redundancies). Grants received from governments are recognised when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Once a government grant is recognised, any related deferred income is treated in accordance with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

Restructuring provisions

In the period, the Group has recognised restructuring costs and associated provisions in relation to a Board approved plan to rationalise and restructure operations due to the impact of Covid-19. The Group recognises a restructuring provision when a detailed formal plan for the restructuring has been developed and a valid expectation has been raised in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring which are those amounts that are both necessarily entailed by the restructuring and not associated with ongoing activities of the Group.

Exceptional items

In the period, the Group has reported aggregate pre-tax exceptional losses of £197.8m (see note 3). Exceptional items are those items that, in the judgement of the Group, need to be disclosed separately by virtue of their nature, size or incidence. The separate reporting of exceptional items helps provide additional useful information regarding the Group's underlying business performance and is used by management to facilitate internal performance analysis. Items that may be considered exceptional in nature include gains or losses on the disposal of businesses, restructuring of businesses, acquisition costs, asset impairments and the tax effects of these items. Any reversal of an amount previously recognised as an exceptional item would also be recognised as an exceptional item in a subsequent period.

Disposal group and assets held for sale

The Group continues to recognise assets as held for sale, primarily in relation to sites in the UK. Where the Group is committed to a plan to sell and is actively marketing a business and disposal is expected within one year of the date of classification as held for sale, the assets and liabilities of the associated businesses are separately disclosed in the consolidated statement of financial position as a disposal group. Assets and liabilities are classified as assets held for sale if their

carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Both disposal groups and assets and liabilities held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

Foreign currency translation

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

	Average rates			Period end rates		
	30 Jun 2020	30 Jun 2019	31 Dec 2019	**30 Jun 2020**	30 Jun 2019	31 Dec 2019
Australian dollar	**1.93**	1.83	1.84	**1.80**	1.81	1.89
Chilean peso	**1,037.86**	878.25	908.04	**1,018.39**	860.19	996.59
Ethiopian birr	**42.01**	37.31	37.39	**43.63**	36.86	42.42
Euro	**1.15**	1.15	1.14	**1.10**	1.12	1.18
Hong Kong dollar	**9.86**	10.17	10.01	**9.61**	9.92	10.34
Russian rouble	**88.86**	85.00	82.96	**88.25**	80.24	82.13
Singapore dollar	**1.77**	1.76	1.74	**1.73**	1.72	1.78
US dollar	**1.27**	1.30	1.28	**1.24**	1.27	1.33

2 SEGMENTAL ANALYSIS

The Group has five reportable segments which have been identified based on the operating segments of the Group that are regularly reviewed by the chief operating decision-maker, which has been determined to be the Executive Committee, in order to assess performance and allocate resources. Operating segments are then aggregated into reporting segments to combine those with similar economic characteristics

Following the disposal of the Group's business in China and the retail disposals in Australia in 2019, the management and reporting of the previous Asia and Australasia regions has changed to encompass the combination of these to form an Asia Pacific (APAC) region. The retail businesses in the APAC region which were disposed of in 2019 and 2020 have been maintained as a separate reportable segment. This segment solely represents the disposed of businesses in both Australia and China, as the Group previously aggregated its small retail business in China with its larger distribution activities in the Asia region.

In addition, reflecting the OEM partners represented and the management of the European region, the retail operations in Russia, previously representing its own separate Retail segment, are now combined within the UK and Europe Retail segment. The new region encompasses retail operations in the UK, Poland and Russia.

The Group has historically reported the performance of its reporting segments before unallocated central costs. These represent costs of Group functions and, previously, these costs were reported separately from the results of the Group's reportable segments. The Group now fully allocates these costs in arriving at the results reported for each segment.

Comparatives for the prior period have been restated to reflect the above changes.

The following summary describes the operations of each of the Group's reportable segments:

Distribution	APAC	Exclusive distribution and sale of New vehicles and parts in Asia-Pacific markets, together with associated Aftersales activities of service and bodyshop repairs. Sale of New and Used vehicles in Australia where the Group is also the Distributor of those vehicles, together with associated Aftersales activities of service, bodyshop repairs and parts sales.
	UK and Europe	Distribution of New vehicles and parts, together with associated marketing activities, in mature European markets. Sale of New and Used vehicles in Europe where the Group is also the Distributor of those vehicles, together with associated Aftersales activities of service, bodyshop repairs and parts sales.
	Americas and Africa	Distribution of New vehicles and parts in growing markets, together with associated Aftersales activities of service and bodyshop repairs.
Retail	APAC	Sale of New and Used vehicles in Australia and China together with associated Aftersales activities of service, bodyshop repairs and parts sales.
	UK and Europe	Sale of primarily New and Used premium vehicles in mature markets, together with associated Aftersales activities of service, bodyshop repairs and parts sales.

