Inchcape

2020 ANNUAL RESULTS ANNOUNCEMENT

Results for the year ended
31 December 2020

Results for the year to 31 December 2020

Encouraging second half performance – exciting future ahead

2020 highlights:

- Group revenue £6.8bn, down 19% on an organic basis and 27% reported. Q4 organic decline of 9% (Q3: (10)%)
- Pre-exceptional PBT of £129m (2019: £326m); supported by gross margin resilience in the second half (vs prior year)
- Statutory loss before tax of £128m, reflecting £257m of exceptional charges (largely non-cash)
- Further strengthened our financial position: net cash of £266m (Dec-19: £103m), with 2020 free cash flow of £177m
- Returning to the dividend list: dividend of 6.9p proposed for the year
- Continued shift towards Distribution: signed four new distribution agreements and made further Retail disposals

	2020	2019	% change reported	**% change constant FX[1]**	**% change organic[2]**
Key financials					
Revenue	**£6,838m**	£9,380m	(27)%	**(25)%**	**(19)%**
Operating profit (pre exceptionals)[1]	**£166m**	£373m	(56)%	**(54)%**	
Operating margin[1]	**2.4%**	4.0%	(160)bps	**(150)bps**	
Profit before tax (pre exceptionals)[1]	**£129m**	£326m	(61)%	**(59)%**	
Basic EPS (pre exceptionals)[1]	**23.6p**	59.9p	(61)%		
Dividend per share	**6.9p**	8.9p	(22)%		
Free cash flow[1]	**£177m**	£213m	(17)%		
Statutory financials					
Operating (loss) / profit	**£(92)m**	£449m			
(Loss) / Profit before tax	**£(128)m**	£402m			
Basic EPS	**(35.6)p**	79.0p			

1. These measures are Alternative Performance Measures, see note 13.
2. Organic growth is defined as sales growth in operations that have been open for at least a year at constant foreign exchange rates

Duncan Tait, Group CEO:

"Our 2020 results came in ahead of recently upgraded expectations, supported by increased resilience of demand for both Vehicles and Aftersales services in the fourth-quarter. The Group's inherently cash-generative business model contributed to the strengthening of our overall financial position during the second half.

While the COVID-19 situation remains dynamic, as of today almost all of our markets are open. In many markets where we are facing restrictions, we are able to deliver vehicles, offer a click-and-collect service and to continue to perform Aftersales services. These capabilities helped our top-line performance in the second half of 2020 and contributed to the operating margin recovery from the first half.

In response to COVID-19, the Group implemented a significant cost-restructuring programme. This is now substantially complete, and we are leveraging our leaner structure to build a better business for the future. In addition, we continued to rebalance our portfolio towards the more attractive Distribution segment, securing new distribution business in both Americas and Europe, and further reducing our Retail business.

Inchcape has strong foundations, and the growth of Distribution remains its central focus. As we enter the next phase of our journey, we will be supercharging certain elements – in particular, our use of data and digital – which will drive even faster growth of our distribution core. At the same time, we see significant opportunity to capture more of a vehicle's lifetime value – an area that is underserved by us today. This will in turn drive growth within our current footprint, and open up opportunities for even faster expansion in new markets, with both existing and new OEM partners. In setting the future direction we concluded that there are plenty of opportunities for an ambitious Inchcape to thrive in this new world of mobility, and established the goal to become the undisputed distributor of choice for OEMs.

I am confident that the momentum we were seeing prior to the pandemic will return, and that our focus on the long-term growth opportunities in Distribution will create value for all our stakeholders. As a result of our strengthened financial position and confidence in the future, we are pleased to resume dividend payments with a proposed final dividend of 6.9p for 2020."

Results presentation today

A presentation for analysts and investors will be held today, Thursday 25th February, at 08:30 (UK time). To register please contact Instinctif Partners at inchcape@instinctif.com. An audiocast of the presentation will be available via the Company's website, www.inchcape.com later today.

Financial calendar

Q1 trading update	29th April 2021
Ex-dividend date for 2020 final dividend	13th May 2021
Annual general meeting	27th May 2021
Half year results	29th July 2021
Q3 trading update	28th October 2021

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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

About Inchcape

Inchcape is the leading independent multi-brand Automotive Distributor and Retailer, operating in 34 markets with a portfolio of the world's leading automotive brands. Inchcape has diversified multi-channel revenue streams including sale of new and used vehicles, parts, service, finance and insurance. The Company has been listed on the London Stock Exchange (INCH) since 1958, is headquartered in London and employs around 15,000 people. www.inchcape.com.

Operational review

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

Key performance indicators

	2020	2019	% change reported	**% change constant FX[1]**	**% change organic[1]**
Revenue	**£6.8bn**	£9.4bn	(27)%	(25)%	(19)%
Operating profit before exceptional items[1]	**£166m**	£373m	(56%)	(54%)	
Operating margin[1]	**2.4%**	4.0%	(160)bps	(150)bps	
Profit before tax and exceptional items[1]	**£129m**	£326m	(61%)	(59%)	
Free cash flow[1]	**£177m**	£213m	(17%)		
Return on capital employed[1]	**12%**	22%			

1. See note 13 for definition of Key Performance Indicators and other Alternative Performance Measures.

Performance review: Full year 2020

2020 was a year with three distinct periods. We made an encouraging start to the year, but in Q2 our operations were materially impacted by COVID-19. While several markets faced disruption in the second half, overall we observed an improving trend across our New, Used and Aftersales revenue streams. The trends we saw reflected to a certain extent pent-up demand, but also less stringent lockdown conditions – with Aftersales allowed to remain open, our ability to deliver vehicles to customers, and the offer of click-and-collect services.

Over the course of the year, the Group generated revenue of £6.8bn, operating profit pre-exceptionals of £166m and free cash flow of £177m.

Group revenue of £6.8bn was down 27% year-on-year reported and 25% in constant currency. During the period we disposed of several retail businesses, which further reduced our Retail revenue exposure. We completed four Distribution deals – most notably the acquisition of Daimler's distribution business in Colombia, and the addition of the JLR distribution contract in Poland.

On an **organic basis** revenue declined 19% in 2020, as most of our markets were weighed down by COVID-19. While the spread of the virus continued to cause disruption, our organic performance improved in the second half, falling 9% compared to the 29% decline in the first half.

The Group delivered an **operating profit before exceptional items** of £166m, down 56% year-on-year reported and 54% in constant currency. The decline reflects the profits lost as COVID-19 caused disruption to our operations across the globe. This was evident in the 120bps contraction of Group gross margins in the first half. In the second half, while our operations continued to be impacted, albeit to a lesser extent, gross margins remained stable. As a direct response to COVID-19, the Group took prompt action to reduce discretionary costs (e.g. marketing, office, travel), the Board / senior management took a 20% reduction in fees / salary in the second quarter and we accessed government support schemes in the first half in some markets (predominantly the UK). Subsequently, at the start of the third quarter we implemented a cost-restructuring programme - targeting £90m of overheads reduction - which is now substantially complete. These cost-mitigation measures have helped support profitability during the year and created a leaner overhead base for 2021. During the second half, the Board took the decision not to claim further government support in respect of the period from July onwards.

Profit before tax and exceptional items of £129m is down 61% year-on-year reported and 59% in constant currency. The decline in absolute terms is slightly below that observed at the operating profit level, owing to a lower (£10m) interest charge versus the prior year. This is a result of a combination of lower interest rates and strict inventory discipline, which reduced the related interest expenses.

During the period we booked **exceptional charges** of £257m, largely non-cash, and primarily due to the impact of COVID-19. The majority (£223m) of this relates to goodwill and site impairments. As a result, the reported loss before tax was £128m, compared to a profit before tax of £402m in 2019 – which was supported by gains on disposal of our Retail assets.

In spite of the operational challenges, our **free cash flow** generation remained extremely resilient, with £177m (2019: £213m) generated over the 12 month period – this represents a conversion of 107% (57% in 2019), significantly higher than the long-term average of 60-70%. While operating profit pre-exceptionals was significantly lower, we mitigated this by a number of measures resulting in a meaningful improvement in the Group's working capital position, a more disciplined approach to capital expenditure programmes, and reduced tax and interest payments.

Other notable elements of the cash flow bridge include: net acquisitions and disposals, which amounted to an inflow of £40m (acquisition of **Daimler Colombia** offset by proceeds from **Retail disposals**), share buybacks (£31m of the £150m was completed prior to termination) and the cancellation of the 2019 final dividend in response to COVID-19.

The Group closed the reporting period in a **net cash** position of £266m (excluding lease liabilities), which compares to £103m at the end of December 2019, and £89m as at 30th June 2020. On an IFRS 16 basis (including lease liabilities), we ended the period with net debt of £67m (2019: £250m).

Return on capital employed over the period was 12%, compared to 22% for the equivalent period last year. The decline was driven by the steep reduction in profits.

Fourth quarter 2020

Group revenue for the fourth quarter was £1.9bn, down 16% reported. On an **organic basis**, revenue fell 9%, compared to a decline of 10% in Q3.

In **Distribution,** revenue contracted 13% organically, following a 21% decline in Q3. Top-line performance improved sequentially across most regions, with Asia, Australasia and the Americas all posting their highest quarterly growth rate since Q1. Revenue in Europe was held back by further COVID-19 related restrictions in Belgium, Greece and Romania, while Africa was solid in the context of a high prior year comparator.

