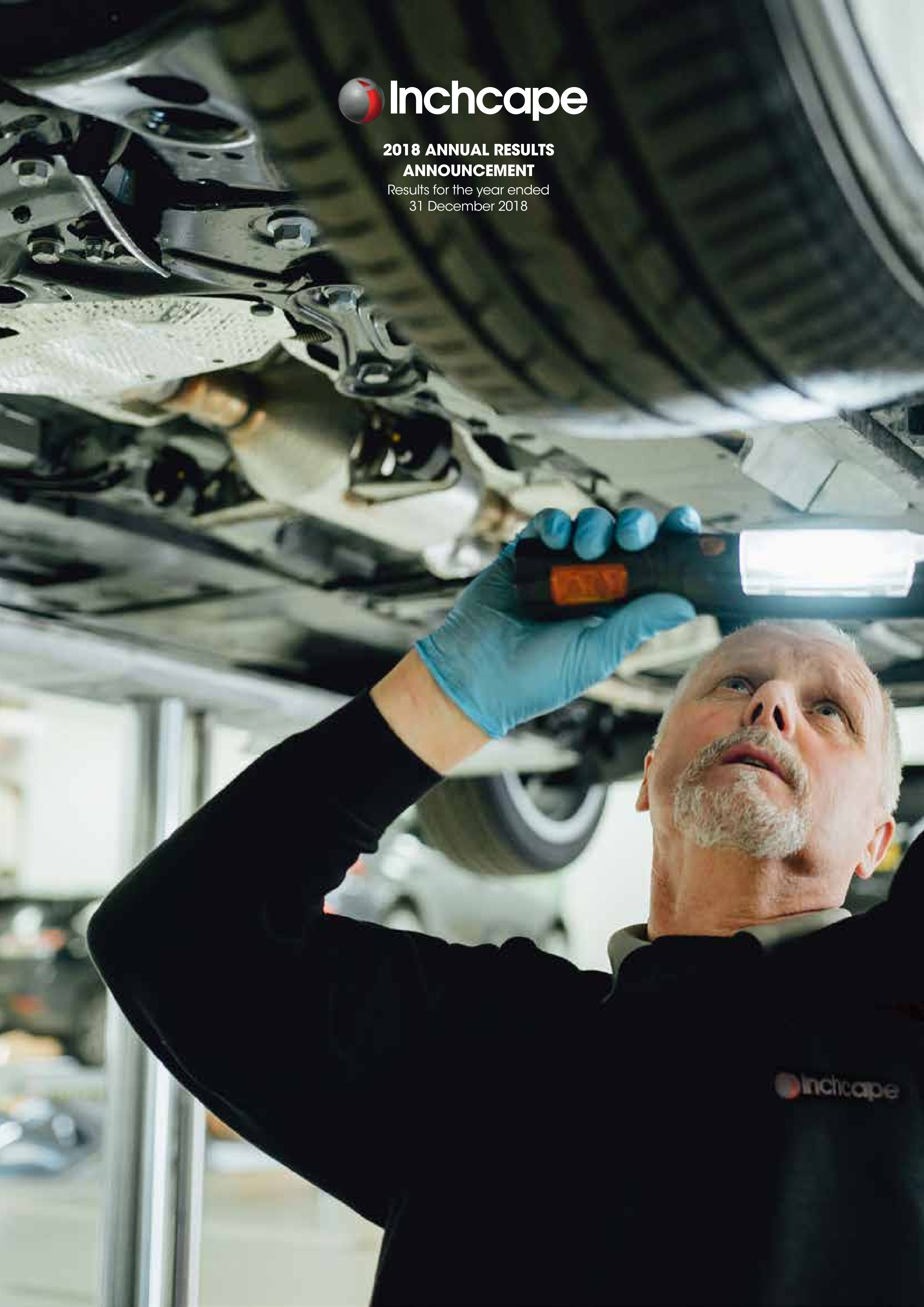
Inchcape

2018 ANNUAL RESULTS ANNOUNCEMENT

Results for the year ended 31 December 2018



Results for the year ended 31 December 2018

STRATEGIC PROGRESS DESPITE MARKET HEADWINDS

2018 HIGHLIGHTS

- Robust Distribution offset by continued Retail market challenges resulting in a 2.6% pre-exceptional PBT decline in constant currency
- Reported PBT of £132.1m, down 64% driven by goodwill impairment, and pre-exceptional PBT decline of 6.5% in actual currency
- Ignite supporting business with four deals during 2018, revenue stream successes and further procurement savings
- Two BMW contract wins in Kenya and Lithuania in 2019
- Good free cash flow conversion with generation of £281m, compared to £314m in 2017. FY18 DPS maintained year-on-year at 26.8p.

KEY FINANCIALS (AUDITED)

Actual Rates	2018	2017 [1]	Actual Currency YoY	Constant Currency YoY
Reported performance measures				
Revenue	**£9,277m**	£8,953m	*+3.6%*	*+5.8%*
Operating profit	**£174.3m**	£394.0m	(55.8%)	-
Profit before tax	**£132.1m**	£369.0m	(64.2%)	-
Basic EPS	**11.6p**	64.3p	(82.0%)	-
Full year DPS [2]	**26.8p**	26.8p	*+0.0%*	-
Pre-exceptional performance measures [3]				
Operating profit [4,5]	**£385.1m**	£406.6m	*(5.3)%*	*(1.4)%*
Profit before tax [6]	**£356.8m**	£381.6m	*(6.5%)*	*(2.6%)*
Basic EPS	**65.0p**	66.7p	*(2.5%)*	-
Distribution trading profit [3,7]	***£374.9m***	*£366.8m*	*+2.2%*	*+6.5%*
Retail trading profit [3,7]	***£26.5m***	*£65.0m*	*(59.2%)*	*(58.7%)*
Vehicle gross profit	***£809.7m***	*£784.4m*	*+3.2%*	*+6.0%*
Aftersales gross profit	***£491.6m***	*£466.8m*	*+5.3%*	*+8.7%*

1. 2017 restated following the adoption of IFRS 15 and changes to the segmental information.
2. The final dividend of 17.9p is subject to final approval at the AGM on 23 May 2019.
3. These measures are Alternative Performance Measures, see note 11.
4. 2018 adjusted operating profit excludes an exceptional primarily non-cash charge of £210.8m, comprising £198.2m of goodwill and asset impairment (UK & Europe), £5.4m of non-cash pension charge relating to GMP equalisation and £7.2m relating to acquisitions. 2017 adjusted profit excludes an exceptional charge of £12.6m, comprising £10.5m of primarily cash exceptional charges relating to the fixed cost review, and £2.1m of costs relating to the South American acquisition.
5. Our Central American acquisition contributed £12.2m to FY18 pre-exceptional trading profit before integration costs.
6. 2018 adjusted profit before tax excludes a £13.9m exceptional non-cash finance cost relating to fair value adjustments against repayment of US Private placement loans in 2009.
7. Trading profit stated as per reclassified channel segmentation. On prior segmentation classification Distribution trading profit increased +9.3% y-o-y and Retail declined (53.1%) y-o-y in constant currency. See note 2.

STEFAN BOMHARD, GROUP CEO OF INCHCAPE PLC, COMMENTED

"In 2018 we continued to demonstrate the merits of our Distribution business model and the strong cash generation profile of our business. Distribution contributed 93% of Group trading profit, compared to 85% in the prior year, after growing 7% year-on-year in constant currency over the year and 3% excluding our Central America acquisition. Distribution profit was driven by a strong performance across Asia, despite market decline in Singapore. Margins in our Retail channel came under further pressure due to the continued UK market supply and demand imbalance, the incremental impact of the new Worldwide Harmonised Light Vehicle Testing Procedure (WLTP) regulation, and a slowing Australia market. These factors were partially offset by the delivery of near record profit in Russia Retail, as we benefited strongly from Ignite initiatives undertaken in the market. Strategic initiatives, focused on rationalising our cost base, are underway to improve our Retail segment performance in 2019. Given continuation of the market trends that we discussed at the Q3 trading update, we expect a resilient performance in 2019 before the impact of a meaningful transactional currency headwind.

Against this backdrop, our Ignite strategy continues to enable us to manage the changing landscape and take advantage of the opportunities available to a well-capitalised, professional and global operator. Aftersales gross profit grew 7% in constant currency, excluding the Central America acquisition, with particularly encouraging performances in key regions such as South America, whilst Used cars performed very well over the year. Our global F&I strategy delivered an incremental £15m of profit over the year and our cumulative procurement savings ended the year at £32m.

I am very pleased to say that Indumotora, the South America acquisition we have operated for two years and our largest acquisition under Ignite, has achieved its targeted ROIC a year earlier than expected with earnings outperformance compared to plan. Central America, operated since March 2018, has also integrated well albeit against the short-term backdrop of a weaker market. We remain excited by the opportunities that entry into Central America and a larger scale presence with Suzuki present. Today we also announce two new Distribution contracts with BMW, driven by the OEM's regional consolidation strategies and enabled by our efforts in becoming the OEM's partner of choice. We will now operate in Lithuania, becoming BMW's distributor across the Baltics having been awarded BMW in Estonia in 2017, and Kenya following on from our market entry in 2018 with JLR. Whilst there remain uncertainties in many of our markets, we have much in our control and we look forward to continued momentum in our business as we continue to execute on our Ignite strategy. Our capital allocation priorities remain unchanged and we continue to regularly review buybacks, with a prudent view given current macro uncertainties".

CEO REVIEW

Underlying Strength Delivering Long-Term Value

In many ways the 2018 financial results validate our strategic intent to focus our business on Distribution. Our influence and control of the full value chain in Distribution markets ensured we were able to mitigate market challenges such as the reduced availability of Certificates of Entitlement in Singapore, returning a very positive full year performance in the Asia region as a whole. We continued to face significant pressures in some of our Retail markets, driven by the persistent supply and demand imbalance on diesel vehicles in the UK, but additionally with some temporary supply shortages relating to the introduction of the new WLTP (Worldwide Harmonised Light Vehicle Testing) regulation in the market. In addition, our Australian Retail business was impacted by a significant new car market slowdown, driven by cooling in the property market. Together, these factors have led to a resilient Group profit performance in 2018. We have progressed many strategic objectives during the year and have actions in place to improve our Retail operations in 2019.

The full Operating Review can be found below, but I would like to highlight why Inchcape has the fundamental strength to succeed, to continue to grow and to deliver returns on investment for our shareholders over the long term, despite the headwinds currently faced.