	Distribution				Retail			
Six months to 30 June 2020	**APAC £m**	**UK and Europe £m**	**Americas and Africa £m**	**Total Distribution £m**	**APAC £m**	**UK and Europe £m**	**Total Retail £m**	**Total £m**
Revenue from third parties	**872.0**	**527.5**	**330.9**	**1,730.4**	**9.4**	**1,279.3**	**1,288.7**	**3,019.1**
Results								
Operating profit / (loss) before exceptional items	**32.8**	**9.1**	**4.2**	**46.1**	**0.4**	**(18.0)**	**(17.6)**	**28.5**
Operating exceptional items								**(197.8)**
Operating loss after exceptional items								**(169.3)**

Net finance costs of £19.0m are not allocated to individual segments.

	Distribution				Retail			
Six months to 30 June 2019 (Restated)	APAC £m	UK and Europe £m	Americas and Africa £m	Total Distribution £m	APAC £m	UK and Europe £m	Total Retail £m	Total £m
Revenue from third parties	1,301.3	660.5	459.3	2,421.1	250.1	2,053.9	2,304.0	4,725.1
Results								
Operating profit before exceptional items	116.5	19.8	23.5	159.8	4.5	15.5	20.0	179.8
Operating exceptional items								(2.6)
Operating profit after exceptional items								177.2

Net finance costs of £23.5m are not allocated to individual segments.

3 EXCEPTIONAL ITEMS

	Six months to 30 Jun 2020 £m	Six months to 30 Jun 2019 £m
Goodwill impairment (note 1)	**(91.3)**	–
Other asset write-offs and impairments (note 1)	**(93.3)**	–
Inventory and other provisions	**(9.8)**	–
Disposal of businesses (note 10)	**0.9**	0.6
Restructuring costs	**(9.1)**	(2.3)
Acquisition of businesses	**(3.6)**	(0.9)
Other operating exceptional items	**8.4**	–
Total exceptional items before tax	**(197.8)**	(2.6)
Exceptional tax	**9.9**	(0.5)
Total exceptional items	**(187.9)**	(3.1)

Due to Covid-19 and the subsequent temporary closure of operations across the Group's many markets, impairment assessments were carried out using cash flow forecasts updated for latest available market data and estimates of fair value less costs of disposal. As a result of these reviews, the Group has recognised goodwill impairment charges of £80.2m and £11.1m in the UK and Australia respectively. Exceptional items also include asset impairments of £93.3m following an impairment review of certain site-based assets across the Group.

The Group sells new and used vehicles which are subject to changing consumer demands. As a direct result of the restrictions imposed in various markets to the Covid-19 pandemic and the subsequent lifting of those restrictions, where relevant, our ability to sell certain vehicles has been significantly impacted. Accordingly, management has reviewed the level and quality of inventory and applied assumptions in relation to estimated selling prices, together with costs to be incurred in marketing and selling those vehicles. As a result, additional inventory provisions to write-down inventory to net realisable value have been required. In certain instances, management have determined that inventory provisions have been required that are directly attributable to the Covid-19 pandemic, principally in relation to inventory in the Peugeot Citroën Distribution business in Australia and bus chassis in Ecuador. The impact of Covid-19 on the Australian economy has been severe and, as disclosed in relation to goodwill and other non-financial assets, there has been a material decline in the forecast performance of the Peugeot Citroën Distribution business. Estimated selling prices have been revised downwards which has required a provision to be recognised to write-down inventory to net realisable value. In Ecuador, the Covid-19 pandemic has impacted the economy and had a significant impact on the market for buses with operators delaying purchasing decisions and a build-up of inventory by competitors resulting in falling prices. Management have therefore revised estimated selling prices downwards and recognised a provision to write-down bus chassis inventory to estimated net realisable value. Management have concluded that the provisions recognised in these markets are directly attributable to the Covid-19 pandemic and have therefore been disclosed as an exceptional charge.