In **Retail,** revenue contracted 2% organically (Q3: +5%; supported by the bounce-back) as a second lockdown in the UK weighed on sales. While the restrictions impacted performance, the deterioration was less pronounced than we experienced during the first lockdown, as we were able to continue delivering vehicles and permitted to perform Aftersales services.

Strategic priorities

The Ignite strategy has laid strong foundations for the Group and catalysed a shift towards the **more attractive Distribution** segment. As we embark on the next phase of the Group's journey, **Distribution remains at the core** of the business. In setting the future direction we have reflected on the structural changes taking place across the automotive industry, and how these provide opportunity across our core competencies as a distributor of mobility services in fast-growing markets.

We concluded that an **ambitious Inchcape** could benefit significantly from and thrive in this new world, one where we can both leverage our existing distribution infrastructure and drive expansion across new markets and competencies.

Our new strategy will focus on two key growth pillars:

1. **Distribution Excellence;** and
2. **Vehicle Lifecycle Services**

In 'Distribution Excellence' we see an opportunity to take our core Distribution business, and make it both better and bigger. In 'Vehicle Lifecycle Services' we believe there is significant untapped potential, across all of our markets, that the business has not fully realised in the past. In summary, we are putting more emphasis on **capturing the lifetime value, of both customers and vehicles**. We will approach our growth in a prudent and structured manner, in close collaboration with our OEM partners.

We have identified three key enablers that will play an integral role in making our strategy a success:

- **People, Culture and Capabilities:** attracting, developing and retaining talent to enable a high-performance innovation culture
- **Digital, Data and Analytics:** integrate data and analytics to drive decision-making, and digitalise customer journeys
- **Efficient Scale Operations:** standardisation of processes regionally and globally

We are confident that this will drive growth within our current geographic footprint and even faster expansion in **new markets**, with both existing and **new partners**.

In conjunction with the development of our mid-term plan, we are building a **responsible business plan** that is deeply connected to our strategy and to all of our stakeholders. We will share the details of our progress at our **Capital Markets Day** later in the year.

Inchcape is a strong business, with **significant unrealised potential**. With our strategy we are striving to create an excellent business, with meaningful growth opportunities to deliver shareholder value through organic growth, consolidation and cash returns.

People

The Board and Management would like to express their sincere **gratitude to colleagues** around the world for their dedication during a very challenging year. Our better than expected performance is credit, in no small part, to our people's **spirit and can-do attitude**. Inchcape employs a diverse talent pool that will be a major asset in the context of our evolving strategy. This is a business that strongly believes in supporting people to grow in their careers, just as they contribute to the growth of the business. This approach will continue to drive how we attract, develop and retain talented individuals as we look to support the further development and implementation of the strategy.

Sector reclassification

Given the shift of the business towards distribution, the London Stock Exchange reconsidered the appropriateness of Inchcape's sector classification. As of 19th June 2020, the Group has been classified within '**Business Support Services**' (previously 'Speciality Retail').

Capital allocation

Our **capital allocation policy remains unchanged** and, in order, our priorities are: to invest in the business to position it strongly for the future; to make dividend payments; to conduct value-accretive M&A; and, in the absence of appropriate inorganic opportunities, consider share buyback programmes.

With a considerably **strengthened financial position** and confidence in the future, the Board, having taken into account the extraordinary circumstances that the business endured during the year, and a **broad stakeholder perspective**, believes it is the right time to **resume dividends** and has proposed a payment of 6.9p for FY2020.

Investment proposition

Distribution is at the core of Inchcape. Given our geographic footprint, with exposure to **high growth markets** and our diversified revenue streams, the Group aims to deliver global **GDP-plus organic growth**. The highly fragmented nature of distribution also provides significant scope for **inorganic expansion**.

As the largest independent automotive distributor, we have a unique opportunity to **leverage our scale** and efficiencies, which we are doing today with our digital developments. In addition to the **attractive growth** prospects, the business is **asset-light** with a history of delivering a **strong cash-conversion**. Combined with a disciplined approach to capital allocation we believe these should enable the group to maintain its long track record of delivering **attractive shareholder value**.

Looking ahead

We are excited to be entering the next phase of the Group's distribution focused growth strategy, with an emphasis on greater use of technology to improve our business for the benefit of our consumers, our OEMs and our people.

As of today, the COVID-19 situation remains dynamic. While we saw good momentum in the business in the second-half, volatility and unpredictability is likely to continue throughout 2021. Our operations are better equipped to continue to operate in this rapidly changing environment, and we have materially reduced our cost base. Absent any severe restrictions, in 2021 we expect material growth in profits and an improved operating margin. This takes account of a c.£15m translational currency headwind to Group profits based on prevailing rates.

Looking beyond the short term, our vision is to both strengthen and further broaden our OEM relationships and to continue to expand our geographic reach – enabling us to bring mobility to the world's communities.

We look forward to sharing more details about our vision for the future at our Capital Markets Day later this year.

Operating and financial review

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

Distribution

The Distribution segment saw revenue down 21% year-on-year, with performance significantly impacted by the spread of COVID-19 from March onwards. While the top-line trend improved in the second half, with fewer and less severe closures, several markets continued to face disruption. In addition to our operational improvements, our cost-mitigation measures supported the overall result, particularly in the second half, culminating in an operating profit[1] of £140m (2019: £333m). The operating margin fell 310bps to 3.7%.

	2020 £m	2019 £m	% change reported	% change constant FX	% change organic
Revenue					
Asia	1,026.6	1,522.5	(33)%	(32)%	(32)%
Australasia	876.0	1,070.9	(18)%	(17)%	(17)%
APAC	1,902.6	2,593.4	(27)%	(26)%	(26)%
Europe	1,120.2	1,329.6	(16)%	(17)%	(17)%
Americas & Africa	797.1	993.5	(20)%	(13)%	(24)%
Total Distribution	**3,819.9**	**4,916.5**	**(22)%**	**(21)%**	**(23)%**
Operating profit[1]					
Asia	78.8	168.7	(53)%	(53)%	
Australasia	1.2	58.0	(98)%	(98)%	
APAC	80.0	226.7	(65)%	(64)%	
Europe	25.3	41.7	(39)%	(40)%	
Americas & Africa	34.4	65.0	(47)%	(42)%	
Total Distribution	**139.7**	**333.4**	**(58)%**	**(57)%**	
Operating margin					
Asia	7.7%	11.1%	(340)bps	(340)bps	
Australasia	0.1%	5.4%	(530)bps	(530)bps	
APAC	4.2%	8.7%	(450)bps	(450)bps	
Europe	2.3%	3.1%	(80)bps	(80)bps	
Americas & Africa	4.3%	6.5%	(220)bps	(210)bps	
Total Distribution	**3.7%**	**6.8%**	**(310)bps**	**(310)bps**	

- **Asia** revenue contracted 32%, and operating profit[1] was down 53%. We expected 2020 would be a challenging year in Asia prior to COVID-19, forecasting volumes in both Singapore and Hong Kong would decline 25% and 20%, respectively. The spread of the virus exacerbated this decline, weighing on performance in all markets. Singapore endured a prolonged closure from early April to mid-June (resulting in the suspension of vehicle licence auctions), and upon reopening the government announced it would phase missed licenses over a 12 month period – as such the number of vehicle licences available in 2021 is expected to exceed 2020. While our operations in Hong Kong remained open, demand was clearly subdued, albeit we observed an improving trend in the second half. In spite of the challenges, we retained our triple crown status (for being the number one in passenger cars, commercial vehicles and in the market as a whole) in both Singapore and Hong Kong.
- **Australasia** revenue contracted 17%, and operating profit[1] was down 98%. It was the only region to see a weaker revenue trend and margin result in the second half compared to the first half. Having remained open throughout the first half, COVID-19 related restrictions impacted the Australian operations in the third quarter. Profitability was substantially lower as gross margins came under pressure owing to lower volumes and competitive pressures, but also unfavourable currency effects. The transactional currency (AUD:JPY) headwind in the period was c£15m. The launch of the new Outback (one of Subaru's most popular models) in the first quarter of this year should support the brand's market share performance in 2021.
- **Europe** revenue contracted 17%, and operating profit[1] was down 40%. It was the first of our regions to face widespread COVID-19 enforced market closures, starting in mid-March and peaking in April. All impacted markets had reopened in May, although several markets did face subsequent restrictions following a second wave of the virus in the fourth quarter. While the environment was competitive, we gained market share across a number of markets in the second half. The launch of the new Toyota Yaris, an extremely popular model in several of our European markets, should drive further outperformance in 2021.
- **Americas & Africa** revenue contracted 13%, and operating profit[1] was down 42%. Geographic diversification meant that there were some pockets of good performance that helped offset challenges elsewhere. The Americas was hardest hit in terms of number of our markets forced to close, as governments tried to control the spread of the virus. This weighed heavily during the first half, but as markets began to reopen we noticed a meaningful improvement. In Africa, our operations remained open throughout the year with limited impact from COVID-19 and consequently made a significant contribution to the segment's operating profit. All markets remained open throughout the fourth quarter, and it was the strongest quarter for the region. Looking ahead, given the low penetration of vehicles per capita in the Americas & Africa region, we are optimistic about the growth prospects of over the medium and long term.