1. A Unique and Sustainable Business Model

The heart of our business, and our core set of competencies, is in automotive distribution; the management of the post-factory value chain for our vehicle manufacturer or 'OEM' (original equipment manufacturer) partners. The distribution model allows us to capture a greater portion of the value chain and drive higher margins and returns. We have long-standing strategic distribution partnerships, providing end-to-end routes-to-market for some of the world's leading and most recognisable vehicle manufacturers; our portfolio of these brands is diverse and includes premium, volume and commercial OEMs, which gives us a balanced segmental representation across our operations.

Within that value chain we also operate as a retailer, giving us true insight into our customers and allowing us to develop world-class customer experience solutions that are globally scalable. Through the full-spectrum distribution value chain Inchcape manages business partner and customer touchpoints from vehicle product planning right through to servicing customers' cars.

Inchcape is unique – we are the only independent automotive Distributor and Retailer with global scale.

2. Ignite: Our Strategy to Drive Growth

Inchcape's Ignite strategy is the powertrain that moves our business forward and underpins our ambition to drive growth. Ignite was created to drive operational excellence across our markets; to consolidate select parts of our fragmented industry; to continually innovate to take advantage of our scale and expertise; and to ensure a long-term future for the company.

Through Ignite's first four objectives – our organic growth drivers – we build a stronger, more sustainable business, as well as the trust of our OEM partners and customers. These are our two key operational stakeholders and the focal points of our vision to become the world's most trusted automotive distributor and retailer.

Inchcape operates in markets that are subject to changing trends and conditions, and it is through Ignite that we strive to maximise the profit opportunity against that backdrop. In 2018 we have made good progress under each objective:

Lead in Customer Experience – we have focused on our digital capability in this area, developing a new customer-centric omni-channel experience for Distribution, with an initial launch of the operating model taking place later this year in Australia. Digital will become an increasing proportion of our annual capex spend to deliver this. We have also continued the rollout of Salesforce CRM (customer relationship management), Brightedge SEO (search engine optimisation) and the review aggregator reputation.com, creating a 360 view of the customer journey and enabling us to deliver the experiences that customers are seeking.

Full Potential on all our Revenue Streams – We have implemented initiatives to reduce the span of performance in Aftersales and Used across the group. During 2018 we benefited from increased service capacity in Singapore and the leveraging of processes across the region in South America has driven good growth in Aftersales gross profit. Used cars initiatives have also driven significant growth in Russia and South America with continued roll-outs in particular brands and markets. Total Group Used gross profit grew double digit over the year. Our international Finance and Insurance programmes are also delivering well with profit growth ahead of vehicle sales through continued rollout of proprietary products, improvements in selling processes and retendering of contracts. We have generated an incremental £15m of profit from F&I activity over the year.

Leveraging Global Scale – Over 2018 we continued to deliver procurement savings driving cumulative savings of £32m to date compared to a target of £50m by 2020. Key initiatives for 2018 included tyres distribution, vehicle storage and transportation, and parts in Singapore. Savings to date have focused on regional savings but through 2018 we also started to rollout our new global procure-to-pay platform which will enable global savings in 2019 and beyond. The expanded rollout of Gardx, an F&I product designed to protect the long-term value of our customers' vehicles, is a great example of how we are successfully sharing best practices and leveraging our global scale.

Two Ignite objectives combine to drive inorganic growth – **Become the OEM's Partner of Choice** and **Invest to Accelerate Growth** – for which our focus is on entry into and consolidation of small to medium sized markets with high growth potential where we can optimise our unique competitive advantage to establish market leading positions for our OEM partners. The key to this strategy, and one of the successes of the past year, is in establishing regional platforms for growth, using an initial market presence in a given region as a springboard to further consolidation opportunities. This benefits customers, the OEM and our own business as we can leverage our scale across the region adding value through one efficient operation.

Significantly, in March we extended our Latin American platform with a scale acquisition in Costa Rica and Panama. We acquired Grupo Rudelman and with it the distribution contract for Suzuki and a number of emergent Chinese brands. We have now significantly increased our exposure in Latin America, through both long-standing and newer partnerships, in the high-growth potential markets that we see as fundamental to our continuing consolidation of the industry. The Costa Rica and Panama markets have been weak over 2018 but the business contributed good incremental profit to the Group and we believe we have set the foundations to drive operational improvement and extract further synergies in 2019. The Indumotora business in South America, which we have now operated for two years, achieved its target ROIC in 2018, a year early given its outperformance to plan.

We have also been able to consolidate BMW Group's Baltic operations having recently been awarded the Distribution contract for Lithuania, following on from our Estonia contract win in 2017 and existing Latvia contract. Similarly, over the year we extended our representation with Jaguar Land Rover as we were awarded the Distribution contracts for Colombia and Kenya. Following on from this we have been awarded the Kenya contract by BMW as we look to build upon this and our existing operations in Ethiopia, creating a platform to consolidate Distribution contracts throughout east Africa. In less than a year we have gone from one OEM to three in the Africa region, with a development pipeline of further markets under consideration.

It is important to add that while we have capitalised on a strong set of opportunities recently, we have a highly selective and disciplined approach to the acquisition pipeline and to our allocation of capital. We have the firepower to invest but do so in a way that is consistent with our strategy of long-term, sustainable growth, and shareholder value creation.

Building Structural and People Capability

None of the progress we have made over the past year would have been possible without the expertise and dedication of our people.

We have continued to invest in the skills we need as our industry evolves, managing succession and ensuring long-term viability, and we recognise that the sustainable business of the future must bring new talent in from outside to extend Inchcape's capabilities where we see a gap. In particular we have expanded our digital teams both at Group and market level, where they are playing a leading role in the continued optimisation of our retail footprint and customer experience. The potential for technological advancement in our industry should not be underestimated and our aim is to keep pace and anticipate wherever possible to maintain a strong competitive edge, both now and in the years ahead.

Long-term Value Creation

The combination of our business model, our strategy and our capability comprise Inchcape's core strength and provide the basis of our proposition for multi-layered growth: through operations with a weighting towards higher margin distribution contracts; through a balanced exposure to mature and high-growth potential markets; through scale leveraged to build efficiencies across our global operations; through sensible deployment of cash generated through the operations; and through our positive response to the evolving automotive industry.

The automotive industry is undergoing significant change as advances in technology are redefining the value chain and unlocking new profit pools where competition comes from both inside, and outside of, our industry. While we are actively monitoring all aspects of the changing automotive industry, in the near term our focus is on digitising our business and piloting both proprietary and joint venture innovation in customer interface, autonomous mobility, new models of access and ride hailing.

Inchcape is structured to maximise the opportunities for earnings and delivering cash returns for our shareholders and I believe wholeheartedly that the business will continue its long track record of delivering growth.

Outlook

I believe Inchcape has a strong and sustainable business model which provides an excellent long-term investment proposition. This year has reaffirmed that our Ignite strategy is taking Inchcape in the right direction; it has demonstrated the growth opportunity in Distribution, has enabled us to improve our operations and has enhanced our global footprint. Our diversified and distribution-weighted portfolio will continue to be an engine for growth over the long term.

We also remain focused on ensuring the best possible performance of our Retail businesses against the market headwinds we continue to face. We believe that we have exited 2018 with a stronger Retail strategy and are starting to see benefits from operational improvements that are being implemented.

Looking nearer term, excluding an expected AUDJPY transactional currency headwind we expect our performance in 2019 to remain resilient, in-line with continued market trends already seen towards the latter part of 2018.

Overall, as the automotive industry continues to evolve and with Inchcape's foundational strengths and stability in the face of change, I am confident that we will capitalise on the opportunities ahead. I believe that the combination of our dedicated people, the Ignite strategy and a sustainable business model means that Inchcape is positioned well to respond to market dynamics.

Stefan Bomhard
Group Chief Executive

Key Performance Indicators

KPIs provide insight into how the Board and Executive Committee monitor the Group's strategic and financial performance, as well as directly linking to the key measures for Executive remuneration. KPIs are stated in actual rates of exchange and note 11 provides definitions of Key Performance Indicators and other Alternative Performance Measures.

Key Performance Indicator	Definition	Why we measure it	2018 Highlights
Revenue £9.3bn 2017: £9.0bn	Consideration receivable from the sale of goods and services. It is stated net of rebates and any discounts, and excludes sales related taxes.	Top-line growth is a key financial metric of both 'Becoming the OEMs' Partner of Choice' and 'Leading in Customer Experience'.	The Group has delivered £9.3bn, growth of 3.6% vs. last year.
Operating margin 4.2% 2017: 4.5%	Operating profit (before exceptional items) divided by sales.	A key metric of operational efficiency, ensuring that we are leveraging global scale to translate sales growth to profit.	Operating margin at 4.2% is 30bps lower than the operating margin achieved in 2017.
Profit before tax & Exceptional Items £356.8m 2017: £381.6m	Represents the profit made after operating and interest expense excluding the impact of exceptional items and before tax is charged.	A key driver of delivering sustainable and growing earnings to shareholders.	In 2018 this decreased by 6.5% to £356.8m.
Free cash flow £280.7m 2017: £313.9m	Net cash flows from operating activities, before exceptional cash flows, less net capital expenditure and dividends paid to non-controlling interests.	A key driver of the Group's ability to 'Invest to Accelerate Growth' and to make distributions to shareholders.	The Group delivered free cash flow of £280.7m, a 10.6% decrease on 2017.
Return on capital employed 28% 2017: 30%	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.	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.	The Group delivered ROCE of 28%.

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	**1,301.3**	Direct profit contribution from Value Drivers (e.g. Vehicles and Aftersales)
Less: Segment operating expenses	(899.9)	
Trading Profit	**401.4**	Underlying profit generated by our Segments
Less: Central Costs	(16.3)	
Operating Profit (pre exceptional Items)	**385.1**	Underlying profit generated by the Group
Less: Exceptional Items	(210.8)	
Operating Profit	**174.3**	Statutory measure of Operating Profit
Less: Net Finance Costs and JV profit (inc exceptional items)	(42.2)	
Profit before Tax	**132.1**	Statutory measure of profit after the costs of financing the Group
Add back: Exceptional Items	224.7	
Profit Before Tax & Exceptional Items	**356.8**	One of the Group's KPIs

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 trading profit in constant currency, thereby isolating the impact of exchange. Unless otherwise stated, changes in sales and trading profit in the operating review are at constant currency. The 2019 outlook commentary is also referenced at constant currency. Note that our segmentation between Retail and Distribution channels has been reclassified, with further detail provided within the segmental performance review.