In addition, in Guam and Saipan, the Group sells vehicles which are financed through loans offered by banks. Under certain circumstances, the Group is required to compensate the banks for the losses incurred. Due to the impact of Covid-19 on the tourism industry in those markets, management have concluded that a provision for losses is required under the arrangements with those banks and, as these contract losses are directly attributable to the Covid-19 pandemic, they should be disclosed as an exceptional charge.

The Group has continued to optimise its retail market portfolio and an exceptional operating profit of £0.9m has been recognised, related to the disposal of six retail sites in the UK and Australia.

Due to the expected medium-term impact of Covid-19 on the Group's operations a proposal was presented to the Board to rationalise and restructure operations. This proposal was approved by the Board and will lead to significant restructuring activity being undertaken by the Group, the costs incurred being recognised as exceptional costs in line with the Group's policy. Restructuring costs have only been recognised once formal plans are in place and their implementation has commenced or announced to those affected. Furthermore, additional restructuring costs have been recognised, mainly in relation to Group-wide transformation projects impacting both Finance and Human Resources, encompassing a review of organisational structures and costs and the potential for sharing back-office services. Execution of the group-wide restructuring commenced in the first half of 2020 and will mostly be completed by the year-end; however, the back-office plans will take longer.

During the period exceptional operating costs of £3.6m have been incurred in connection with the acquisition and integration of businesses. These primarily relate to the Daimler businesses acquired in South America.

Other operating items of £8.4m includes the recycling of a cumulative gain previously recorded in other comprehensive income (OCI) which arises due to the reorganisation of the ownership structure for some of the Group's operations in the APAC region.

In 2019, as a direct result of the Group's optimisation of its retail market portfolio, £2.3m of restructuring costs were incurred, principally related to the closure and disposal of several retail sites in the UK and Australia. The costs incurred comprised headcount reduction and costs associated with exiting the affected properties. An exceptional operating profit of £0.6m was also recognised, largely related to the disposal of Honda and Mitsubishi retail sites in Australia. During the period exceptional operating costs of £0.9m were incurred in connection with the acquisition and integration of businesses, primarily the Krasta Auto business in Lithuania.

4 FINANCE INCOME

	Six months to 30 Jun 2020 £m	Six months to 30 Jun 2019 £m
Bank and other interest receivable	**6.1**	7.4
Net interest income on post-retirement plan assets and liabilities	**0.2**	1.3
Lease finance income	**0.3**	0.3
Other finance income	**1.5**	2.0
Total finance income	**8.1**	11.0

5 FINANCE COSTS

	Six months to 30 Jun 2020 £m	Six months to 30 Jun 2019 £m
Interest payable on bank borrowings	**3.9**	5.6
Interest payable on Private Placement	**3.3**	3.7
Fair value adjustment on Private Placement	**–**	(0.5)
Fair value loss on cross-currency interest rate swaps	**–**	0.6
Lease finance costs	**7.6**	9.9
Stock holding interest	**9.9**	13.5
Other finance costs	**2.4**	1.7
Total finance costs	**27.1**	34.5

6 TAX

		Six months to 30 Jun 2020 £m	Six months to 30 Jun 2019 £m
Current tax	– UK corporation tax	**–**	–
	– Overseas tax	**20.7**	43.3
Adjustments to prior year liabilities	– UK	**–**	–
	– Overseas	**(2.0)**	(3.7)
Current tax		**18.7**	39.6
Deferred tax		**(17.8)**	(4.0)
Total tax charge		**0.9**	35.6
– Tax charge on profit before exceptional items		**10.8**	35.1
– Tax (credit)/charge on exceptional items		**(9.9)**	0.5
Total tax charge		**0.9**	35.6

The effective tax rate for the half year, before exceptional items, is 113.7% compared to 22.5% for the same period last year. The effective rate for the half year, after exceptional items, is (0.5)% (23.2% for the same period last year).

The effective tax rate is not comparable to the same period in the prior year due to the performance impact of Covid-19 and the separate calculation of tax in each market. Although tax continues to be charged in profitable markets, it is no longer possible to recognise the tax credit associated with losses and other items in certain markets (principally the UK).

EU Commission State Aid Investigation

On 25 April 2019, the European Commission published its full decision in relation to its investigation into the "group financing exemption" ('GFE') in the UK's controlled foreign company rules and whether the GFE constituted unlawful State Aid. The Commission concluded that the legislation up until December 2018 does partially represent State Aid. On 12 June 2019 the UK Government brought an action against the Commission to have the judgment annulled. Subsequently a number of UK multi-national groups, including Inchcape, applied on their own behalf to have the decision annulled. In February 2020, HM Revenue and Customs (HMRC) commenced recovery action as required under EU Law. This action is ongoing and no change to the previously recognised provision has been made.