1: Operating profit stated pre-exceptionals

Retail

The Retail segment saw revenue down 30% year-on-year, or down 14% on an organic basis (adjusting for the Retail disposals over the period). Prolonged shutdowns in both UK and Russia in the first half weighed heavily on sales, although demand proved to be more resilient in the second half. Operating profit[1] in the second half was supported by gross margin improvement and our cost-mitigation measures, resulting in a profit of £26m for the year compared to £40m in 2019. The operating margin improved in the second half, finishing the year flat overall.

	2020 £m	2019 £m	% change reported	% change constant FX	% change organic
Revenue					
Asia	-	159.5	(100)%	(100)%	
Australasia	9.4	272.0	(97)%	(96)%	
APAC	9.4	431.5	(98)%	(98)%	
UK & Europe	3,008.5	4,031.7	(25)%	(23)%	(15)%
Total Retail	**3,017.9**	**4,463.2**	**(32)%**	**(30)%**	**(14)%**
Operating profit[1]					
Asia	-	8.7	(100)%	(100)%	
Australasia	0.4	(1.2)	nmf	nmf	
APAC	0.4	7.5	(94)%	(95)%	
UK & Europe	25.4	32.2	(21)%	(15)%	
Total Retail	**25.8**	**39.7**	**(35)%**	**(31)%**	
Operating margin					
Asia	-	5.4%	n/a	n/a	
Australasia	4.3%	(0.4%)	nmf	nmf	
APAC	4.3%	1.7%	nmf	nmf	
UK & Europe	0.8%	0.8%	0bps	0bps	
Total Retail	**0.9%**	**0.9%**	**0bps**	**0bps**	

nmf = not meaningful

- **UK and Europe** is home to the Group's remaining Retail operations in the UK, Russia and Poland. Revenue for the region was down 23% year-on-year (down 15% on an organic basis), as closures from late-March weighed on the performance of both the UK and Russia businesses. We experienced a step-up in the second half, with solid demand for New and Used Vehicles, as well as Aftersales services. During the first half, the UK business received £23m of government support (employment and business rates), but was nevertheless still heavily loss-making. We have not accessed any such support in the second half. Performance improved in the second half as we experienced higher Vehicle gross margins and the benefit from our cost-restructuring efforts. We finished the year with operating profit[1] of £25m (vs £32m in the prior period, which included profits from businesses disposed in December 2019, including Inchcape Fleet Solutions), and slightly higher margins than 2019.
- **Asia:** the China Retail business (disposed in December 2019) was reclassified from Distribution-Asia to Retail-Asia, and did not provide any contribution to the region's performance in 2020.
- **Australasia:** the majority of the Retail business in Australia was sold during 2019. Two additional sites were sold in 2020, and their contribution until the date of disposal has been included. The comparative includes these two sites, and the rest of the Australian Retail business that was sold in 2019. Following the disposals, there will be no further contribution to this segment.

Value drivers

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

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

	2020 £m	2019 £m	% change reported	% change constant FX
Gross Profit				
Vehicles	516.9	772.3	(33)%	(31)%
Aftersales	372.5	499.8	(25)%	(23)%
Total	**889.4**	**1,272.1**	**(30)%**	**(28)%**

Weighed down by the effects of market closures caused by the spread of COVID-19, over the reporting period we saw a 31% decrease in Vehicles gross profit, while Aftersales gross profit was more resilient, decreasing 23%.

We operate across the automotive value chain and during 2020, we generated 42% of gross profit through Aftersales, compared to 39% in the prior year.

1: Operating profit stated pre-exceptionals

Other financial items

Government support schemes: The Group has recognised an amount of £30m as a credit against employee costs and £3m as a credit against other operating expenses. These have been presented net within operating costs before exceptional items and the majority (£23m) was received by the UK Retail business. In some cases salaries were paid in excess of the amount received under the government support schemes, and these schemes were utilised instead of other cost reduction measures that would have adversely impacted employees (e.g. redundancies). During the second half of the year, the Board took the decision not to claim further government support. Due to the nature of the government support schemes, amounts claimed prior to the Board decision totalling £11m from governments in Australia and the UK have been recognised as a liability as at 31 December 2020 as they have not yet been repaid. The Group has also benefitted from the deferral of tax payments due to governments amounting to £7m as at 31 December 2020.

Exceptional items: Exceptional charges in 2020 amounted to £257m, arising primarily as a result of COVID-19. Goodwill and site impairments totalled £223m, with the majority attributable to the Retail segment and booked in the first half. With the pandemic continuing to cause disruption in the second half, the impairment review resulted in a c£37m write-off of intangible assets related to our acquisition of Grupo Rudelman (in 2018). Management remain confident about the attractiveness of the business in the medium term. In July we announced £70m of future restructuring costs linked to our cost-restructuring programme, of which c£40m has been incurred in 2020, with the balance falling into 2021. We also incurred a £10m charge relating to the write down of inventory, and a net cost of £2m relating to acquisitions and disposals. We benefited from an £8m gain, relating to the recycling of foreign exchange gains previously recognised in other comprehensive income, following the liquidation of a subsidiary. In 2019, the Group benefited from a £76m exceptional operating gain which reflected a £109m gain largely relating to the disposal of our UK fleet and China Retail businesses, offset by some restructuring costs and asset impairments relating to those disposals, as well as acquisition costs. Further details in note 3.

Net financing costs: Net finance costs were £37m (2019: £47m). The decrease is largely due to a reduction in the cost of financing inventory following the retail disposals in Australia, the UK and China in 2019, further disposals in 2020 and the overall reduction in inventory and associated inventory financing in response to the COVID-19 pandemic. The interest charge is stated on an IFRS 16 basis, and excluding interest relating to leases, our net finance charge was £23m compared to £28m in 2019. We expect net financing costs in 2021 will amount to c£40m.

Tax: The Group's effective tax rate for the year is 26% before exceptional items (2019: 23%). The increase compared to the prior year primarily arose because the Group was not able to recognise the tax benefit associated with losses in certain markets. This impact was partially offset by the release of a provision associated with the European Commission State Aid issue. We believe an effective tax rate of c25% is appropriate for the mid-term.

Non-controlling interests: Profits attributable to our non-controlling interests were £3m (2019: £6m). The Group's non-controlling interests comprise a 33% minority holding in UAB Vitvela in Lithuania, a 30% share in NBT Brunei, a 10% share of Subaru Australia and 6% of the Motor Engineering Company of Ethiopia.

Dividend: The Board recommends a final ordinary dividend of 6.9p per ordinary share which is subject to the approval of shareholders at the 2021 Annual General Meeting. In reaching its decision, the Board has taken into account the extraordinary circumstances that the business endured during the year, and a broad range of stakeholder perspectives. If approved, the dividend will be paid on 21 June 2021 to all shareholders on the register on 14 May 2021.

Cash flow and net debt: The Group generated free cash flow of £177m (2019: £213m) driven primarily by an improvement in the level of working capital. After the acquisition of four Distribution businesses, as well as the proceeds received from our Retail disposals, and £32m of share buybacks, the Group had net cash excluding lease liabilities of £266m (2019: £103m). Including lease liabilities (IFRS 16), our net debt stood at £67m (2019: £250m).

Capital expenditure: During 2020, the Group incurred net capital expenditure of £41m compared to £54m in 2019. The year-on-year reduction reflects lower investment in tangible assets in response to the economic uncertainty following the outbreak of the COVID-19 pandemic partially offset by lower disposal proceeds. Key 2020 projects included investments around our development of an omnichannel proposition and capacity investments in Ethiopia. In 2021, we expect net capital expenditure of c£70m.

Financing: During the year, the Group was confirmed as an eligible issuer under the UK Government's COVID Corporate Financing Facility (CCFF). £100m was issued under this facility in May 2020 and repaid on 17 July 2020. As at 31 December 2020, the committed funding facilities of the Group comprised a syndicated revolving credit facility of £700m (2019: £700m) and sterling Private Placement loan notes totalling £210m (2019: £210m). As at 31 December 2020, none of the £700m syndicated revolving credit facility was drawn (2019: £60m).

Pensions: At the end of 2020, the IAS 19 net post-retirement surplus was £20m (2019: £10m), with the increase driven largely by a higher value of plan assets and changes in demographic assumptions which were partially offset by changes in financial assumptions. In line with the funding programme agreed with the Trustees, the Group made additional cash contributions to the UK pension schemes amounting to £4m (2019: £3m). Discussions with the Trustees of the Inchcape Motors Pension Scheme in respect of the actuarial valuation as at 5 April 2019 have been finalised and the Group has agreed to contribute an additional £3m per annum to the scheme over the next seven years.

Acquisitions and disposals: During 2020, the Group acquired the Mercedes-Benz passenger car and private vans distribution operations in Colombia from Daimler Colombia S.A. The business was acquired to strengthen the Group's partnership with Daimler-Mercedes-Benz in South America. In the second half of 2020, the Group acquired the Daimler distribution business in El Salvador, the MINI distribution business in Chile and the MINI and Motorrad distribution businesses in Peru. The aggregate cash consideration for these businesses was £32m.
During the year, the Group has continued to optimise its retail portfolio and has disposed of 13 retail sites in the UK and two retail sites in Australia generating aggregate net disposal proceeds of £64m. The Group has also received £8m of deferred consideration relating to the disposal of retail operations in China in 2019.