Key Performance Indicators – results

	Year ended 2018 £m	Year ended 2017 £m	% change	% change in constant currency
Revenue	**9,277.0**	8,953.3	3.6%	5.8%
Operating profit before exceptional items[1]	**385.1**	406.6	(5.3%)	(1.4%)
Operating margin[1]	**4.2%**	4.5%	-	-
Profit before tax and exceptional items[1]	**356.8**	381.6	(6.5%)	(2.6%)
Profit before tax	**132.1**	369.0	(64.2%)	
Free cash flow[1]	**280.7**	313.9	(10.6%)	
Return on capital employed[1]	**28%**	30%	-	-

1. See note 11 for definition of Key Performance Indicators and other Alternative Performance Measures.

Group revenue of £9.3bn is up 5.8% year-on-year, and 4.2% excluding the Central America acquisition that was announced in March 2018. Organic growth was particularly strong in the Emerging Markets, driven by Russia and South America where the benefits of our Ignite strategy are particularly visible both through value driver growth and acquisitions. The enhancement of our South America portfolio with the acquisition made in 2016 continues to benefit us, with the business performing very well. Other regions have seen more resilient organic growth against some market headwinds.

The Group delivered an operating profit before exceptional items of £385.1m, down 1.4% year-on-year and down 4.5% excluding the new Central American operations. Our Distribution business continues to be the growth engine of the Group, with Distribution trading profit up 6.5% and, excluding the accretion of the new Central American businesses, growing by 3.0%. This performance has been driven by Asia. Performance in our Distribution business was offset by continued weakness in our UK and Australia Retail markets where market-driven factors have weighed on margins. Our Group operating margin over the year was 4.2%, compared with 4.5% in 2017.

Profit before tax and exceptional items of £356.8m is down 2.6% year-on-year, reflective of the challenging Retail trading environment and impact on margins. Reported profit before tax declined 64.2% year-on-year in actual currency, given an exceptional charge of £225m largely relating to impairments in our UK & Europe segment.

The Group delivered strong free cash flow of £280.7m, down 11% versus 2017, representing a conversion rate of 73%, compared with 77% in 2017 and slightly above our target range of cash generation, despite timing impacts on working capital that were particularly beneficial in 2017. Working capital benefit in 2018 was driven by improvements in Asia and Central America.

Return on capital employed (ROCE) for the Group was 28% compared with 30% in 2017.

Segmental Performance

Segmental detail can also be found in Note 2 of the accounts, and our appendix contains the list of markets that fall within each region. During the year, the Group has reviewed the operating segments and determined that in those regions where we are the Distributor and manage a network that includes dealerships that we own and operate, the results of those Retail operations are better reflected as part of the results from Distribution. This has resulted in the results from our Subaru, Peugeot and Citroen Retail operations in Australia and Toyota Retail operations in Europe being reported as part of Australasia and UK and Europe Distribution. Restatements are also reflective of smaller changes relating to IFRS 15 and a reallocation of some central costs.

DISTRIBUTION

The Distribution segment delivered year-on-year revenue growth of 6.6%, or 3.6% excluding the new Central American operations. Distribution trading profit grew 6.5% in constant currency and was up 3.0%, excluding the Central America acquisition. Group Distribution trading margin declined 20bps to 7.5%, a strong improvement of 90bps in our Asia business, offset mostly by our Emerging Markets business in Ethiopia. On our historic segmental presentation Distribution grew +9.3%, or +5.6% excluding the new Central America operations.

	Year ended 2018 £m	Year ended 2017 £m	% change	% change in constant currency
Revenue				
Asia	1,687.7	1,692.6	(0.3%)	1.3%
Australasia	1,198.4	1,237.8	(3.2%)	2.6%
UK & Europe	1,145.5	1,068.4	7.2%	5.4%
Emerging Markets	956.5	794.7	20.4%	26.0%
Total Distribution	**4,988.1**	**4,793.5**	**4.1%**	**6.6%**
Trading profit				
Asia	169.6	154.2	10.0%	11.8%
Australasia	87.8	92.2	(4.8%)	0.8%
UK & Europe	33.3	34.5	(3.5%)	(5.2%)
Emerging Markets	84.2	85.9	(2.0%)	7.7%
Total Distribution	**374.9**	**366.8**	**2.2%**	**6.5%**
Trading profit margin				
Asia	10.0%	9.1%	0.9ppt	0.9ppt
Australasia	7.3%	7.4%	(0.1ppt)	(0.1ppt)
UK & Europe	2.9%	3.2%	(0.3ppt)	(0.3ppt)
Emerging Markets	8.8%	10.8%	(2.0ppt)	(1.5ppt)
Total Distribution	**7.5%**	**7.7%**	**(0.2ppt)**	**(0.1ppt)**

- **Asia** revenue grew 1% and trading profit grew 12%, driven by a pleasing New Car performance and supported by Aftersales. In Hong Kong, we saw very strong underlying market share growth of more than 140bps against a broadly flat market, excluding incentive-driven electric vehicle volumes in 2017. This was helped by the successful launch of the new Toyota Alphard product. Singapore's sales performance was pleasing against the new vehicle market decline of 18% which was driven by the anticipated reduction in Certificates of Entitlement (COEs) availability. The annualising effect of the Harrier product launch, historically a domestic-Japanese focused product for Toyota, helped to drive market share gains in Singapore and was also beneficial to margin mix. Trading profit margins for Asia as a whole grew 90bps, driven by double digit profit growth in Hong Kong alongside a strong top-line and good management of Singapore headwinds which enabled profit growth in the market.
- **Australasia** saw sales growth of 3% and trading profit growth of 1%. On our previous classification Australasia trading profit grew14% The Australian new car market declined by 3% over the year, with weakness driven by the New South Wales submarket, although outperformance continued to be seen in the SUV segment. Against these market trends our Subaru operations were able to broadly maintain their global leading market share at 4.3% over the year, although the phasing of the new Forester launch impacted sales growth in the second half. Australasia trading profit was supported by a net c.£16m transactional currency tailwind. The division's profit decline excluding the Yen benefit includes the weaker profit generated in retail sites, in part due to a high Sydney concentration, where the Australian market saw greater contraction. The Peugeot Citroën business, which saw the successful launch of the Peugeot 3008, albeit in a competitive market, remains broadly breakeven.
- **UK & Europe** sales grew 5% and trading profit declined 5%. The Greek market was up 17% over the year as it continued to recover from years of decline following a sustained period of macro-economic and political uncertainty. Our Toyota Lexus operations benefited from this trend and drove good growth for the division. In Belgium, the Passenger Car market grew by 1% and was impacted by competitor actions around WLTP which impacted profit growth. Our Balkan and Baltic operations continued to structurally grow over 2018, however competitive behaviours, including linked to WLTP, in the Baltics restricted profit growth later in the year.
- **Emerging Markets** sales grew 26% over the year and trading profit grew 8%, strongly supported by Ignite initiatives. Excluding the Central America acquisition, trading profit declined by 8%. The new South American operations we acquired at the end of 2016 have continued to demonstrate strength, with benefits from being part of the wider Inchcape Group being realised. Within the mix, commercial vehicles saw a recovery in Colombia and Subaru sales across the region have remained encouraging. Our pre-existing South American BMW Distribution business saw both Chile and Peru achieve market leadership, although Peru was affected by a sales tax change. The organic performance of the division was however mostly impacted by a profit decline in Ethiopia. Ethiopia was impacted by more limited currency availability which caused supply constraints in this high margin aftersales driven business despite demand remaining high.
- The **Central America** acquisition which we made in March 2018 has contributed £140m of revenue over the year and £12m of trading profit. The business has integrated well although the Costa Rica and Panama markets have declined during 2018. The merits of the acquisition however remain intact and we are pleased with the progress we are making with our meaningful increase in Suzuki exposure.

RETAIL

The Retail segment delivered a solid revenue performance, growing by 5.0%, driven by Russia where the success of Ignite initiatives can be seen. Trading profit declined by 58.7% year-on-year, with margins down 100bps to 0.6%. Dynamics in the UK and Australia drove the margin decline with vehicle margin weakness and negative operating gearing. On our historic segmental presentation Retail trading profit declined 53.1%%.

	Year ended 2018 £m	Year ended 2017 £m	% change	% change in constant currency
Revenue				
Australasia	382.2	401.6	(4.8%)	0.8%
UK & Europe	3,057.6	3,174.4	(3.7%)	(3.7%)
Emerging Markets	849.1	583.8	45.4%	60.0%
Total Retail	**4,288.9**	**4,159.8**	**3.1%**	**5.0%**
Trading profit				
Australasia	(7.7)	9.4	(181.9%)	(187.0%)
UK & Europe	14.8	52.0	(71.5%)	(71.6%)
Emerging Markets	19.4	3.6	438.9%	490.0%
Total Retail	**26.5**	**65.0**	**(59.2%)**	**(58.7%)**
Trading profit margin				
Australasia	(2.0%)	2.3%	(4.3ppt)	(4.3ppt)
UK & Europe	0.5%	1.6%	(1.1ppt)	(1.1ppt)
Emerging Markets	2.3%	0.6%	1.7ppt	1.7ppt
Total Retail	**0.6%**	**1.6%**	**(1.0ppt)**	**(1.0ppt)**

- **Australasia** revenue grew 0.8% but trading profit declined 187%. Over the year we have continued to see impacts from F&I commission regulation but have also seen an impact from a cooling property market which has weighed on Sydney in particular, although the wider market also saw an increasing pull-back over the year. Our Retail business had also benefited in 2017 from £9m property profit which was not repeated in 2018.
- **UK and Europe** sales declined 4% and trading profit declined 72%, given a contraction in margins to 0.5% from 1.6% in the prior year. Our UK business has seen a 7% market decline in new car volumes, but more importantly a further 30% contraction in diesel New Car volumes. The has led to an oversupply of diesel new car product in the market. In addition, the new WLTP led to supply shortages of certain models in the second half of the year given delays in product testing. Inchcape's OEM brand exposure emphasised the impact of both trends to the business in comparison to the wider market. These trends, alongside negative operational gearing, weakened our margins over the year. Given current trading margins we have reduced our near-term margin expectations and taken a £198m non-cash exceptional impairment to the carrying value of goodwill and site-based assets.
- **Emerging Markets**, which includes only Russia, saw 60.0% revenue growth over the period and 490% trading profit growth. Strong performance led to 2018 profit almost five times greater than the prior year. The total Russian new car market grew only 13% in comparison, and much of the benefit can be attributed to our Ignite strategy. We have seen strong growth across value drivers, with profit achieved through F&I, Used and Aftersales up meaningfully. Used car gross profit doubled and F&I saw a strong uplift from the introduction of a paint protection product, as well as improved selling processes.