7 EARNINGS PER SHARE

	Six months to 30 Jun 2020 £m	Six months to 30 Jun 2019 £m
(Loss) / profit for the period	**(189.2)**	118.1
Non-controlling interests	**(1.2)**	(3.0)
Basic (loss) / earnings	**(190.4)**	115.1
Exceptional items	**187.9**	3.1
Adjusted (loss) / earnings	**(2.5)**	118.2
Basic (loss) / earnings per share	**(48.2p)**	27.8p
Diluted (loss) / earnings per share	**(48.2p)**	27.7p
Basic Adjusted (loss) / earnings per share	**(0.6p)**	28.6p
Diluted Adjusted (loss) / earnings per share	**(0.6p)**	28.4p

	Six months to 30 Jun 2020 number	Six months to 30 Jun 2019 number
Weighted average number of fully paid ordinary shares in issue during the period	**395,636,479**	414,872,477
Weighted average number of fully paid ordinary shares in issue during the period:		
– Held by the Inchcape Employee Trust	**(725,133)**	(873,178)
Weighted average number of fully paid ordinary shares for the purposes of basic EPS	**394,911,346**	413,999,299
Dilutive effect of potential ordinary shares	**–**	2,227,029
Adjusted weighted average number of fully paid ordinary shares in issue during the period for the purposes of diluted EPS	**394,911,346**	416,226,328

Basic earnings per share is calculated by dividing the Basic earnings for the period by the weighted average number of fully paid ordinary shares in issue during the period, less those shares held by the Inchcape Employee Trust and repurchased as part of the share buyback programme.

Diluted earnings per share is calculated on the same basis as the Basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise share options and other share-based awards.

Basic Adjusted earnings (which excludes exceptional items) is adopted to assist the reader in understanding the underlying performance of the Group. Adjusted earnings per share is calculated by dividing the Adjusted earnings for the period by the weighted average number of fully paid ordinary shares in issue during the period, less those shares held by the Inchcape Employee Trust and repurchased as part of the share buyback programme.

Diluted Adjusted earnings per share is calculated on the same basis as the Basic Adjusted earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise share options and other share-based awards.

Information presented for diluted and diluted adjusted earnings per ordinary share uses the weighted average number of shares as adjusted for potentially dilutive ordinary shares as the denominator, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

8 SHAREHOLDERS' EQUITY

A. Issue of ordinary shares

During the period, the Group issued £nil (June 2019 – £nil, Dec 2019 – £nil) of ordinary shares exercised under the Group's share option schemes.

Share buyback programme

During the six months ended 30 June 2020, the Company repurchased 5,858,343 of its own shares (June 2019 – 3,090,497, Dec 2019 – 16,070,070) through purchases on the London Stock Exchange, at a cost of £29.8m (June 2019 – £18.8m, Dec 2019 – £98.5m). The shares repurchased during the period were cancelled, with none held as treasury shares at the end of the reporting period. An amount of £0.6m (June 2019 – £0.3m, Dec 2019 – £1.6m), equivalent to the nominal value of the cancelled shares, has been transferred to the capital redemption reserve. Costs of £1.6m (June 2019 – £nil, Dec 2019 – £1.5m) associated with the transfer to the Group of the repurchased shares and their subsequent cancellation were charged to the profit and loss reserve.

During the period. the Group had a contract in place with a broker to purchase its own shares for cash in connection with the £150m buyback announced on 27 February 2020. On 20 March 2020, given the uncertainty around the Covid-19 pandemic, the Group served notice to its brokers to terminate the buyback effective 24 March 2020.

B. Dividends

The following dividends were paid by the Group:

	Six months to 30 Jun 2020 £m	Six months to 30 Jun 2019 £m	Year to 31 Dec 2019 £m
Final dividend for the year ended 31 December 2019 of 0.0p per share (2018 – 17.9p per share)	**–**	74.2	74.2
Interim dividend for the six months ended 30 June 2019 of 8.9p per share (2018 – 8.9p per share)	**–**	–	36.3
	–	74.2	110.5

The Board previously recommended a final ordinary dividend for the year ended 31 December 2019 of 17.9p per ordinary share (2018: 17.9p). The dividend was due to be paid on 19 June 2020. As announced on 7 April 2020, given the impact of Covid-19, the Group decided to preserve cash and no longer recommend the payment of the previously announced final ordinary dividend.