Clarifying our financial metrics

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

Metric	£m	Use of Metric
Gross Profit	**877.8**	Direct profit contribution from Value Drivers (e.g. Vehicles and Aftersales)
Add back: Exceptional items charged to gross profit	11.6	
Gross Profit (before exceptional items)[1]	**889.4**	
Less: Segment operating expenses	(723.9)	
Operating Profit (before exceptional Items)[1]	**165.5**	Profit generated by the Group
Less: Exceptional items	(257.1)	
Operating Loss	**(91.6)**	Statutory measure of Operating Profit
Less: Net Finance Costs and JV profit	(36.6)	
Loss before Tax	**(128.2)**	Statutory measure of profit after the costs of financing the Group
Add back: Exceptional Items	257.1	
Profit Before Tax & Exceptional Items[1]	**128.9**	

1. APM (alternative performance measure), see note 13

Reconciliation of free cash flow[1]

	2020 £m	**2020 £m**	2019 £m	2019 £m
Net cash generated from operating activities		**254.8**		327.2
Add back: Payments in respect of exceptional items		**24.3**		10.5
Net cash generated from operating activities, before exceptional items		**279.1**		337.7
Purchase of property, plant and equipment	**(27.4)**		(44.9)	
Purchase of intangible assets	**(20.1)**		(24.7)	
Proceeds from disposal of property, plant and equipment	**6.7**		15.7	
Net capital expenditure		**(40.8)**		(53.9)
Net payment in relation to leases		**(56.7)**		(65.1)
Dividends paid to non-controlling interests		**(4.3)**		(5.8)
Free cash flow		**177.3**		212.9

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

Return on capital employed[1]

	2020 £m	2019 £m
Operating Profit (before exceptional items)	**165.5**	373.1
Net assets	**1,083.7**	1,298.6
Add net debt	**66.5**	249.9
Capital employed	**1,150.2**	1,548.5
Effect of averaging	**199.2**	129.6
Average capital employed	**1,349.4**	1,678.1
ROCE	**12.3%**	22.2%

1. APM (alternative performance measure), see note 13

Appendix – business models

APAC

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 in Hong Kong with additional Distribution and Retail franchises across the region. In Australasia we are the distributor for Subaru.

Country	Route to market	Brands
Hong Kong Macau	Distribution & Exclusive Retail	Toyota, Lexus, Hino, Jaguar, Land Rover, 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
Australia	Distribution & Retail	Subaru, Peugeot, Citroen
	Retail	VW, Isuzu, Kia, Mitsubishi, Jeep
New Zealand	Distribution	Subaru

UK & Europe

We have scale Retail operations across the UK focused on premium and luxury brands. Our European operations are centred on Toyota and Lexus Distribution and Retail in Belgium, Greece and the Balkans, and both Distribution and Retail businesses across Northern Europe focused on BMW, Jaguar Land Rover and other brands.

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

Americas & Africa

In South America, we have BMW Distribution and Retail businesses in Chile and Peru as well as Subaru operations across these markets, Colombia and Argentina. We also hold the Distribution contracts and operate Retail for Daimler across four markets in the region, and Suzuki in Costa Rica, Panama and Argentina. Our business in Ethiopia is centred on Distribution and exclusive Retail for Toyota, while in Kenya we are the distributor and retailer for premium marques Jaguar Land Rover and BMW.

Country	Business Model	Brands
Ethiopia	Distribution & Exclusive Retail	Toyota, Daihatsu, Komatsu, New Holland, Hino, BMW
Djibouti	Distribution	Toyota, BMW, Komatsu
Kenya	Distribution & Retail	Jaguar, Land Rover, BMW, BMW Motorrad
Chile	Distribution & Retail	BMW, BMW Motorrad, MINI, Subaru, Rolls Royce, Hino, DFSK,
Peru	Distribution & Retail	BMW, BMW Motorrad, MINI, Subaru, DFSK, BYD
Colombia	Distribution & Retail	Subaru, Hino, Jaguar, Land Rover, DFSK, Mack, Doosan, Dieci, Mercedes-Benz
Argentina	Distribution & Retail	Subaru, Suzuki
Costa Rica	Distribution & Retail	Suzuki, JAC, Changan, Kubota
Panama	Distribution & Retail	Suzuki
Uruguay	Distribution & Retail	Mercedes-Benz, Freightliner and Fuso
Ecuador	Distribution & Retail	Mercedes-Benz
El Salvador	Distribution & Retail	Mercedes-Benz

Consolidated income statement

For the year ended 31 December 2020

	Notes	Before exceptional items 2020 £m	Exceptional items (note 3) 2020 £m	Total 2020 £m	Before exceptional items 2019 £m	Exceptional items (note 3) 2019 £m	Total 2019 £m
Revenue	2	**6,837.8**	**–**	**6,837.8**	9,379.7	–	9,379.7
Cost of sales		**(5,948.4)**	**(11.6)**	**(5,960.0)**	(8,107.6)	–	(8,107.6)
Gross profit		**889.4**	**(11.6)**	**877.8**	1,272.1	–	1,272.1
Net operating expenses		**(723.9)**	**(245.5)**	**(969.4)**	(899.0)	75.5	(823.5)
Operating profit / (loss)	2, 3	**165.5**	**(257.1)**	**(91.6)**	373.1	75.5	448.6
Share of profit after tax of joint ventures and associates		**–**	**–**	**–**	0.3	–	0.3
Profit / (loss) before finance and tax		**165.5**	**(257.1)**	**(91.6)**	373.4	75.5	448.9
Finance income	4	**14.4**	**–**	**14.4**	24.1	–	24.1
Finance costs	5	**(51.0)**	**–**	**(51.0)**	(71.2)	–	(71.2)
Profit / (loss) before tax		**128.9**	**(257.1)**	**(128.2)**	326.3	75.5	401.8
Tax	6	**(33.2)**	**24.2**	**(9.0)**	(75.6)	2.5	(73.1)
Profit / (loss) for the year		**95.7**	**(232.9)**	**(137.2)**	250.7	78.0	328.7
(Loss) / profit attributable to:							
– Owners of the parent				**(140.1)**			322.9
– Non-controlling interests				**2.9**			5.8
				(137.2)			328.7
Basic (loss) / earnings per share (pence)	7			**(35.6)p**			79.0p
Diluted (loss) / earnings per share (pence)	7			**(35.6)p**			78.4p

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	2020 £m	2019 £m
(Loss) / profit for the year	**(137.2)**	328.7
Other comprehensive (loss) / income:		
Items that will not be reclassified to the consolidated income statement		
Changes in the fair value of equity investments at fair value through other comprehensive income	**(2.7)**	–
Defined benefit pension scheme remeasurements	**14.8**	(71.7)
Current tax recognised in consolidated statement of comprehensive income	**–**	–
Deferred tax recognised in consolidated statement of comprehensive income	**(2.5)**	10.1
	9.6	(61.6)
Items that may be or have been reclassified subsequently to the consolidated income statement		
Cash flow hedges	**(3.2)**	(25.9)
Exchange differences on translation of foreign operations	**(51.5)**	(98.6)
Current tax recognised in consolidated statement of comprehensive income	**0.3**	–
Deferred tax recognised in consolidated statement of comprehensive income	**(0.9)**	7.0
	(55.3)	(117.5)
Other comprehensive loss for the year, net of tax	**(45.7)**	(179.1)
Total comprehensive (loss) / income for the year	**(182.9)**	149.6

Total comprehensive (loss) / income attributable to:		
– Owners of the parent	**(186.2)**	146.8
– Non-controlling interests	**3.3**	2.8
	(182.9)	149.6

Consolidated statement of financial position

As at 31 December 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Intangible assets		**450.2**	577.9
Property, plant and equipment		**569.8**	695.1
Right-of-use assets		**257.3**	313.3
Investments in joint ventures and associates		**2.4**	4.3
Financial assets at fair value through other comprehensive income		**3.6**	6.9
Trade and other receivables		**49.2**	38.7
Deferred tax assets		**68.6**	58.3
Retirement benefit asset		**101.0**	78.7
		1,502.1	1,773.2
Current assets			
Inventories		**1,216.2**	1,566.9
Trade and other receivables		**369.6**	512.3
Financial assets at fair value through other comprehensive income		**0.2**	0.2
Derivative financial instruments		**13.3**	16.2
Current tax assets		**20.6**	21.6
Cash and cash equivalents	9	**481.2**	423.0
		2,101.1	2,540.2
Assets held for sale and disposal group		**31.2**	149.4
		2,132.3	2,689.6
Total assets		**3,634.4**	4,462.8
Current liabilities			
Trade and other payables		**(1,610.3)**	(1,996.4)
Derivative financial instruments		**(42.4)**	(27.4)
Current tax liabilities		**(65.0)**	(82.4)
Provisions		**(26.8)**	(23.0)
Lease liabilities		**(58.5)**	(56.8)
Borrowings		**(6.1)**	(50.1)
		(1,809.1)	(2,236.1)
Liabilities directly associated with the disposal group		**(7.7)**	(106.1)
		(1,816.8)	(2,342.2)
Non-current liabilities			
Trade and other payables		**(69.3)**	(77.2)
Provisions		**(19.8)**	(12.9)
Deferred tax liabilities		**(79.1)**	(96.7)
Lease liabilities		**(274.3)**	(296.0)
Borrowings		**(210.0)**	(270.0)
Retirement benefit liability		**(81.4)**	(69.2)
		(733.9)	(822.0)
Total liabilities		**(2,550.7)**	(3,164.2)
Net assets		**1,083.7**	1,298.6
Equity			
Share capital		**39.4**	40.0
Share premium		**146.7**	146.7
Capital redemption reserve		**141.2**	140.6
Other reserves		**(248.5)**	(190.4)
Retained earnings		**985.6**	1,141.4
Equity attributable to owners of the parent		**1,064.4**	1,278.3
Non-controlling interests		**19.3**	20.3
Total equity		**1,083.7**	1,298.6