2019 OUTLOOK

Overall, for the Group, we are expecting a resilient constant currency profit performance in 2019, excluding a large transactional Yen FX headwind. We currently expect this headwind to be £35m, and including this we expect a challenging performance. We remain focused on improving the efficiency of the business through our Ignite initiatives and controlling costs to manage the headwinds expected over the year. Cash generation remains a focus of the business and we anticipate conversion in-line with target levels over the period, supported by a reduced capex level compared with prior year.

Distribution: We expect 2019 to be a resilient year, excluding transactional headwinds in Australasia, with resilient performances in Asia, Australasia and Emerging Markets but a strong performance in Europe. In Asia we expect a continued Singapore market decline, although supported by a commercial vehicle scrappage scheme, as well as a broadly stable Hong Kong market. South America growth remains beneficial to the Emerging Markets, but currency availability in Ethiopia remains limited which is likely to impact supply despite strong demand. The Costa Rica market is likely to soften further but we are confident that we have the foundations to improve the business through Ignite initiatives. The cooling of the Australian property market is likely to limit underlying progress in the Australasia, although we have the benefit of a fresh product line-up. Europe is expected to benefit from continued momentum in Greece as well as improved performance in the Baltics.

Retail: We expect growth in Russia to remain strong and for performance in the UK and Australia to be more stable. Whilst the UK market remains challenging, we have started 2019 with a cleaner stock profile, improved centralised processes and have actions underway to rationalise our cost base. Similarly, in Australia the market remains pressured, but we are also looking at our cost base and are driving our Ignite initiatives even harder. Russia's phasing is likely to see a slower first half given VAT changes in the market. Any impact to trading from Brexit would however be a further risk to this Retail performance.

Value Drivers

We provide disclosure on the value drivers behind our revenue and profit. We have restated these as per note 2. This includes:

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

		Gross profit £m		% change	% change in constant currency
		Year ended 2018	Year ended 2017		
Group	Vehicles	**809.7**	784.4	3.2%	6.0%
	Aftersales	**491.6**	466.8	5.3%	8.7%
	Total	**1,301.3**	1,251.2	4.0%	7.0%
Distribution	Vehicles	**544.1**	514.1	5.8%	9.0%
	Aftersales	**325.6**	308.7	5.5%	9.3%
	Total	**869.7**	822.8	5.7%	9.1%
Retail	Vehicles	**265.6**	270.3	(1.7%)	0.3%
	Aftersales	**166.0**	158.1	5.0%	7.6%
	Total	**431.6**	428.4	0.7%	2.9%

Over the year we saw a 3.4% increase in Vehicle gross profit and a 6.6% increase in Aftersales gross profit, excluding the Central America acquisition. Inchcape operates across the automotive value chain and over the year generated 38% of gross profit through Aftersales.

Distribution Vehicles gross profit grew 9.0%, or up 5.0% excluding the new Central American operations. This reflects higher New Vehicle margins in Asia, the transactional currency tailwind of £16m in Australasia, and good vehicle growth in South America and Greece.

Distribution Aftersales gross profit increased 9.3%, or 6.1% excluding the new Central American operations, is driven by South America Australasia and Singapore although Ethiopia was a drag, given reduced parts supply.

The Retail business saw a 0.3% increase in Vehicles gross profit, reflecting margin declines in the UK and Australia, despite strength in Russia.

Retail Aftersales gross profit increased by 7.6% year-on-year. This reflects strength in Russia but weaker growth in Australasia. UK aftersales performance was up mid-single digit.

Other financial items

CENTRAL COSTS

Unallocated central costs for the full year are £16.3m before exceptional items (2017: £25.2m). Our costs remain tightly controlled with moderate inflationary increases and, in the year, have benefitted from a year-on-year reduction in underlying costs together with unusually low claims in central insurance operations.

OPERATING EXCEPTIONAL ITEMS

In 2018, the Group has recorded exceptional operating costs of £210.8m (2017: £12.6m). The charge in 2018 is comprised of goodwill and other asset impairments of £198.2m, costs of £7.2m relating to the acquisition and integration of businesses, primarily the Grupo Rudelman business in Central America, and £5.4m as a result of equalising Guaranteed Minimum Pensions in the Group's UK pension schemes following a ruling in the High Court. In 2017, the exceptional operating costs comprised costs of £10.5m associated with the global cost reduction programme and £2.1m in relation to the acquisition and integration of the Subaru and Hino distribution businesses in South America.

NET FINANCING COSTS

Net financing costs for the year, before exceptional finance costs, have increased from £25.0m in 2017 to £28.4m in 2018. The increase is due to increased levels of debt and supplier financing following the acquisition of the business in Central America in March 2018, together with the impact of an increase in base rates in the second half of 2017 and the annualisation of the interest cost on the sterling loan notes. Over 2019 we expect a charge of £28m in constant currency.

During the year, we incurred exceptional finance costs of £13.9m. This represents a one-off correction to the fair value basis of assessment of the Group's US$ Private Placement Loan Notes. This amount has been reported as an exceptional item in order to provide additional useful information regarding the Group's underlying business performance. The impact on profit before tax in each of the prior periods affected was not material and, had each period been reported correctly, there would have been no impact on executive or employee remuneration.

TAX

The effective tax rate for the year before exceptional items was 22.5% (2017: 25.2%). The underlying rate reflects the Group's profit mix and weighted average tax rate, together with the impact of post-acquisition restructuring of the Indumotora business and the resolution of audits in several jurisdictions. During 2018, tax paid was £98.7m (2017: £85.9m) with the increase principally driven by the timing of instalment payments in Hong Kong and Singapore. Tax paid also includes £5.9m relating to the return of the surplus from the TKM pension scheme.

We expect the effective rate to increase to 23-24% in 2019 given the profit mix across the Group.

NON-CONTROLLING INTERESTS

Profits attributable to our non-controlling interests were £7.0m, compared to £7.9m in 2017. The Group's non-controlling interests principally comprised a 10% share of Subaru Australia, a 6% of the Motor & Engineering Company of Ethiopia, a 30% share in NBT Brunei and 33% minority holding in UAB Vitvela in Lithuania.

FOREIGN CURRENCY

During the year, the Group incurred a loss of £15.5m (2017: a gain of £15.2m) from the translation of its overseas profits before tax into sterling at the 2018 average exchange rate when compared with the average exchange rates used for translation in 2017.

DIVIDEND

The Board recommends a final ordinary dividend of 17.9p per ordinary share which is subject to the approval of shareholders at the 2018 Annual General Meeting. This gives a total dividend for the year of 26.8p per ordinary share (2017: 26.8p). The dividend will be paid on 21 June 2019 to all shareholders on the register of members on 17 May 2019. A Dividend Reinvestment Plan (DRIP) is available to Ordinary shareholders and the final date for receipt of elections to participate in the DRIP is 31 May 2019.

PENSIONS

At the end of 2018, the IAS 19 net post-retirement surplus was £81.9m (2017: £72.3m), with the increase in the surplus driven by changes in demographic and financial assumptions partially offset by a decrease in the value of pension assets. In line with the funding programme agreed with the Trustees, the Group made additional cash contributions to the UK pension schemes amounting to £2.7m (2017: £2.7m). We have agreed with the Trustees that future cash contributions will continue at broadly this level.

During the year, Aviva completed the issue of individual policies to members of the TKM pension scheme and the trustees of the scheme returned £16.8m before tax (£10.9m after tax) of the surplus in the scheme to the Group.

ACQUISITIONS AND DISPOSALS

In March 2018, the Group acquired Grupo Rudelman, a Suzuki focused distribution business with integrated retail assets operating in Costa Rica and Panama. The total cost of this acquisition was £155.5m including cash acquired of £8.5m. During the year the Group also entered into a distribution contract with Jaguar Land Rover to distribute the Jaguar and Land Rover brands in Kenya and acquired one Lexus site in the UK. The Group has also disposed of its Jaguar Land Rover operations in Shaoxing and a dealership in the UK generating disposal proceeds of £13.4m.

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

FINANCING

During the year, the Group has entered into a £120m bilateral facility with a relationship bank, maturing in March 2019 with an option to extend for a further 6 months, with terms similar to those of the Group's existing Revolving Credit Facilities (RCF).

Driven by upcoming maturities, in February 2019 we refinanced our core RCF. This has increased our committed facilities from £620m to £700m at improved rates which drives a broadly neutral impact to our interest charge. The facility extends over the period to 2024, with options to extend to 2026 at the discretion of lenders.

CAPITAL EXPENDITURE

During the year, the Group invested £99.3m (2017: £101.4m) of net capital expenditure in the development of greenfield sites, the enhancement of existing facilities and the continued roll-out of the iPower system. During 2017 the Group invested in greenfield sites and the enlargement of existing facilities, including the optimisation of the Jaguar Land Rover footprint in the UK. We expect net capital expenditure to fall to a more normalised level of c£75m in 2019.

CASH FLOW AND NET FUNDS

The Group delivered free cash flow of £280.7m (2017: £313.9m). After the acquisition of businesses in the year, the payment of the final dividend for 2017 and the interim dividend for 2018, the Group had net funds of £12.7m (2017: net funds of £80.2m).

LEASE ACCOUNTING (IFRS 16)

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessees and lessors. IFRS 16 will supersede the current guidance on leases including IAS 17 when it becomes effective for the Group's financial year commencing 1 January 2019. Under IFRS 16, the distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting and replaced with a model where a right-of-use asset and a corresponding liability are recognised for all leases by lessees. As a result, all leases will be on balance sheet except for short-term leases and leases of low value assets.

The Group plans to apply a fully retrospective approach to leases where the Group is the lessee. Therefore, the cumulative effect of adoption of IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2018, with restatement of comparative information. The Group is currently finalising its assessment of IFRS 16 and estimates that the impact on adoption would be to add c £450m to £470m of lease liabilities to the balance sheet as at 31 December 2018. It would also increase the ratio of net debt / EBITDA by c0.9x. However, it is a non-cash accounting adjustment and does not change the financial liquidity of the Group.