The Directors have not proposed an interim dividend for 2020.

9 NOTES TO THE STATEMENT OF CASH FLOWS

A. Reconciliation of cash generated from operations

	Six months to 30 Jun 2020 £m	Six months to 30 Jun 2019 £m
Cash flows from operating activities		
Operating (loss) / profit	**(169.3)**	177.2
Exceptional items	**197.8**	2.6
Amortisation including non-exceptional impairment of intangible assets	**10.0**	8.1
Depreciation of property, plant and equipment	**19.5**	22.6
Depreciation of right-of-use assets	**27.8**	32.7
Profit on disposal of property, plant and equipment	**(0.1)**	(1.5)
Gain on disposal of right-of-use assets	**(0.6)**	(0.5)
Share-based payments charge	**2.9**	3.6
Decrease in inventories	**113.1**	29.4
Decrease / (increase) in trade and other receivables	**118.5**	(88.4)
Decrease in trade and other payables	**(245.0)**	(24.5)
Increase in provisions	**2.0**	0.4
Pension contributions less the pension charge for the period[1]	**2.3**	(0.7)
Decrease in interest in leased vehicles	**8.0**	2.0
Payments in respect of operating exceptional items	**(8.9)**	(2.5)
Other non-cash items	**0.7**	(1.1)
Cash generated from operations	**78.7**	159.4

B. Net debt reconciliation

	Liabilities from financing activities			Assets	
	Borrowings £m	Leases £m	Sub-total £m	Cash / bank overdrafts £m	Total net debt £m
Net debt at 1 January 2019	(448.9)	(460.4)	(909.3)	463.4	(445.9)
Cash flows	23.5	31.1	54.6	(99.1)	(44.5)
Acquisitions	(7.0)	(11.1)	(18.1)	(16.0)	(34.1)
Disposals	–	–	–	10.4	10.4
New lease liabilities	–	(8.4)	(8.4)	–	(8.4)
Transferred to liabilities held for sale	–	22.1	22.1	–	22.1
Foreign exchange adjustments	(0.4)	(4.0)	(4.4)	(2.8)	(7.2)
Net movement in fair value	(0.1)	–	(0.1)	–	(0.1)
Net debt at 30 June 2019	(432.9)	(430.7)	(863.6)	355.9	(507.7)
Cash flows	173.9	34.6	208.5	(114.9)	93.6
Acquisitions	(15.9)	(1.4)	(17.3)	(25.2)	(42.5)
Disposals	–	41.8	41.8	220.0	261.8
New lease liabilities	–	(21.8)	(21.8)	–	(21.8)
Transferred to liabilities held for sale	–	8.0	8.0	–	8.0
Foreign exchange adjustments	(1.4)	16.7	15.3	(56.6)	(41.3)
Net debt at 1 January 2020	**(276.3)**	**(352.8)**	**(629.1)**	**379.2**	**(249.9)**
Cash flows	**(204.7)**	**27.8**	**(176.9)**	**158.8**	**(18.1)**
Acquisitions	**–**	**(0.6)**	**(0.6)**	**(27.1)**	**(27.7)**
Disposals	**–**	**–**	**–**	**17.9**	**17.9**
New lease liabilities	**–**	**(15.2)**	**(15.2)**	**–**	**(15.2)**
Foreign exchange adjustments	**0.2**	**(10.6)**	**(10.4)**	**41.2**	**30.8**
Net debt at 30 June 2020	**(480.8)**	**(351.4)**	**(832.2)**	**570.0**	**(262.2)**

Net debt is analysed as follows:

	As at 30 Jun 2020 £m	As at 30 Jun 2019 £m	As at 31 Dec 2019 £m
Cash and cash equivalents as per the balance sheet	**591.4**	459.2	423.0
Borrowings – disclosed as current liabilities	**(122.9)**	(152.0)	(50.1)
Add back: amounts treated as debt financing (see below)	**101.5**	48.7	6.3
Cash and cash equivalents as per the statement of cash flows	**570.0**	355.9	379.2
Debt financing			
Borrowings – disclosed as current liabilities and treated as debt financing (see above)	**(101.5)**	(48.7)	(6.3)
Borrowings – disclosed as non-current liabilities	**(379.3)**	(384.2)	(270.0)
Lease liabilities	**(351.4)**	(430.7)	(352.8)
Debt financing	**(832.2)**	(863.6)	(629.1)
Net debt	**(262.2)**	(507.7)	(249.9)

Borrowings disclosed as current liabilities include bank overdrafts held in cash pooling arrangements which have not been offset in the consolidated statement of financial position. These are included within cash and cash equivalents in the consolidated statement of cash flows.