Duncan Tait,
Group Chief Executive

Gijsbert de Zoeten,
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total equity attributable to owners of the parent £m	Non-controlling interests £m	Total shareholders' equity £m
At 1 January 2019		41.6	146.7	139.0	(75.9)	1,093.1	1,344.5	23.3	1,367.8
Profit for the year		–	–	–	–	322.9	322.9	5.8	328.7
Other comprehensive loss for the year		–	–	–	(114.5)	(61.6)	(176.1)	(3.0)	(179.1)
Total comprehensive income for the year		–	–	–	(114.5)	261.3	146.8	2.8	149.6
Share-based payments, net of tax		–	–	–	–	6.8	6.8	–	6.8
Share buyback programme		(1.6)	–	1.6	–	(100.0)	(100.0)	–	(100.0)
Net purchase of own shares by the Inchcape Employee Trust		–	–	–	–	(9.3)	(9.3)	–	(9.3)
Dividends:									
– Owners of the parent	8	–	–	–	–	(110.5)	(110.5)	–	(110.5)
– Non-controlling interests		–	–	–	–	–	–	(5.8)	(5.8)
At 1 January 2020		**40.0**	**146.7**	**140.6**	**(190.4)**	**1,141.4**	**1,278.3**	**20.3**	**1,298.6**
(Loss) / profit for the year		**–**	**–**	**–**	**–**	**(140.1)**	**(140.1)**	**2.9**	**(137.2)**
Other comprehensive loss for the year		**–**	**–**	**–**	**(58.1)**	**12.0**	**(46.1)**	**0.4**	**(45.7)**
Total comprehensive loss for the year		**–**	**–**	**–**	**(58.1)**	**(128.1)**	**(186.2)**	**3.3**	**(182.9)**
Share-based payments, net of tax		**–**	**–**	**–**	**–**	**3.7**	**3.7**	**–**	**3.7**
Share buyback programme		**(0.6)**	**–**	**0.6**	**–**	**(31.4)**	**(31.4)**	**–**	**(31.4)**
Dividends:									
– Owners of the parent	8	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(4.3)**	**(4.3)**
At 31 December 2020		**39.4**	**146.7**	**141.2**	**(248.5)**	**985.6**	**1,064.4**	**19.3**	**1,083.7**

Share-based payments include a net tax credit of £0.4m (current tax charge of £nil and a deferred tax credit of £0.4m) (2019 – net tax credit of £0.7m (current tax charge of £nil and a deferred tax credit of £0.7m)).

Consolidated statement of cash flows

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash generated from operating activities			
Cash generated from operations	9a	**338.8**	445.9
Tax paid		**(51.8)**	(74.1)
Interest received		**13.9**	22.0
Interest paid		**(46.1)**	(66.6)
Net cash generated from operating activities		**254.8**	327.2
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired	10	**(31.5)**	(41.2)
Net cash inflow from sale of businesses	10	**71.8**	230.4
Net cash inflow from disposal of investments in joint ventures and associates		**2.0**	0.1
Purchase of property, plant and equipment		**(27.4)**	(44.9)
Purchase of intangible assets		**(20.1)**	(24.7)
Proceeds from disposal of property, plant and equipment		**6.7**	15.7
Proceeds from disposal of intangible assets		**0.2**	–
Receipt from sub-lease receivables		**0.7**	0.6
Net cash generated from investing activities		**2.4**	136.0
Cash flows from financing activities			
Share buyback programme		**(32.1)**	(99.3)
Net purchase of own shares by the Inchcape Employee Trust		**–**	(9.3)
Cash inflow from Covid Corporate Financing Facility		**99.6**	–
Repayment of Covid Corporate Financing Facility		**(99.6)**	–
Repayment of Private Placement loan notes		**–**	(75.4)
Net cash outflow from other borrowings		**(66.1)**	(122.0)
Payment of capital element of lease liabilities		**(57.4)**	(65.7)
Equity dividends paid	8	**–**	(110.5)
Dividends paid to non-controlling interests		**(4.3)**	(5.8)
Net cash used in financing activities		**(159.9)**	(488.0)
Net increase / (decrease) in cash and cash equivalents		**97.3**	(24.8)
Cash and cash equivalents at beginning of the period		**379.2**	463.4
Effect of foreign exchange rate changes		**(0.2)**	(59.4)
Cash and cash equivalents at the end of the year		**476.3**	379.2
Cash and cash equivalents consist of:			
– Cash at bank and cash equivalents	9	**378.5**	321.5
– Short-term deposits	9	**102.7**	101.5
– Bank overdrafts		**(6.1)**	(43.8)
– Cash at bank and cash equivalents included in disposal groups held for sale		**1.2**	–
		476.3	379.2

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 2019 and 2020 do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Group's published consolidated financial statements for the year ended 31 December 2019 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 2020 and the comparative information have been extracted from the audited consolidated financial statements for the year ended 31 December 2020 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 2020 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 using accounting policies consistent with those in the Group's Annual Report and Accounts 2019 with the exception of the following standards, amendments and interpretations which have been newly adopted from 1 January 2020:

Newly adopted accounting policies

From 1 January 2020, the following standards became effective in the Group's consolidated financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IAS 1 and IAS 8 – Definition of Material;
- Amendments to IFRS 3 – Definition of a Business;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform; and
- Amendment to IFRS 16 in relation to COVID-19 Related rent concessions

The accounting policies have been applied consistently throughout the reporting period, other than in respect of the amendment to IFRS 16, which has been newly adopted. The other standards that became applicable for the current period did not have any impact on the Group's accounting policies and did not require adjustments.

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

Amendment to IFRS 16 – COVID-19 Related Rent Concessions

The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19, and that meets certain conditions, is a lease modification. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In applying the practical expedient a lessee would generally account for a forgiveness or waiver of lease payments as a variable lease payment, and recognise the concession in the period in which the event or condition that triggers those payments occurs. The lessee also makes a corresponding adjustment to the lease liability, in effect derecognising the part of the lease liability that has been forgiven or waived. On adoption of the amendment, the Group has recognised a credit of £1.1m in the consolidated income statement.

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 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2;
- Annual Improvements to IFRS Standards 2018–2020;
- Amendments to IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use;
- Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract;
- Amendments to IFRS 3 (May 2020) – Reference to the Conceptual Framework;
- IFRS 17 – Insurance Contracts; and
- Amendments to IAS 1 – Classification of liabilities as current or non-current;

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.

Going concern

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its committed facilities for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing its financial statements. In assessing whether the Group is a going concern, the implications of COVID-19 have been considered together with measures taken to mitigate its impact on the Group. In making this assessment the Group has considered available liquidity in relation to net debt and committed facilities, the Group's latest forecasts for 2021 and 2022 cash flows together with COVID-19 adjusted scenarios. The forecasts used reflected the likely economic downturn triggered by COVID-19, with a key emphasis on the Board approved operating plan for 2021 and a forecast for 2022 based on a set of reasonably defined forecast principles.

Given the global political and economic uncertainty resulting from the COVID-19 pandemic, we expect to see volatility, business disruption and the impact of economic downturns in the markets in which the Group operates during 2021 and into 2022. During 2020 and the early part of 2021, the business has been impacted by government action to control the COVID-19 pandemic with a number of the Group's businesses suffering restricted trading from time-to-time and to a greater or lesser extent.

During 2020, action was taken to strengthen the Group's resilience to the trading volatility and liquidity position in light of the environment and circumstance. These actions included:

- initiation of a major cost-restructuring programme to rationalise the Group's footprint, a reduction in the global workforce and re-negotiation of third-party expenditure;

- temporary reduction in advertising and promotional expenditure, reducing executive pay for four months, freezing other pay and recruitment and reductions in operating expenditure;
- in the first half of 2020, the utilisation of government support measures such as the UK job retention scheme combined with UK business rates suspension and international government support measures, where available;
- collaborating closely with OEMs and banks to manage inventory and inventory financing levels;
- suspending the share buyback programme; and
- cancelling the final dividend for 2019 and not declaring an interim dividend for 2020.