RECONCILIATION OF FREE CASH FLOW

	Year to 31 December 2018 £m	Year to 31 December 2018 £m	Year to 31 December 2017 £m	Year to 31 December 2017 £m
Net cash generated from operating activities		**375.7**		389.5
Add back: Payments in respect of exceptional items		**10.1**		32.1
Net cash generated from operating activities, before exceptional items		**385.8**		421.6
Purchase of property, plant and equipment	**(90.8)**		(103.2)	
Purchase of intangible assets	**(34.4)**		(24.0)	
Proceeds from disposal of property, plant and equipment	**25.9**		25.8	
Net capital expenditure		**(99.3)**		(101.4)
Dividends paid to non-controlling interests		**(5.8)**		(6.3)
Free cash flow		**280.7**		313.9

Included within free cash flow are movements in restricted cash balances described in note 9.

APPENDIX - BUSINESS MODELS

ASIA

At the heart of the Asia region, we are the Distributor and exclusive Retailer for Toyota, Lexus, Hino and Suzuki and operate Distribution and exclusive Retail for Jaguar, Land Rover and Ford in Hong Kong with additional Distribution and Retail franchises across the region.

Country	Route to market	Brands
Hong Kong Macau	Distribution & Exclusive Retail	Toyota, Lexus, Hino, Daihatsu, Jaguar, Land Rover, Ford, Maxus
Singapore	Distribution & Exclusive Retail	Toyota, Lexus, Hino, Suzuki
Brunei	Distribution & Exclusive Retail	Toyota, Lexus
Guam	Distribution & Exclusive Retail	Toyota, Lexus, BMW, Chevrolet
Saipan	Distribution & Exclusive Retail	Toyota
Thailand	Distribution & Exclusive Retail	Jaguar, Land Rover
China	Retail	Porsche, Lexus, Mercedes, VW

AUSTRALASIA

We are the Distributor for Subaru in both Australia and New Zealand, in addition to Peugeot and Citroen in Australia. We also operate multi-franchise Retail operations in Sydney, Melbourne and Brisbane.

Country	Route to market	Brands
Australia	Distribution & Retail	Subaru, Peugeot, Citroen
	Retail	BMW, Jaguar, Land Rover, VW, MINI, Honda, Isuzu, Kia, Mitsubishi Aston Martin, Bentley, McLaren, Rolls-Royce
New Zealand	Distribution	Subaru

UK AND EUROPE

We have scale Retail operations across the core regions of the UK focused on premium and luxury brands. Our European operations are centred on Toyota and Lexus Distribution in Belgium, Greece and the Balkans, BMW Retail in Poland and a number of fast-growing businesses in the Baltic region focused on Jaguar Land Rover, Mazda and other brands.

Country	Business Model	Brands
UK	Retail	Toyota, Lexus, Audi, BMW, Mini, Jaguar, Land Rover, Mercedes, VW, Porsche, Smart
Belgium Luxembourg Greece Romania Bulgaria Macedonia Albania	Distribution & Retail	Toyota, Lexus
Finland	Distribution	Jaguar, Land Rover, Mazda
Estonia	Distribution & Retail	Jaguar, Land Rover, Mazda, BMW, Mini, Kia
Latvia	Retail	BMW, Mini, Ford, Jaguar, Land Rover, Mazda,
Lithuania	Distribution & Retail	Mitsubishi, Jaguar, Land Rover, Mazda, Ford, Hyundai, BMW, Mini, Rolls Royce
Poland	Retail	BMW, Mini

EMERGING MARKETS

In South America, we have BMW Distribution businesses in Chile and Peru as well as Subaru and Hino operations across these markets, Colombia and Argentina. Our business in Ethiopia is centred on Distribution and exclusive Retail for Toyota. In Russia we operate 22 retail centres in Moscow and St Petersburg representing a number of our global OEM brand partners.

Country	Business Model	Brands
Ethiopia & Djibouti	Distribution & Exclusive Retail	Toyota, Daihatsu, Komatsu, New Holland, Hino
Kenya	Distribution & Retail	Jaguar, Land Rover, BMW
Russia	Retail	Toyota, Audi, BMW, Jaguar, Land Rover, Lexus, Mini, Rolls Royce, Volvo
Chile	Distribution & Retail	BMW, Subaru, Rolls Royce, Hino, DFSK, Kia
Peru	Distribution & Retail	BMW, Subaru, DFSK, BYD
Colombia	Distribution & Retail	Subaru, Hino, DFSK, Mack, Jaguar, Land Rover, Daihatsu, BAIC
Argentina	Distribution & Retail	Subaru, Suzuki
Costa Rica	Distribution & Retail	Suzuki, BAIC, JAC, Changan, Kubota
Panama	Distribution & Retail	Suzuki, JAC, Changan, Great Wall

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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 year ended 31 December 2018

	Notes	**Before exceptional items 2018 £m**	**Exceptional items (note 3) 2018 £m**	**Total 2018 £m**	Before exceptional items 2017 (Restated)[1] £m	Exceptional items (note 3) 2017 £m	Total 2017 (Restated)[1] £m
Revenue	2	**9,277.0**	**–**	**9,277.0**	8,953.3	–	8,953.3
Cost of sales		**(7,975.7)**	**–**	**(7,975.7)**	(7,702.1)	–	(7,702.1)
Gross profit		**1,301.3**	**–**	**1,301.3**	1,251.2	–	1,251.2
Net operating expenses		**(916.2)**	**(210.8)**	**(1,127.0)**	(844.6)	(12.6)	(857.2)
Operating profit	2	**385.1**	**(210.8)**	**174.3**	406.6	(12.6)	394.0
Share of profit after tax of joint ventures and associates		**0.1**	**–**	**0.1**	–	–	–
Profit before finance and tax		**385.2**	**(210.8)**	**174.4**	406.6	(12.6)	394.0
Finance income	4	**19.3**	**–**	**19.3**	14.6	–	14.6
Finance costs	5	**(47.7)**	**(13.9)**	**(61.6)**	(39.6)	–	(39.6)
Profit before tax		**356.8**	**(224.7)**	**132.1**	381.6	(12.6)	369.0
Tax	6	**(80.2)**	**3.3**	**(76.9)**	(96.1)	2.7	(93.4)
Profit for the year		**276.6**	**(221.4)**	**55.2**	285.5	(9.9)	275.6
Profit attributable to:							
– Owners of the parent				**48.2**			267.7
– Non-controlling interests				**7.0**			7.9
				55.2			275.6
Basic earnings per share (pence)	7			**11.6p**			64.3p
Diluted earnings per share (pence)	7			**11.5p**			63.6p

1. See note 14

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	2018 £m	2017 (Restated)[1] £m
Profit for the year	**55.2**	275.6
Other comprehensive income / (loss):		
Items that will not be reclassified to the consolidated income statement		
Defined benefit pension scheme remeasurements	**36.4**	37.9
Current tax recognised in consolidated statement of comprehensive income	**(6.1)**	–
Deferred tax recognised in consolidated statement of comprehensive income	**(0.1)**	(5.5)
	30.2	32.4
Items that may be or have been reclassified subsequently to the consolidated income statement		
Cash flow hedges	**25.4**	15.5
Effect of foreign exchange rate changes	**(10.1)**	(68.0)
Current tax recognised in consolidated statement of comprehensive income	**(0.6)**	–
Deferred tax recognised in consolidated statement of comprehensive income	**(5.8)**	(5.0)
	8.9	(57.5)
Other comprehensive income / (loss) for the year, net of tax	**39.1**	(25.1)
Total comprehensive income for the year	**94.3**	250.5
Total comprehensive income attributable to:		
– Owners of the parent	**85.6**	242.2
– Non-controlling interests	**8.7**	8.3
	94.3	250.5

1. See note 14

Consolidated statement of financial position

As at 31 December 2018

	2018 £m	2017 (Restated)[1] £m
Non-current assets		
Intangible assets	**606.0**	639.5
Property, plant and equipment	**822.9**	788.4
Investments in joint ventures and associates	**4.3**	4.2
Available for sale financial assets	**6.6**	7.3
Trade and other receivables	**70.9**	59.0
Deferred tax assets	**30.8**	36.7
Retirement benefit asset	**116.5**	105.9
	1,658.0	1,641.0
Current assets		
Inventories	**1,851.9**	1,768.6
Trade and other receivables	**512.8**	465.0
Available for sale financial assets	**0.8**	0.2
Derivative financial instruments	**92.1**	52.4
Current tax assets	**22.6**	10.1
Cash and cash equivalents	**589.3**	926.9
	3,069.5	3,223.2
Assets held for sale	**8.9**	13.8
	3,078.4	3,237.0
Total assets	**4,736.4**	4,878.0
Current liabilities		
Trade and other payables	**(2,356.5)**	(2,234.6)
Derivative financial instruments	**(13.3)**	(21.6)
Current tax liabilities	**(86.4)**	(73.7)
Provisions	**(18.5)**	(21.2)
Borrowings	**(417.1)**	(534.5)
	(2,891.8)	(2,885.6)
Non-current liabilities		
Trade and other payables	**(67.3)**	(58.9)
Provisions	**(14.5)**	(11.5)
Deferred tax liabilities	**(100.7)**	(78.6)
Borrowings	**(211.7)**	(361.9)
Retirement benefit liability	**(34.6)**	(33.6)
	(428.8)	(544.5)
Total liabilities	**(3,320.6)**	(3,430.1)
Net assets	**1,415.8**	1,447.9
Equity		
Share capital	**41.6**	41.6
Share premium	**146.7**	146.7
Capital redemption reserve	**139.0**	139.0
Other reserves	**(76.3)**	(83.5)
Retained earnings	**1,141.3**	1,183.5
Equity attributable to owners of the parent	**1,392.3**	1,427.3
Non-controlling interests	**23.5**	20.6
Total equity	**1,415.8**	1,447.9