	As at 30 Jun 2020 £m	As at 30 Jun 2019 £m	As at 31 Dec 2019 £m
Cash at bank and cash equivalents	**311.5**	354.2	321.5
Short-term deposits	**279.9**	105.0	101.5
	591.4	459.2	423.0

£91.1m (30 June 2019 – £88.4m; 31 December 2019 – £88.0m) of cash and cash equivalents is held in Ethiopia where prior approval is required to transfer funds abroad, and currency may not be available locally to effect such transfers.

10 ACQUISITIONS AND DISPOSALS

On 24 March 2020, the Group acquired the Mercedes-Benz passenger car and private vans distribution operations in Colombia from Daimler Colombia S.A., for a total cash consideration of £27.1m. A distribution agreement with a provisional fair value of £14.3m has been recognised at the date of acquisition. The business was acquired to strengthen the Group's partnership with Daimler-Mercedes-Benz in South America and follows on from the acquisition on 2 December 2019 of Autolider, the distributor of certain Daimler brands such as Mercedes-Benz passenger and commercial vehicles, Freightliner and Fuso in Uruguay and Mercedes-Benz passenger and commercial vehicles in Ecuador. The provisional goodwill arising on the acquisition represents intangible assets that do not qualify for separate recognition and the premium paid to strategically transform Inchcape's partnership with Daimler to include distribution contracts after a 30-year retail-only partnership. None of the goodwill is expected to be deductible for tax purposes.

The acquired business contributed £8.5m revenue and £0.1m operating loss before exceptional items to the Group's reported figures between the date of acquisition and 30 June 2020.

During the period, the Group has continued to optimise its UK retail portfolio and has disposed of four sites, generating disposal proceeds of £8.1m. In Australia, two further sites in our retail business were disposed of in February 2020, generating disposal proceeds of £6.1m. The Group has also received £3.7m of deferred consideration relating to the disposal of retail operations in China in 2019.

In 2019 the Group acquired the full share capital of Krasta Auto in Lithuania, an authorised dealer of BMW Group, from Modus Group for a total cash consideration of £16.0m (net of cash acquired). The business was acquired to strengthen the Group's partnership with BMW in Northern Europe. A Distribution agreement with a fair value of £19.0m was recognised at the date of acquisition. The goodwill arising on the acquisition represents intangible assets that do not qualify for separate recognition and the premium paid to complete the Group's consolidation of BMW's representation across the Baltic region. None of the goodwill is deductible for tax purposes. During the period to June 2019, the Group made progress optimising its retail portfolio and disposed of its Honda and Mitsubishi retail operations in Australia generating disposal proceeds of £10.4m.

11 FINANCIAL RISK MANAGEMENT

A. Financial risk factors

Exposure to financial risks comprising market risks (currency risk and interest rate risk), funding and liquidity risk and counterparty risk arises in the normal course of the Group's business.

During the six months to 30 June 2020, the Group has continued to apply the financial risk management process and policies as detailed in the Group's principal risks and risk management process included in the Annual Report and Accounts 2019. The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and further details can be found in the Annual Report and Accounts 2019.

B. Liquidity risk

As at 30 June 2020, the committed funding facilities of the Group comprised a syndicated revolving credit facility of £700m (31 December 2019 – £700m) and sterling Private Placement loan notes totalling £210m (31 December 2019 – £210m). As at 30 June 2020, £170m of the £700m syndicated revolving credit facility was drawn (31 December 2019 – £60m).

The committed bank facilities and Private Placement borrowings are subject to the same interest cover covenant based on an adjusted EBITA measure to interest on consolidated borrowings measured on a trailing 12 month basis at June and December. The Group is required to maintain a ratio of not less than three to one and was compliant with this covenant as at 30 June 2020.

The Group applied for the Bank of England's Covid Corporate Financing Facility ('CCFF') which was confirmed as successful on 23 April 2020. As at 30 June 2020, the Group had issued £100m under this facility with an original repayment date of 31 December 2020. The £100m issued under the CCFF as at 30 June 2020 was repaid on 17 July 2020.