Committed bank facilities and Private Placement borrowings totalling £910m, of which £210m was drawn at 31 December 2020, are subject to the same interest cover covenant based on an adjusted EBITA measure to interest on consolidated borrowings measured on a trailing 12 month basis at June and December. While the UK Government's Covid Corporate Financing Facility (CCFF) scheme remains available to the Group, the CCFF is not considered to be a committed facility for the purposes of the going concern assessment.

The Board approved operating plan for 2021 and the Group's forecast for 2022 indicate that the Group is expected to be compliant with this covenant throughout the forecast period and to have sufficient liquidity to continue in operation throughout that period.

A range of sensitivities has been applied to the forecasts to assess the Group's compliance with its covenant requirements over the forecast period. These sensitivities included:

- further periods of COVID-19 restrictions similar in nature and impact to those seen in the second half of 2020, impacting half of the Group's markets simultaneously throughout 2021;
- an overall reduction in gross margins;
- an appreciation in Sterling against the Group's main trading companies; combined with
- working capital sensitivities.

In a scenario where all of the above sensitivities occur at the same time, the Group has modelled the possibility of the interest cover covenant being breached in 2021. With the interest cover covenant measured on a trailing 12 month basis, the sensitised forecasts indicate that the Group is not expected to breach any covenants and would be compliant with the interest cover requirements at December 2021 and throughout the forecast period. Additionally, under these circumstances, the Group expects to have sufficient funds to meet cash flow requirements. In a scenario where such restrictions impacted half of the group markets simultaneously for a period of 24 months, the Group is forecasted to be compliant with the interest cover covenant.

Reverse stress test scenario analysis has been applied to the forecasts to assess particular scenarios in which the Group would breach its covenant or have insufficient funds to meet cash flow requirements. One such scenario was to model more severe trading restrictions in all markets simultaneously with the impact comparable to those experienced in a few markets in H1 2020, which amounts to a material cessation in operations and revenue. Under this scenario, the Group could sustain such restrictions for a period of approximately five months before breaching the interest cover covenant, but even in this circumstance, would still have sufficient liquidity. We deem this circumstance to be highly unlikely due to the geographic diversity of the Group's operations and our increased ability to trade digitally through the trading restrictions.

The Board therefore concluded that the Group will be able to operate within the level of its committed facilities for the foreseeable future and the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements for the year ending 31 December 2020.

Critical accounting judgements and sources of estimation uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The Directors have made a number of estimates and assumptions regarding the future, and made some significant judgements in applying the Group's accounting policies. These are discussed below:

Sources of estimation uncertainty

The key assumptions about the future, and other key sources of estimation uncertainties at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within in the next period are discussed below:

Impairment of goodwill and other indefinite life intangible assets

Reporting segment	CGU group	Goodwill 2020 £m	Distribution agreements 2020 £m	Total 2020 £m	Goodwill 2019 £m	Distribution agreements 2019 £m	Total 2019 £m
UK and Europe Retail	UK Retail	–	–	–	80.2	–	80.2
UK and Europe Distribution	Baltics – BMW	**6.2**	**28.9**	**35.1**	5.8	27.4	33.2
Americas and Africa Distribution	Americas – Daimler	**4.4**	**27.7**	**32.1**	3.8	13.8	17.6
	Americas – Hino/Subaru	**47.2**	**137.8**	**185.0**	45.7	134.6	180.3
	Americas – Suzuki	**37.6**	**52.2**	**89.8**	44.8	85.3	130.1
	Kenya	**1.1**	–	**1.1**	1.2	–	1.2
APAC Distribution	Singapore	**22.5**	–	**22.5**	22.8	–	22.8
	Australia Retail	–	–	–	9.6	–	9.6
	Peugeot Citroën Australia	–	–	–	1.8	–	1.8
		119.0	**246.6**	**365.6**	215.7	261.1	476.8

In accordance with the Group's accounting policy, goodwill and other indefinite-life intangible assets are tested at least annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment tests were performed for all CGU groups during the year ended 31 December 2020.

The recoverable amounts of all CGU groups were determined based on the higher of the fair value less costs to sell and value in use calculations. The recoverable amount is determined firstly through value in use calculations. Where this is insufficient to cover the carrying value of the relevant asset being tested, fair value less costs to sell is also determined.

If the carrying amount of a CGU or CGU group exceeds its recoverable amount, an impairment loss is recognised and allocated between the assets of the unit to reduce the carrying amount. This allocation is initially applied to any site-based assets within a CGU based on the results of impairment testing performed over individual site CGUs and then to any indefinite-life intangible assets. If a further impairment charge still remains, then to the carrying amount of any goodwill is allocated to the CGU or CGU group.

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

Forecast revenue is based on past experience and expectations for near-term growth in the relevant markets. Key assumptions used to determine revenue are expectations of market size, represented by Total Industry Volume (TIV), Units in Operation (UIO) and market share. Operating profits are forecast based on historical experience of gross and operating margins, adjusted for the impact of changes to product mix and cost-saving initiatives that had been implemented at the reporting date. Cash flows are forecast based on operating profit adjusted for the level of working capital required to support trading and capital expenditure.

The assumptions used in the value in use calculations are based on past experience, recent trading and forecasts of operational performance in the relevant markets including the impact of COVID-19 and the UK trading arrangements with the European Union. They also reflect expectations about continuing relationships with key brand partners and the impact climate change may have on its operations. Whilst at this stage there is significant uncertainty regarding what the long-term impact of climate change initiatives may be on the markets in which we operate, the forecasts reflect our best estimate.

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

Where applicable, the Group has adopted a probability weighted scenario approach for the discounted cash flows used in the impairment assessment. A range of expected outcomes was modelled including a base case, which reflected management's best estimate of future performance, an optimistic case scenario incorporating a better than expected recovery from COVID-19 and a pessimistic scenario incorporating an extended closure period / lower recovery from COVID-19.

Cash flows are discounted back to present value using a discount rate specific to each CGU. The discount rates used are calculated using the capital asset pricing model to derive a cost of equity which is then weighted with an estimated cost of debt and lease liabilities based on an optimal market gearing structure. The Group uses several inputs to calculate a range for each discount rate from which an absolute measure is determined for use in the value in use calculations. Key inputs include benchmark risk free rates, inflation differentials, equity risk premium, country risk premium and a risk adjustment (beta) calculated by reference to comparable companies with similar retail and distribution operations. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate.

Key assumptions used

Pre-tax discount rates and long-term discount rates used in the value in use calculations for each of the Group's CGUs are shown below:

Goodwill:

2020	UK Retail	Baltics	Americas – Daimler	Americas – Hino/Subaru	Americas – Suzuki	Kenya	Singapore	Australia Retail	Peugeot Citroën Australia
Pre-tax discount rate (%)	**7.8**	**6.4**	**12.8**	**9.8**	**12.2**	**13.5**	**7.2**	**10.3**	**10.3**
Long-term growth rate (%)	**2.0**	**2.1**	**2.7**	**2.7**	**2.6**	**5.0**	**1.5**	**2.0**	**2.0**

2019	UK Retail	Baltics	Americas – Daimler[1]	Americas – Subaru/Hino	Americas - Suzuki	Kenya	Singapore	Australia Retail	Peugeot Citroën Australia
Pre-tax discount rate (%)	8.8	9.1	n/a	12.8	13.3	17.3	8.9	10.2	10.2
Long-term growth rate (%)	2.0	2.0	n/a	2.5	2.5	2.5	2.01	2.0	2.0

1. Due to the proximity of the acquisition of the Autolider business being immediately prior to the reporting date, no impairment test was carried out.

Indefinite-life intangible assets:

2020	Baltics – BMW	Americas – Daimler	Americas – Hino	Americas – Subaru	Americas – Suzuki
Pre-tax discount rate (%)	**6.3**	**12.8**	**12.1**	**9.7**	**12.2**
Long-term growth rate (%)	**2.1**	**2.7**	**2.9**	**2.7**	**2.6**

2019	Baltics – BMW	Americas – Daimler[1]	Americas – Hino	Americas – Subaru	Americas – Suzuki
Pre-tax discount rate (%)	9.1	n/a	12.9	12.7	13.3
Long-term growth rate (%)	2.0	n/a	2.5	2.5	2.5

1. Due to the proximity of the acquisition of the Autolider business being immediately prior to the reporting date, no impairment test was carried out.

Impairment

Central America

The Group acquired the Suzuki focused Distribution businesses in Costa Rica and Panama in 2018 with the aim of establishing a presence in markets with structural growth potential. Since acquisition, prior to the impact of COVID-19, the TIV in both markets had declined by an average of 19% based on externally available data. In the period to 30 June 20, the impact of COVID-19 further contributed to a further steep decline in TIV and the impairment assessment carried out indicated a low headroom. As a result, sensitivity disclosures were included in the 2020 interim financial statement relating to the key assumptions included in the model.

The current ongoing situation with respect to the spread of COVID-19 in Central America has continued to cause uncertainty regarding the impact of the pandemic on the region. As the situation deteriorated, both markets, particularly Costa Rica, were late into lockdown and the two markets have some of the highest numbers of confirmed cases of COVID-19 in the region. Management have updated the impairment assessment, with revised revenue forecasts based on historical market growth in the region and average market share achieved for the Suzuki brand. Margin assumptions were aligned to those achieved by the business in prior years.