1. See note 14

Stefan Bomhard,
Group Chief Executive

Richard Howes,
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total shareholders' equity £m
At 1 January 2017		42.2	146.7	138.4	(25.6)	1,042.2	1,343.9	18.6	1,362.5
Adjustment for IFRS 15	14	–	–	–	–	(5.8)	(5.8)	–	(5.8)
At 1 January 2017 (restated)		42.2	146.7	138.4	(25.6)	1,036.4	1,338.1	18.6	1,356.7
Profit for the year		–	–	–	–	267.7	267.7	7.9	275.6
Other comprehensive (loss) / income for the year		–	–	–	(57.9)	32.4	(25.5)	0.4	(25.1)
Total comprehensive income / (loss) for the year		–	–	–	(57.9)	300.1	242.2	8.3	250.5
Share-based payments, net of tax		–	–	–	–	11.0	11.0	–	11.0
Share buyback programme		(0.6)	–	0.6	–	(50.2)	(50.2)	–	(50.2)
Net purchase of own shares by the Inchcape Employee Trust		–	–	–	–	(11.1)	(11.1)	–	(11.1)
Dividends:									
– Owners of the parent	8	–	–	–	–	(102.7)	(102.7)	–	(102.7)
– Non-controlling interests		–	–	–	–	–	–	(6.3)	(6.3)
At 1 January 2018 (restated)		**41.6**	**146.7**	**139.0**	**(83.5)**	**1,183.5**	**1,427.3**	**20.6**	**1,447.9**
Profit for the year		–	–	–	–	48.2	48.2	7.0	55.2
Other comprehensive income for the year		–	–	–	7.2	30.2	37.4	1.7	39.1
Total comprehensive income for the year		–	–	–	**7.2**	**78.4**	**85.6**	**8.7**	**94.3**
Share-based payments, net of tax		–	–	–	–	**7.2**	**7.2**	–	**7.2**
Net purchase of own shares by the Inchcape Employee Trust		–	–	–	–	**(12.6)**	**(12.6)**	–	**(12.6)**
Dividends:									
– Owners of the parent	8	–	–	–	–	**(115.2)**	**(115.2)**	–	**(115.2)**
– Non-controlling interests		–	–	–	–	–	–	**(5.8)**	**(5.8)**
At 31 December 2018		**41.6**	**146.7**	**139.0**	**(76.3)**	**1,141.3**	**1,392.3**	**23.5**	**1,415.8**

Share-based payments include a net tax charge of £0.3m (current tax charge of £0.1m and a deferred tax charge of £0.2m) (2017 – net tax credit of £0.8m (current tax credit of £0.4m and a deferred tax credit of £0.4m)).

Consolidated statement of cash flows

For the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	9a	**501.5**	500.4
Tax paid		**(98.7)**	(85.9)
Interest received		**17.1**	14.6
Interest paid		**(44.2)**	(39.6)
Net cash generated from operating activities		**375.7**	389.5
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired	10	**(152.7)**	(23.7)
Net cash inflow from sale of businesses	10	**13.4**	5.6
Purchase of property, plant and equipment		**(90.8)**	(103.2)
Purchase of intangible assets		**(34.4)**	(24.0)
Proceeds from disposal of property, plant and equipment		**25.9**	25.8
Purchase of available for sale financial assets		**(0.6)**	–
Proceeds from disposal of available for sale financial assets		**0.5**	–
Net cash used in investing activities		**(238.7)**	(119.5)
Cash flows from financing activities			
Share buyback programme		**–**	(50.2)
Net purchase of own shares by the Inchcape Employee Trust		**(12.6)**	(11.1)
Cash inflow from Private Placement loan notes		**–**	210.0
Repayment of Private Placement loan notes		**–**	(138.5)
Net cash inflow / (outflow) from other borrowings		**35.6**	(119.3)
Payment of capital element of finance leases		**(1.8)**	(1.4)
Equity dividends paid	8	**(115.2)**	(102.7)
Dividends paid to non-controlling interests		**(5.8)**	(6.3)
Net cash used in financing activities		**(99.8)**	(219.5)
Net increase in cash and cash equivalents	9b	**37.2**	50.5
Cash and cash equivalents at the beginning of the year		**416.6**	416.0
Effect of foreign exchange rate changes		**9.6**	(49.9)
Cash and cash equivalents at the end of the year		**463.4**	416.6

	Notes	2018 £m	2017 £m
Cash and cash equivalents consist of:			
– Cash at bank and cash equivalents		**370.3**	820.0
– Short-term deposits		**219.0**	106.9
– Bank overdrafts		**(125.9)**	(510.3)
		463.4	416.6

Notes to the financial statements

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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.

The condensed set of financial information presented for the years ended 31 December 2017 and 2018 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 2017 have been reported on by the Group's auditors and filed with the Registrar of Companies. The report of the auditors was unqualified and did not contain an emphasis of matter paragraph or a statement under Section 498 of the Companies Act 2006. The financial information for the year ended 31 December 2018 and the comparative information have been extracted from the audited consolidated financial statements for the year ended 31 December 2018 prepared under IFRS, which have not yet been approved by the shareholders and have not yet been delivered to the Registrar. The report of the auditors on the consolidated financial statements for 2018 was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

Accounting policies

The condensed set of consolidated financial information have been prepared on a going concern basis and have adopted accounting policies consistent with those of the Group's Annual Report and Accounts 2017 except for the following standards which have been newly adopted from 1 January 2018.

IFRS 9 Financial instruments

IFRS 9 brings together the classification and measurement, impairment and hedge accounting aspects of the International Accounting Standards Board's project to replace IAS 39.

Classification and measurement

IFRS 9 amends the classification and measurement of financial assets:

- Financial assets are either measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL);
- Financial assets are measured at amortised cost or FVTOCI if certain restrictive conditions are met. All other financial assets are measured at FVTPL; and
- All investments in equity instruments are measured at fair value. For those investments in equity instruments that are not held for trading, there is an irrevocable election to present gains and losses in other comprehensive income (OCI). Dividends are recognised in profit or loss.

The adoption of IFRS 9 has had no impact on the measurement of the Group's financial assets or financial liabilities.

Impairment

The new impairment model in IFRS 9 is now based on an 'expected loss' model rather than an 'incurred loss' model. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity should account for expected credit losses and changes in those expected credit losses. A simplified impairment model is applicable to trade and other contractual receivables with maturities that are less than 12 months. For trade and other contractual receivables with maturity longer than 12 months, entities have a choice of applying the complex three-stage model or the simplified model. The Group has applied the simplified approach to the recognition of lifetime expected credit losses for its trade receivables and the calculation of the loss allowance for these assets as at 1 January 2018 was broadly in line with the loss allowance calculated under IAS 39.

Hedge accounting

On initial application of IFRS 9, an entity may choose, as its accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the hedge accounting requirements of IFRS 9. The Group has elected to apply IFRS 9 hedge accounting requirements because they are more closely aligned with the way that the Group manages its risks. Under the new hedge accounting requirements:

- The 80-125% highly effective threshold has been removed;
- Risk components of non-financial items can qualify for hedge accounting provided that the risk component is separately identifiable and reliably measurable;
- An aggregated position (i.e. combination of a derivative and a non-derivative) can qualify for hedge accounting provided that it is managed as one risk exposure;
- When entities designate the intrinsic value of options, the initial time value is deferred in Other Comprehensive Income (OCI) and subsequent changes in time value are recognised in OCI;
- When entities designate only the spot element of a forward contract, the forward points can be deferred in OCI and subsequent changes in forward points are recognised in OCI. Initial foreign currency basis spread can also be deferred in OCI with subsequent changes be recognised in OCI; and
- Net foreign exchange cash flow positions can qualify for hedge accounting.

The Group currently applies hedge accounting to:

- the Group's cross currency interest rate swaps that are used to hedge the fixed interest rate risk and the forward foreign currency risks associated with the Group's Private Placement loan notes denominated in US dollars; and
- the transactional currency exposures on the purchases of vehicles and parts in a currency other than an operating unit's functional currency.

An assessment of the Group's hedging relationships under IFRS 9 has been performed and it has been determined that the relationships qualify as continuing hedging relationships under the new standard and therefore the application of IFRS 9 has not had a material impact on the Group's consolidated financial statements.

The Group has elected not to restate comparatives on initial application of IFRS 9.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes the previous revenue recognition guidance including IAS 18 *Revenue* and IAS 11 *Construction contracts*, and has been effective for the Group from 1 January 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) each performance obligation is satisfied

The following revenue streams have been identified as being impacted by the adoption of the new standard:

Area	Previous treatment	New treatment under IFRS 15
The provision of extended warranties to customers over and above the OEM warranty where the Group acts as the principal in the supply of the warranty service.	The Group provides an estimate of the cost of fulfilling the future obligation on the sale of the vehicle. The cost of fulfilling the obligation when it arises is then charged against the provision.	A proportion of revenue will be allocated to the extended warranty obligation and deferred to the balance sheet. The revenue will subsequently be recognised over time along with the costs incurred in fulfilling any warranty obligations.
The sale of vehicles which are subject to a buyback commitment and the possibility of the buyback being exercised by the customer is not highly likely as the buyback price set is below the expected market value.	Revenue and profit associated with vehicles sold subject to a buyback commitment are deferred and recognised over the period of the commitment.	Revenue is recognised in full when the vehicle is sold. However, an estimate of the value of the buyback payments is deducted from revenue and deferred to the balance sheet. Similarly, an estimate of the value of the vehicles to be returned is deducted from cost of sales and also deferred to the balance sheet.
Payments made by a Distribution business to a dealer in the form of a discount, rebate, credit note or some other form of incentive.	In most cases, these are deducted from revenue.	The new standard clarifies that all transactions that fall within this category should be accounted for as a reduction in revenue by the Distributor and not as an expense within cost of sales.
Additional services included in the sale of a vehicle to a customer as part of the total vehicle package (e.g. free servicing, roadside assistance, fuel coupons etc) where the Group is acting as a principal in the fulfilment of the service at a future date, rather than simply as an agent in selling the additional service and with no continuing obligation.	Varies dependent on the conclusions reached with regards to whether the Group is acting as principal or agent. Where the Group is acting as an agent, revenue is recognised in full on the sale of a vehicle. Where the Group is acting as principal, revenue is deferred.	The new standard sets out more comprehensive guidance on principal and agent relationships. Where the Group acts as principal, the value of the additional services should be separately identified, deducted from revenue, recognised as deferred revenue on the balance sheet and subsequently recognised as revenue when the service is provided, or over the period to which the service relates. Where the Group acts as an agent, the net amount retained after the deduction of any costs paid to the principal is recognised as revenue. If a product or service is provided free to a customer, then the costs paid to the principal should be deducted from revenue rather than charged to cost of sales.
Vehicle registration and similar fees which are charged to the customer on the sale of a vehicle and which are collected by the Group on behalf of an authority.	In most, but not all, cases these are excluded from revenue.	The new standard sets out more comprehensive guidance on principal and agent relationships. As a consequence of the new guidance, where it is concluded that the Group is acting as an agent of a government in the collection of such fees, the amount of the vehicle registration fee should be excluded from revenue.

The Group has elected to apply the new standard retrospectively to each prior reporting period, and has accordingly restated the comparative information for the immediately preceding periods in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Further details of the restatement can be seen in note 14.