C. Vehicle funding arrangements

The Group finances the purchase of new vehicles for sale and a portion of used vehicle inventories using vehicle funding facilities provided by various lenders including the captive finance companies associated with brand partners. Such arrangements generally have a maturity of 180 days or less and the Group is normally required to repay amounts outstanding on the earlier of the sale of the vehicles that have been funded under the facilities or the stated maturity date. Amounts due under these vehicle funding arrangements are included within trade and other payables in the consolidated statement of financial position. Related cash flows are reported within cash flows from operating activities in the consolidated statement of cash flows. As at 30 June 2020, the total amount outstanding under such arrangements was £1,269m (31 December 2019 – £1,368m).

Vehicle funding facilities are subject to LIBOR-based (or similar) interest rates. The interest incurred under these arrangements is included within finance costs in the consolidated income statement and reported as stock holding interest (see note 5). Related cash flows are reported as interest paid in the consolidated statement of cash flows.

D. Fair value measurements

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

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

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

	As at 30 June 2020				As at 31 December 2019			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivatives used for hedging	**–**	**39.6**	**–**	**39.6**	–	16.2	–	16.2
Financial assets at fair value through other comprehensive income	**0.5**	**–**	**6.2**	**6.7**	0.5	–	6.6	7.1
	0.5	**39.6**	**6.2**	**46.3**	0.5	16.2	6.6	23.3
Liabilities								
Derivatives used for hedging	**–**	**(41.5)**	**–**	**(41.5)**	–	(27.4)	–	(27.4)

Level 1 represents the fair value of financial instruments that are traded in active markets and is based on quoted market prices at the end of the reporting period.

The fair value of financial instruments that are not traded in an active market (level 2) is determined by using valuation techniques which include the present value of estimated future cash flows. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Level 3 assets primarily relate to a 15% equity interest in Hino Motors Manufacturing Company SAS in Colombia.

Derivative financial instruments are carried at their fair values. The fair value of forward foreign exchange contracts and foreign exchange swaps represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the spot rates of exchange and prevailing forward interest rates at 30 June 2019.

The Group's derivative financial instruments comprise the following:

	Assets		Liabilities	
	As at 30 Jun 2020 £m	As at 31 Dec 2019 £m	**As at 30 Jun 2020 £m**	As at 31 Dec 2019 £m
Forward foreign exchange contracts	**39.6**	16.2	**(41.5)**	(27.4)

12 ASSETS AND LIABILITIES HELD FOR SALE AND DISPOSAL GROUP

	As at 30 Jun 2020 £m	As at 31 Dec 2019 (restated)[1] £m
Assets held for sale	**10.1**	10.4
Assets directly associated with the disposal group	**34.7**	139.0
Assets classified as held for sale and disposal group	**44.8**	149.4
Liabilities directly associated with assets held for sale	**(7.1)**	(106.1)

[1]Classification has been re-assessed to conform to the current presentation

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

At 30 June 2020, the disposal groups relate to the assets and liabilities attributable to three retail centres in the UK and are stated net of an impairment charge of £2.8m which was reported as an exceptional charge in the income statement in 2019. These sites are expected to be disposed of during the next 12 months.

13 OTHER DISCLOSURES

A. Related parties

There have been no material changes to the principal subsidiaries and joint ventures as listed in the Annual Report and Accounts for the year ended 31 December 2019.

All related party transactions arise during the ordinary course of business and are on an arm's length basis.

There were no material transactions or balances between the Group and its key management personnel during the six months to 30 June 2020.

B. Contingencies

Franked Investment Income Group Litigation Order

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

HMRC was previously granted leave to appeal a number of items at the Supreme Court. The first of these hearings was in February 2020 and the judgment has not yet been handed down. The second hearing is expected to occur in December 2020. Therefore, resolution of the test case in the FII GLO remains incomplete. As at 30 June 2020, no further receipts have been recognised in relation to the balance of Inchcape's claim in the FII GLO due to the uncertainty of the eventual outcome given the test case has not yet completed.

Takata airbag inflator recall

We note that a class action has been brought against our subsidiary, Subaru (Australia) Pty Limited, in connection with the global Takata airbag inflator recall. Subaru (Australia) Pty Limited is one of a number of named defendants and is, along with others, taking steps to defend the action. This does not represent a contingent liability as any potential cash outflow cannot be reliably measured and is also considered remote.

14 EVENTS AFTER THE REPORTING PERIOD

In July 2020, JLR notified the Group of its decision to appoint Inchcape as distributor for JLR in Poland, bolstering its brand presence in Europe.