The recoverable value of the CGU was determined based on value-in-use calculations, consistent with the approach used as at both 31 December 2019 and 30 June 2020. Cash flows were discounted back to present value using a pre-tax discount rate of 12.2% (2019 – 13.3%) and resulted in the impairment of the goodwill balance of £6.2m and an impairment of the distribution agreement of £31.2m.

As at 31 December 2020, the recoverable amount of the CGU was £146.5m. The cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a further impairment. Management have performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions.

	Increase / (decrease) in assumption	Effect on value-in-use calculation £m
Revenue CAGR (%)	**(1.0)**	**(30.7)**
Pre-tax discount rate (%)	**1.0**	**(16.7)**
Average gross margin (%)	**(0.5)**	**(11.4)**
Long-term growth rate (%)	**(0.5)**	**(7.1)**

In addition to the above, management has performed a sensitivity analysis in relation to the potential impact of climate change on the value-in-use model, which we expect to manifest itself primarily in an accelerated adoption of electric vehicles in the market. The scenario modelled reflected an increase to 30% electric vehicles penetration in the market over the period 2030 to 2040 and a 100bps change in market share while holding all other assumptions constant. Under this scenario, the impact on the value-in-use model would be c£6m.

UK Retail

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

The UK Retail business was materially impacted by the COVID-19 pandemic with sites closed at the end of March and only reopening again in June. The Group continued to reshape its Retail footprint through further disposals against a backdrop of an uncertain outlook and forecasts for the business were updated for the goodwill impairment assessment carried out in the period to 30 June 2020. The cash flows used for impairment testing were based on the latest short-term forecasts for the business, covering a two-year period, and took into account historical performance and knowledge of the current market, including the expected volume and gross margin impact from COVID-19. Cash flows beyond the forecast initial period were extrapolated using externally sourced volume projections.

Margin assumptions were largely aligned to the prior year impairment exercise and our expectation of future performance, again supported by historical performance and current market data available.

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

Australia Retail and Peugeot Citroën Australia

In the period to 30 June 2020, the impact of COVID-19 on the Australian economy has been severe and the country entered its first recession in 29 years in the period. The Retail business, having undertaken significant restructuring through the disposal of selective Retail operations that completed in February 2020, had expected to see an improvement in performance in 2020. The Peugeot Citroën Distribution business was initially expected to deliver an improvement in performance in 2020 in light of recent changes to operations within the country. However, the impact of COVID-19 materially affected both businesses, with a decline in performance expected over the forecast period, due to a reduction in new car sales leading to a decline in the car parc which, in turn, impacts higher margin aftersales.

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

Other CGUs

The Group's value in use calculations are sensitive to a change in the key assumptions used. However, except for the cash generating unit represented by the Daimler business in Americas, a reasonably possible change in a key assumption will not cause a material impairment of goodwill or indefinite-life intangible assets in any of the CGU groups.

The recoverable amount of Americas – Daimler is estimated to exceed the carrying amount of the CGU at 31 December 2020 by £12.0m. Due to the impact of COVID-19, the level of headroom for the cash generating unit represented by the Daimler business in the Americas is considered low. As such, management have performed sensitivity analysis on the key assumptions in the models using reasonably possible changes in key assumptions to determine what change is required that would cause the carrying amount to exceed the recoverable amount calculated in the model.

The table below shows by how much key assumptions would have to change in order for the recoverable amount of this CGU to equal its carrying amount, while holding all other assumptions constant:

	Increase / (decrease) in assumption
Revenue CAGR (%)	**(0.7)**
Pre-tax discount rate (%)	**1.8**
Average gross margin (%)	**(0.5)**

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the Americas – Daimler CGU to exceed its recoverable amount.

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

Computer software, property, plant and equipment and right-of-use assets are reviewed for impairment if events or circumstances indicate that the carrying value may not be recoverable. When an impairment review is carried out, the recoverable value is determined based on the higher of value in use calculations, which require estimates to be made of future cash flows, or fair value less costs of disposal. In light of the COVID-19 pandemic, impairment triggers were identified in a number of markets and impairment reviews were performed where appropriate. The approach to test computer software, property, plant and equipment and right-of-use assets for impairment was consistent with the approach used to test goodwill and other indefinite-life intangible assets.

The value in use calculations use cash flow projections based on five-year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to volumes, revenue, gross margins, overheads, the level of working capital required to support trading and capital expenditure. Where the value in use calculations did not support the carrying value of an asset, an estimate for fair value less costs of disposal was determined by obtaining property valuations for the relevant locations.

The results of the testing indicated that impairment charges totalling £93.5m were required against site and other assets, principally in relation to Retail businesses in the UK, Australia and Russia.

2 SEGMENTAL ANALYSIS

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

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

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

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

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

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

	Distribution				Retail			
2020	**APAC £m**	**UK and Europe £m**	**Americas and Africa £m**	**Total Distribution £m**	**APAC £m**	**UK and Europe £m**	**Total Retail £m**	**Total £m**
Revenue								
Total revenue	**1,902.6**	**1,120.2**	**797.1**	**3,819.9**	**9.4**	**3,008.5**	**3,017.9**	**6,837.8**
Results								
Operating profit before exceptional items	**80.0**	**25.3**	**34.4**	**139.7**	**0.4**	**25.4**	**25.8**	**165.5**
Operating exceptional items								**(257.1)**
Operating loss after exceptional items								**(91.6)**
Share of profit after tax of joint ventures and associates								**–**
Loss before finance and tax								**(91.6)**
Finance income								**14.4**
Finance costs								**(51.0)**
Loss before tax								**(128.2)**
Tax								**(9.0)**
Loss for the year								**(137.2)**

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:

2020	**£m**
UK	**1,978.9**
Russia	**835.6**
Australia	**838.7**
Rest of the world	**3,184.6**
Group	**6,837.8**

2020	Distribution APAC £m	Distribution UK and Europe £m	Distribution Americas and Africa £m	Total Distribution £m	Retail APAC £m	Retail UK and Europe £m	Total Retail £m	Total £m
Segment assets and liabilities								
Segment assets	**402.7**	**281.6**	**361.7**	**1,046.0**	**–**	**618.4**	**618.4**	**1,664.4**
Other current assets								**515.3**
Other non-current assets								**1,454.7**
Segment liabilities	**(602.1)**	**(295.8)**	**(299.3)**	**(1,197.2)**	**–**	**(566.4)**	**(566.4)**	**(1,763.6)**
Other liabilities								**(787.1)**
Net assets								**1,083.7**

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

2020	Distribution APAC £m	Distribution UK and Europe £m	Distribution Americas and Africa £m	Total Distribution £m	Retail APAC £m	Retail UK and Europe £m	Total Retail £m	Total £m
Other segment items								
Capital expenditure:								
– Property, plant and equipment	**6.0**	**2.4**	**9.2**	**17.6**	**–**	**9.9**	**9.9**	**27.5**
– Interest in leased vehicles	**2.3**	**0.7**	**0.1**	**3.1**	**–**	**–**	**–**	**3.1**
– Right-of-use assets	**10.4**	**3.4**	**3.5**	**17.3**	**–**	**5.3**	**5.3**	**22.6**
– Intangible assets	**7.3**	**3.3**	**3.5**	**14.1**	**–**	**6.4**	**6.4**	**20.5**
Depreciation:					**–**			
– Property, plant and equipment	**9.5**	**4.0**	**9.3**	**22.8**	**–**	**13.1**	**13.1**	**35.9**
– Interest in leased vehicles	**3.1**	**0.1**	**0.8**	**4.0**	**–**	**0.1**	**0.1**	**4.1**
– Right-of-use assets	**28.5**	**4.7**	**10.6**	**43.8**	**–**	**10.4**	**10.4**	**54.2**
Amortisation of intangible assets	**8.5**	**3.5**	**3.3**	**15.3**	**–**	**3.5**	**3.5**	**18.8**
Impairment of goodwill	**11.1**	**–**	**6.2**	**17.3**	**–**	**80.2**	**80.2**	**97.5**
Impairment of distribution agreements	**–**	**–**	**31.2**	**31.2**	**–**	**–**	**–**	**31.2**
Impairment of other intangible assets	**5.7**	**1.2**	**1.5**	**8.4**	**–**	**9.4**	**9.4**	**17.8**
Impairment of property, plant and equipment	**9.7**	**1.2**	**1.4**	**12.3**	**–**	**30.4**	**30.4**	**42.7**
Impairment of right-of-use assets	**24.7**	**–**	**0.2**	**24.9**	**–**	**8.4**	**8.4**	**33.3**
Net provisions charged / (credited) to the consolidated income statement	**15.9**	**4.7**	**11.8**	**32.4**	**–**	**(3.4)**	**(3.4)**	**29.0**

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

2019 (restated)	Distribution APAC £m	Distribution UK and Europe £m	Distribution Americas and Africa £m	Total Distribution £m	Retail APAC £m	Retail UK and Europe £m	Total Retail £m	Total £m
Revenue								
Total revenue	2,593.4	1,329.6	993.5	4,916.5	431.5	4,031.7	4,463.2	9,379.7
Results								
Operating profit before exceptional items	226.7	41.7	65.0	333.4	7.5	32.2	39.7	373.1
Operating exceptional items								75.5
Operating profit after exceptional items								448.6
Share of profit after tax of joint ventures and associates								0.3
Profit before finance and tax								448.9
Finance income								24.1
Finance costs								(71.2)
Profit before tax								401.8
Tax								(73.1)
Profit for the year								328.7