Standards not effective at the balance sheet date

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 2019:

- IAS 7, 'Amendment to IAS 7, *Cash flow statements*'
- IAS 12, 'Amendment to IAS 12, *Income taxes*'
- IAS 27, 'Amendment to IAS 27, *Separate financial statements*'
- IFRS 2, 'Amendment to IFRS 2, *Share-based payment*'
- IFRS 16, '*Leases*'

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, except as noted below:

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessees and lessors. IFRS 16 will supersede the current guidance on leases including IAS 17 and the related interpretations when it becomes effective for the Group's financial year commencing 1 January 2019. The Group has assessed the estimated impact that the application of IFRS 16 will have on its consolidated financial statements, and these are described below.

Under IFRS 16, the distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting and replaced with a model where a right-of-use asset and a corresponding liability are recognised for all leases by lessees. As a result, all leases will be on balance sheet except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation. The lease liability is initially measured at the present value of the lease payments. Subsequently, the lease liability is adjusted for interest and lease payments. As a consequence, earnings before interest, depreciation, amortisation and tax (EBITDA) will increase because operating lease expenses currently included in EBITDA will be replaced with a depreciation charge in respect of the right-of-use asset and an interest expense on the lease liability. However, there will be an overall reduction in profit before tax in the early years of a lease because the depreciation and interest charges will exceed the current straight-line expense incurred under IAS 17. In addition, the classification of cash flows will also be affected because operating lease payments under IAS 17 are presented within operating cash flows, whereas under IFRS 16 the payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

Leases in which the Group is a lessee

The Group will recognise new right-of-use assets and lease liabilities for all its operating leases in the consolidated statement of financial position, initially valued at the present value of the future lease payments. Operating leases which will be now recognised on balance sheet include various dealerships, offices, warehouses and equipment, except for short-term leases and leases of low value assets.

The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. In addition, the Group will no longer recognise provisions for vacant leasehold properties as described in note 21. Instead, the right of use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets.*

Lease incentives will be recognised as part of the measurement of the right-of-use assets and lease liabilities, whereas under IAS 17 they resulted in the recognition of a lease liability incentive; this was amortised as a reduction of rental expense on a straight-line basis. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The Group has previously classified certain vehicles and buildings as finance leases. The adoption of IFRS 16 is not expected to have a material impact on these leases.

The Group plans to apply a fully retrospective approach to leases where the Group is the lessee. Therefore, the cumulative effect of adoption of IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2018, with restatement of comparative information. The Group is currently finalising its assessment of the IFRS 16 and estimates that the impact on initial application will be as follows:

	As at 31 December 2018
Recognition of right-of-use assets	**£410m to £430m**
Recognition of lease liability	**£450m to £470m**

Leases in which the Group is a lessor

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. To classify each lease, the Group makes an assessment of whether the lease transfers to the lessee substantially all the risks and rewards of ownership incidental to the ownership of the underlying asset. As part of this assessment the Group considers whether the lease is for a major part of the economic life of the asset.

The Group has reassessed the classification of sub-leases in which the Group is a lessor. When the Group is an intermediary lessor it will account for its interests in the head lease and sub-lease separately. It will assess the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. Cash flows received from the principal and interest on finance lease receivables will be classified as cash flows from investing activities. As required by IFRS 9 an allowance for expected credit losses will be recognised on finance lease receivables where appropriate.

The Group expects to reclassify certain sub-leases as finance leases under IFRS 16, resulting in the recognition of a finance lease receivable of c£6m and c£5m as at 1 January 2018 and 31 December 2018 respectively.

Following the adoption of IFRS 16 the new right-of-use asset will be subject to the impairment requirements of IAS 36 impairment of assets. Management is currently assessing how the right-of-use assets should be tested for impairment and consequently the impact, if any, on the financial statements at adoption.

Significant accounting judgements

Goodwill

The Group's policy is that goodwill is not subject to amortisation but is tested for impairment annually and whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money.

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

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

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

The results of the impairment review indicated that the value in use calculation was less than the carrying value of the assets attributable to the UK Retail CGU group and an impairment charge of £175m should be recognised. The forecasts are sensitive to changes in the key assumptions used. In addition, they are sensitive to a more disruptive consequence on the industry following a disorderly exit from the European Union. The table below shows the sensitivity of the value in use calculations to possible changes in the more sensitive assumptions while holding all other assumptions constant.

	Increase / (decrease) in assumption	Effect on value-in-use calculation £m
New vehicle margins	**+/-20bps**	**+/-£40m**
Used vehicle margins	**+/-20bps**	**+/-£35m**
Aftersales gross margins	**+/-150bps**	**+/-£40m**
Overheads	**+/-50bps**	**-/+£20m**

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

2 SEGMENTAL ANALYSIS

The Group has eight reportable segments which have been identified based on the operating segments of the Group that are regularly reviewed by the chief operating decision maker, which has been determined to be the Executive Committee, in order to assess performance and allocate resources. Operating segments are then aggregated into reporting segments to combine those with similar economic characteristics. During the year, the Group has reviewed the operating segments and determined that in those regions where we are the Distributor and manage a network that includes dealerships that we own and operate, the results of those retail operations are better reflected as part of the results from Distribution. This has resulted in the results from our Subaru, Peugeot and Citroen retail operations in Australia and Toyota retail operations in Europe being reported as part of Australasia and UK and Europe Distribution. The following summary describes the operations of each of the Group's reportable segments:

Distribution	Australasia	Distribution of new vehicles and parts in Australia and New Zealand together with associated marketing and logistics operations. Sale of new and used vehicles in Australia where the Group is also the Distributor of those vehicles, together with associated aftersales activities of service, bodyshop repairs and parts sales.
	UK and Europe	Distribution of new vehicles and parts, together with associated marketing activities, in mature European markets. Sale of new and used vehicles in Europe where the Group is also the Distributor of those vehicles, together with associated aftersales activities of service, bodyshop repairs and parts sales.
	Asia	Distribution and sale of new vehicles and parts in Asian markets, together with associated aftersales activities of service and bodyshop repairs.
	Emerging Markets	Distribution of new vehicles and parts in growing markets, together with associated aftersales activities of service and bodyshop repairs.
Retail	Australasia	Sale of new and used vehicles in Australia together with associated aftersales activities of service, bodyshop repairs and parts sales.
	UK and Europe	Sale of primarily new and used premium vehicles in mature markets, together with associated aftersales activities of service, bodyshop repairs and parts sales.
	Emerging Markets	Sale of new and used vehicles in growing markets together with associated aftersales activities of service, bodyshop repairs and parts sales.
Central		Comprises the Group's head office function and includes all central activities including the Board, finance, human resources, marketing, governance and global information services.

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

2018	Distribution Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Total Distribution £m
Revenue					
Total revenue	**1,198.4**	**1,145.5**	**1,687.7**	**956.5**	**4,988.1**
Inter-segment revenue	**–**	**–**	**–**	**–**	**–**
Revenue from third parties	**1,198.4**	**1,145.5**	**1,687.7**	**956.5**	**4.988.1**
Results					
Trading profit / (loss)	**87.8**	**33.3**	**169.6**	**84.2**	**374.9**
Operating exceptional items	**–**	**(4.5)**	**–**	**(1.8)**	**(6.3)**
Operating profit / (loss) after exceptional items	**87.8**	**28.8**	**169.6**	**82.4**	**368.6**
Share of profit after tax of joint ventures and associates					
Profit before finance and tax					
Finance income					
Finance costs					
Profit before tax					
Tax					
Profit for the year					

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

Net finance costs of £42.3m are not allocated to individual segments and include an exceptional charge of £13.9m which represents a non-recurring correction to the fair value basis of assessment of the Group's Private Placement Loan notes relating to prior periods.

The Group's reported segments are based on the location of the Group's assets. Revenue earned from sales is disclosed by origin and is not materially different from revenue by destination. Revenue is further analysed as follows:

2018	£m
UK	**2,892.5**
Rest of the world	**6,384.5**
Group	**9,277.0**

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

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

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

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

					Distribution
2018	Australasia £m	UK and Europe £m	Asia £m	Emerging Markets £m	Total Distribution £m
Other segment items					
Capital expenditure:					
– Property, plant and equipment	**8.7**	**6.3**	**8.6**	**14.0**	**37.6**
– Interest in leased vehicles	**1.9**	**0.4**	**8.0**	**2.4**	**12.7**
– Intangible assets	**3.0**	**4.4**	**2.5**	**3.6**	**13.5**
Depreciation:					
– Property, plant and equipment	**4.6**	**3.1**	**8.6**	**8.0**	**24.3**
– Interest in leased vehicles	**–**	**0.1**	**3.6**	**0.8**	**4.5**
Amortisation of intangible assets	**2.9**	**1.8**	**2.0**	**1.5**	**8.2**
Impairment of goodwill	**–**	**–**	**–**	**–**	**–**
Impairment of Property, plant and equipment	**–**	**4.5**	**–**	**–**	**4.5**
Net provisions charged / (credited) to the consolidated income statement	**2.1**	**4.5**	**1.6**	**0.6**	**8.8**

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

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

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

2018	Australasia £m	UK and Europe £m	Emerging Markets £m	Retail Total Retail £m	Total pre Central £m	Central £m	Total £m
Other segment items							
Capital expenditure:							
– Property, plant and equipment	**0.4**	**48.5**	**3.6**	**52.5**	**90.1**	**–**	**90.1**
– Interest in leased vehicles	**–**	**6.0**	**–**	**6.0**	**18.7**	**–**	**18.7**
– Intangible assets	**–**	**3.1**	**0.4**	**3.5**	**17.0**	**16.7**	**33.7**
Depreciation:							
– Property, plant and equipment	**–**	**15.8**	**3.7**	**19.5**	**43.8**	**0.1**	**43.9**
– Interest in leased vehicles	**–**	**2.7**	**–**	**2.7**	**7.2**	**–**	**7.2**
Amortisation of intangible assets	**0.7**	**3.2**	**1.3**	**5.2**	**13.4**	**0.8**	**14.2**
Impairment of goodwill	**–**	**175.0**	**–**	**175.0**	**175.0**	**–**	**175.0**
Impairment of property, plant and equipment	**–**	**18.7**	**–**	**18.7**	**23.2**	**–**	**23.2**
Net provisions charged / (credited) to the consolidated income statement	**1.5**	**54.1**	**0.7**	**56.3**	**65.1**	**(2.2)**	**62.9**

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

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

2017	Retail Australasia £m	UK and Europe £m	Emerging Markets £m	Total Retail £m	Total pre Central £m	Central £m	Total £m
Revenue							
Total revenue	401.6	3,174.4	583.8	4,159.8	8.953.3	–	8,953.3
Inter-segment revenue	–	–	–	–	–	–	–
Revenue from third parties	401.6	3,174.4	583.8	4,159.8	8,953.3	–	8,953.3
Results							
Trading profit / (loss)	9.4	52.0	3.6	65.0	431.8	(25.2)	406.6
Operating exceptional items	–	(2.8)	(1.1)	(3.9)	(11.7)	(0.9)	(12.6)
Operating profit / (loss) after exceptional items	9.4	49.2	2.5	61.1	420.1	(26.1)	394.0
Share of loss after tax of joint ventures and associates							–
Profit before finance and tax							394.0
Finance income							14.6
Finance costs							(39.6)
Profit before tax							369.0
Tax							(93.4)
Profit for the year							275.6

Net finance costs of £25.0m are not allocated to individual segments.