15 ALTERNATIVE PERFORMANCE MEASURES

The Group assesses its performance using a variety of alternative performance measures which are not defined under International Financial Reporting Standards. These provide insight into how the Board and Executive Committee monitor the Group's strategic and financial performance, and provide useful information on the underlying trends, performance and position of the Group.

Adjusted measures

The Group's income statement and segmental analysis identify separately adjusted measures and exceptional items. These adjusted measures reflect adjustments to IFRS measures. The directors consider these 'adjusted' measures to be an informative additional measure of the ongoing trading performance of the Group. Adjusted results are stated before exceptional items.

Exceptional items can include gains or losses on the disposal of businesses, restructuring of businesses, acquisition costs, asset impairments and the tax effects of these items. Exceptional items excluded from adjusted results can evolve from one financial period to the next depending on the nature of exceptional items or one-off type activities.

Constant currency

Some comparative performance measures are translated at constant exchange rates, called 'constant currency' measures. This restates the prior period results at a common exchange rate to the current period and therefore excludes the impact of changes in exchange rates used for translation.

Performance Measure	Definition	Why we measure it
Operating profit before exceptional items	Operating profit before exceptional items. Refer to the consolidated income statement.	A key metric of the Group's underlying business performance.
Operating margin	Operating profit (before exceptional items) divided by revenue.	A key metric of operational efficiency, ensuring that we are leveraging global scale to translate sales growth to profit.
Profit before tax & exceptional Items	Represents the profit made after operating and interest expense excluding the impact of exceptional items and before tax is charged. Refer to consolidation income statement.	A key driver of delivering sustainable and growing earnings to shareholders.
Exceptional items	Items that are charged or credited in the consolidated income statement which are material and non-recurring in nature. Refer to note 3.	The separate reporting of exceptional items helps provide additional useful information regarding the Group's underlying business performance and is consistent with the way that financial performance is measured by the Board and the Executive Committee.
Free cash flow	Net cash flows from operating activities, before exceptional cash flows, less normalised net capital expenditure and dividends paid to non-controlling interests. Refer to page 7.	A key driver of the Group's ability to 'Invest to Accelerate Growth' and to make distributions to shareholders.
Return on capital employed (ROCE)	Operating profit (before exceptional items) divided by the average of opening and closing capital employed, where capital employed is defined as net assets less net funds. Refer to page 7.	A key measure of Ignite (Invest to Accelerate Growth), ROCE is a measure of the Group's ability to drive better returns for investors on the capital we invest.
Net funds / (debt)	Cash and cash equivalents less borrowings and lease liabilities adjusted for the fair value of derivatives that hedge interest rate or currency risk on borrowings. Refer to page 22.	A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength.
Net cash	Cash and cash equivalents less borrowings adjusted for the fair value of derivatives that hedge interest rate or currency risk on borrowings and before the incremental impact of IFRS16 lease liabilities. Refer to page 22.	A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength and is widely used by external parties.
Net capital expenditure	Cash outflows from the purchase of property, plant, equipment and intangible assets less the proceeds from the disposal of property, plant, equipment and intangible assets. Refer to page 7.	A measure of the net amount invested in operational facilities in the period.
Constant currency % change	Presentation of reported results compared to prior period translated using constant rates of exchange.	A measure of underlying business performance which excludes the impact of changes in exchange rates used for translation.
Organic growth	Organic growth is defined as sales growth in operations that have been open for at least a year at constant foreign exchange rate.	A measure of underlying business performance which excludes the impact of acquisition and disposals in the period.

Independent Review Report to Inchcape plc

We have been engaged by Inchcape plc ("the company") to review the condensed consolidated interim financial statements for the six months ended 30 June 2020 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes 1 to 15. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim financial statements.

DIRECTORS' RESPONSIBILITIES

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated interim financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

OUR RESPONSIBILITY

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the interim financial report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements in the interim financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

USE OF OUR REPORT

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, England
29 July 2020

Statement of Directors' Responsibilities

INTRODUCTION

The Directors confirm that the condensed consolidated interim financial statements in the Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union and that the Interim Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R and 4.2.8R, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed consolidated interim financial statements;
- a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

The Directors and positions held during the period were as published in the Annual Report and Accounts 2019. A list of current Directors is maintained on the Inchcape plc website (www.inchcape.com).

On behalf of the Board

Duncan Tait

29 July 2020

Group Chief Executive