The Group's reported segments are based on the location of the Group's assets. Revenue earned from sales is disclosed by origin and is not materially different from revenue by destination. Revenue is further analysed as follows:

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

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

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

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

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

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

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

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

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

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

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

3 EXCEPTIONAL ITEMS

	2018 £m	2017 £m
Goodwill impairment (see note 1)	**(175.0)**	–
Other asset impairment	**(23.2)**	–
Acquisition of businesses	**(7.2)**	(2.1)
Restructuring costs	**–**	(10.5)
Other operating exceptional items	**(5.4)**	–
Total exceptional operating items	**(210.8)**	(12.6)
Exceptional finance costs (see note 5)	**(13.9)**	–
Total exceptional items before tax	**(224.7)**	(12.6)
Exceptional tax (see note 6)	**3.3**	2.7
Total exceptional items	**(221.4)**	(9.9)

During the period exceptional operating costs of £7.2m have been incurred in connection with the acquisition and integration of businesses, primarily the Grupo Rudelman business in Central America.

Other operating exceptional items of £5.4m represents the cost of equalising Guaranteed Minimum Pensions in the Group's UK pension schemes following a ruling in the High Court in October 2018.

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

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

4 FINANCE INCOME

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

5 FINANCE COSTS

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

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

1. Included within finance costs is a fair value adjustment in relation to the Group's Private Placement Loan Notes of £17.1m. Included within this is a charge of £13.9m which represents a non-recurring correction to the fair value basis of assessment relating to prior periods. This amount has been reported as an exceptional item in order to provide additional useful information regarding the Group's underlying business performance.

The Group capitalisation rate used for general borrowing costs in accordance with IAS 23 was a weighted average rate for the year of 2.0% (2017 – 2.0%).

6 TAX

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

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

Details of the exceptional items for the year can be found in note 3. Not all of the exceptional items will be allowable for tax purposes. Therefore the tax credit on exceptional items represents the total of the current and deferred tax on only those elements that are assessed as allowable.

Factors affecting the tax expense for the year

The effective tax rate for the year after exceptional items is 58.2% (2017 – 25.3% restated). The underlying effective tax rate before the impact of exceptional items is 22.5% (2017 – 25.2% restated). The weighted average tax rate is 29.7% (2017 – 24.0%). The weighted average tax rate comprises the average statutory rates across the Group, weighted in proportion to accounting profits and losses.

The table below explains the differences between the expected tax expense at the weighted average tax rate and the Group's total tax expense.

	2018 £m	2017 £m
Profit before tax	**132.1**	369.0
Profit before tax multiplied by the weighted average tax rate of 29.7% (2017 – 24.0%)	**39.2**	88.6
Non-exceptional items		
– Permanent differences	**8.4**	3.4
– Non-taxable income	**(4.7)**	(3.5)
– Prior year items	**(1.5)**	(0.8)
– (Recognition) / Derecognition of deferred tax assets	**(3.1)**	2.1
– Overseas tax audits and settlements	**(3.6)**	1.3
– Taxes on undistributed earnings	**2.5**	5.1
– Other items (including tax rate differentials and changes)	**0.5**	(3.2)
Exceptional items		
– Goodwill impairment (see note 3)	**33.3**	–
– Restructuring costs	**–**	0.2
– Acquisition of businesses	**1.1**	0.2
– Exceptional finance costs (see note 5)	**2.1**	–
– Other asset impairment	**2.7**	–
Total tax charge	**76.9**	93.4

Factors affecting the tax expense of future years

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

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

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

7 EARNINGS PER SHARE

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

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

Basic earnings per share is calculated by dividing the Basic earnings for the year by the weighted average number of fully paid ordinary shares in issue during the year, less those shares held by the Inchcape Employee Trust.

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

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

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

8 DIVIDENDS

The following dividends were paid by the Group:

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

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

9 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of cash generated from operations

	2018 £m	2017 £m
Cash flows from operating activities		
Operating profit	**174.3**	394.0
Exceptional items (see note 3)	**210.8**	12.6
Amortisation	**14.2**	13.8
Depreciation of property, plant and equipment	**43.9**	43.8
Profit on disposal of property, plant and equipment	**(2.1)**	(10.6)
Share-based payments charge	**7.5**	10.2
Increase in inventories	**(41.5)**	(239.6)
Increase in trade and other receivables	**(14.2)**	(36.1)
Increase in trade and other payables	**95.0**	350.8
Increase / (decrease) in provisions	**0.6**	(6.1)
Pension contributions less than the pension charge for the year*	**21.3**	3.1
Decrease / (increase) in interest in leased vehicles	**2.9**	(1.4)
Payments in respect of operating exceptional items	**(10.1)**	(32.1)
Other non-cash items	**(1.1)**	(2.0)
Cash generated from operations	**501.5**	500.4

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

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

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

Net funds is analysed as follows:

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

Cash and cash equivalents are analysed as follows:

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

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

10 ACQUISITIONS AND DISPOSALS

a. Acquisitions

On 26 March 2018 the Group acquired the full share capital of Grupo Rudelman, an Automotive Distribution business in Central America focused on Suzuki, for a total cash consideration of £155.5m. The business was acquired to establish the Group's presence in markets with structural growth potential and to expand the partnership with Suzuki in a strategically important region, adjacent to existing South American operations. The goodwill arising on the acquisition represents intangible assets that do not qualify for separate recognition and the premium paid to establish the Group's presence in Panama and Costa Rica in order to provide a platform to deliver growth and returns far quicker than would otherwise have been achievable. None of the goodwill is expected to be deductible for tax purposes.

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

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

1. Includes deferred tax liabilities arising in connection with the distribution agreements recognised on acquisition.

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

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

b. Other acquisitions

During the year, the Group also entered into a distribution contract with Jaguar Land Rover to distribute the Jaguar and Land Rover brands in Kenya, acquired one Lexus site in the UK and made a payment in relation to the acquisition of BMW operations in Estonia. The total cost of these acquisitions was £5.7m with total goodwill arising on the transactions of £1.5m.

c. Disposals

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

11 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.

Performance Measure	Definition	Why we measure it
Trading profit	Operating profit before exceptional items and unallocated central costs.	A measure of the contribution of the Group's segmental performance.
Operating profit before exceptional items	Operating profit before exceptional items.	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 into profit.
Profit before tax before exceptional Items	Represents the profit made after operating and interest expense excluding the impact of exceptional items and before tax is charged.	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-underlying in nature.	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.	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.	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 adjusted for the fair value of derivatives that hedge interest rate or currency risk on borrowings.	A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength.
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.	A measure of the net amount invested in operational facilities in the period.
Constant currency	Presentation of reported results translated using constant rates of exchange	A measure of underlying business performance which excludes the impact of changes in exchange rates used for translation.

12 FOREIGN CURRENCY TRANSLATION

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

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

13 EVENTS AFTER THE REPORTING PERIOD

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

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

14 RESTATEMENT ON INITIAL ADOPTION OF IFRS 15

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

The impacts on the consolidated income statement are:

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

The impacts on the consolidated statement of financial position are:

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

MANAGING OUR RISKS IN A PROFESSIONAL AND CONSISTENT WAY ALLOWS US TO OPERATE WITH 'PEACE OF MIND'.

Inchcape Peace of Mind (iPOM) is our Group-wide risk management and governance framework which focuses on empowering each and every one of our colleagues to consider the risks associated with the decisions they take.

As a Group, we continue to experience an ever-changing, dynamic risk environment where economic, political, environmental, social, legal and technological changes present a complex risk landscape which threatens our ability to achieve our strategic objectives. However, we believe that our diversity of brand portfolio and geographic spread, combined with our strong balance sheet, cost control and risk-aware decision-making processes, make us resilient to all but the most significant and persistent risks.

Principal risks

The principal risks to achievement of our strategy are:

Key risks

1. Loss of global distribution contract with major brand partner
2. Significant retrenchment of credit available to customers, dealer network or Inchcape plc negatively impacts vehicle sales and/or operational capability
3. Material damage to OEM brand or product reputation, or a major interruption to OEM operations or product supply, negatively impacts vehicle sales
4. Major loss or misappropriation of confidential or sensitive data results in financial penalty and/or reputational damage
5. Failure to achieve sufficient return on investment through our acquisition strategy leads to higher leverage, reduced EPS and/or deterioration of our relationship with our brand partners
6. Impact of disruptive technologies and/or new entrants to the industry threatens our position in the value chain
7. Failure to keep pace with changes in the digital economy impacts on revenues and/or OEM relations
8. Fluctuations in exchange rates with negative impact on financial performance
9. Major cyber incident or other systems interruption impacts on ability to service customers and/or operational efficiency
10. Failure to safeguard our customers and employees by not consistently applying EH&S standards across the Group
11. Internal controls failure or fraud of sufficient scale to materially affect financial performance or reputation
12. Individual governments increasing restrictions on cross-border currency movements leading to higher incidents of trapped cash across the Group
13. Social, political and regulatory instability leads to market interruption and/or threat to safety
14. Changes in legislation, or the way that legislation is applied, directly affect customer demand for certain vehicle types or our ability to generate income from after sales
15. Failure to comply with laws and regulations leads to material financial penalty or reputational damage
16. Failure to attract, retain and develop our people leads to economic uncertainty, market interruption and/or threat to safety

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements and the Directors' Report on Remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Inchcape Plc Annual Report and Accounts confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Operating and Financial Review in this announcement includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.