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:

2019	£m
UK	2,808.8
Russia	1,026.8
Australia	1,287.0
Rest of the world	4,257.1
Group	9,379.7

	Distribution				Retail			
2019 (restated)	APAC £m	UK and Europe £m	Americas and Africa £m	Total Distribution £m	APAC £m	UK and Europe £m	Total Retail £m	Total £m
Segment assets and liabilities								
Segment assets	504.3	332.5	413.2	1,250.0	30.0	810.9	840.9	2,090.9
Other current assets								636.8
Other non-current assets								1,735.1
Segment liabilities	(746.9)	(305.3)	(297.9)	(1,350.1)	(17.8)	(716.6)	(734.4)	(2,084.5)
Other liabilities								(1,079.7)
Net assets								1,298.6

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

	Distribution				Retail			
2019 (Restated)	APAC £m	UK and Europe £m	Americas and Africa £m	Total Distribution £m	APAC £m	UK and Europe £m	Total Retail £m	Total £m
Other segment items								
Capital expenditure:								
– Property, plant and equipment	6.0	4.2	10.3	20.5	0.4	22.4	22.8	43.3
– Interest in leased vehicles	7.5	0.3	0.5	8.3	–	0.8	0.8	9.1
– Right-of-use assets	6.3	0.2	5.0	11.5	4.7	10.1	14.8	26.3
– Intangible assets	8.3	4.1	5.1	17.5	2.8	4.9	7.7	25.2
Depreciation:								
– Property, plant and equipment	12.2	3.4	8.5	24.1	2.0	16.5	18.5	42.6
– Interest in leased vehicles	4.1	–	1.4	5.5	–	1.4	1.4	6.9
– Right-of-use assets	34.7	4.6	11.9	51.2	3.7	11.4	15.1	66.3
Amortisation of intangible assets	6.5	2.2	1.7	10.4	0.1	5.5	5.6	16.0
Impairment of other intangible assets	–	–	–	–	0.7	–	0.7	0.7
Impairment of property, plant and equipment	1.8	–	–	1.8	–	3.0	3.0	4.8
Impairment of right-of-use assets	3.8	–	–	3.8	4.9	–	4.9	8.7
Impairment of disposal group	–	–	–	–	–	2.8	2.8	2.8
Net provisions charged / (credited) to the consolidated income statement	(1.5)	4.6	0.7	3.8	(1.4)	26.0	24.6	28.4

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

3 EXCEPTIONAL ITEMS

	2020 £m	2019 £m
Goodwill and distribution agreement impairments (see note 1)	**(128.7)**	–
Other asset write-offs and impairments (see note 1)	**(94.3)**	(21.9)
Inventory and other provisions	**(11.9)**	–
Disposal of businesses (see note 10)	**1.9**	108.8
Restructuring costs	**(28.4)**	(8.9)
Acquisition of businesses	**(4.1)**	(2.5)
Other operating exceptional items	**8.4**	–
Total exceptional operating items before tax	**(257.1)**	75.5
Exceptional tax (see note 6)	**24.2**	2.5
Total exceptional items	**(232.9)**	78.0

Total exceptional items are analysed as follows:		
Exceptional cost of sales	**(11.6)**	–
Exceptional net operating expenses	**(245.5)**	75.5
Exceptional tax (see note 6)	**24.2**	2.5
Total exceptional items	**(232.9)**	78.0

In the first half of the year, due to the initial impact of COVID-19 and the subsequent temporary closure of operations across the Group's many markets, impairment assessments were carried out using cash flow forecasts updated for latest available market data and estimates of fair value less costs of disposal. As a result of these reviews, the Group recognised goodwill impairment charges of £80.2m and £11.1m in the UK and Australia respectively. A further full impairment review was conducted across the Group in connection with the results for the year ending 31 December 2020. The impact of the impairment assessment performed was to recognise further impairment charges against the Americas – Suzuki CGU of £6.2m and £31.2m against goodwill and distribution agreement assets respectively. Exceptional items also include asset impairments and write-offs of £94.3m following an impairment review of site-based assets across the Group, primarily in the UK, Australia and Russia.

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

In addition, in Guam and Saipan, the Group sells vehicles which are financed through loans offered by banks. In some circumstances of consumer default, the Group carries an obligation to repurchase the vehicle from the bank on repossession, absorbing any loss or gain between net realisable value and the outstanding amount on the loan (up to a cap). Due to the impact of COVID-19 on the tourism industry in those markets, management have concluded that an increase in provision for losses totalling £1.3m is required following an expected increase in consumer default rate which is directly attributable to the COVID-19 pandemic and therefore should be disclosed as an exceptional charge

The Group has continued to optimise its Retail market portfolio and an exceptional operating profit of £1.9m has been recognised, mainly related to the disposal of Retail sites in the UK and Australia.

Due to the expected medium-term impact of COVID-19 on the Group's operations a proposal was presented to the Board to rationalise and restructure operations. This proposal was approved by the Board and has led to significant restructuring activity being undertaken by the Group, the costs incurred being recognised as exceptional costs in line with the Group's policy. Restructuring costs have only been recognised once formal plans are in place and their implementation has commenced or announced to those affected. Furthermore, additional restructuring costs have been recognised, mainly in relation to Group-wide transformation projects impacting across the front and back office, encompassing a review of organisational structures, internal processes and the Group's physical setup. Execution of the Group-wide restructuring commenced in the first half of 2020 and significant progress has been made by the year-end, with some COVID-19 related restructuring activities to continue into 2021.

During the year exceptional operating costs of £4.1m have been incurred in connection with the acquisition and integration of businesses. These primarily relate to the Daimler businesses acquired in South and Central America. Other operating items of £8.4m includes the recycling of a cumulative gain previously recorded in other comprehensive income (OCI) which arises due to the reorganisation of the ownership structure for some of the Group's operations in the APAC region.

In 2019, an exceptional operating profit of £108.8m was recognised related to the disposal of the Group's Retail operations in China and the Fleet Solutions business in the UK, together with several retail sites in Australia and the UK. As a direct result of the Group's optimisation of its Retail market portfolio, asset write-offs of £4.9m and impairments of £17.0m, including leasehold improvements and right-of-use assets, and £8.9m of restructuring costs were incurred, principally following the disposal of several Retail sites in the UK and Australia. The restructuring costs incurred comprised headcount reduction and costs associated with exiting certain properties. During the year exceptional operating costs of £2.5m were incurred in connection with the acquisition and integration of business, primarily the Krasta Auto business in Lithuania and the Autolider business in South America.

4 FINANCE INCOME

	2020 £m	2019 £m
Bank and other interest receivable	**11.6**	17.2
Net interest income on post-retirement plan assets and liabilities	**0.4**	2.7
Sub-lease finance income	**0.5**	0.6
Other finance income	**1.9**	3.6
Total finance income	**14.4**	24.1

5 FINANCE COSTS

	2020 £m	2019 £m
Interest payable on bank borrowings	**6.5**	12.9
Interest payable on Private Placement	**6.6**	6.9
Finance costs on lease liabilities	**13.9**	20.0
Fair value adjustment on Private Placement	**–**	3.3
Fair value gain on cross currency interest rate swaps	**–**	(3.4)
Stock holding interest	**18.5**	27.6
Other finance costs	**5.5**	4.0
Capitalised borrowing costs	**–**	(0.1)
Total finance costs	**51.0**	71.2

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% (2019 – 2.9%).

6 TAX

	2020 £m	2019 £m
Current tax:		
– UK corporation tax	**(0.7)**	0.1
– Overseas tax	**47.9**	78.6
	47.2	78.7
Adjustments to prior year liabilities:		
– UK	**(4.8)**	4.4
– Overseas	**(2.7)**	(2.6)
Current tax	**39.7**	80.5
Deferred tax	**(30.7)**	(7.4)
Total tax charge	**9.0**	73.1

The total tax charge is analysed as follows:		
– Tax charge on profit before exceptional items	**33.2**	75.6
– Tax credit on exceptional items	**(24.2)**	(2.5)
Total tax charge	**9.0**	73.1

Details of the exceptional items for the year can be found in note 3. Not all of the exceptional items will be taxable/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 taxable/allowable.

Factors affecting the tax expense for the year

The effective tax rate for the year after exceptional items is -7.0% (2019 – 18.2%). The underlying effective tax rate before the impact of exceptional items is 25.8% (2019 – 23.2%). The weighted average tax rate is 25.9% (2019 – 20.6%). The weighted average tax rate comprises the average statutory rates across the Group, weighted in proportion to accounting profits and losses.

On 25 April 2019, the European Commission issued a Decision that the Group Financing Exemption ("GFE") in the UK's controlled foreign company legislation could, in some circumstances, constitute unlawful State Aid in respect of periods to 31 December 2018. After applying the Commission's Decision to Inchcape's circumstances, HMRC has now confirmed that Inchcape's use of the GFE did not result in the receipt of State Aid.

Inchcape had previously recognised a provision of £5.4m for the estimated amount of the alleged State Aid. Given the confirmation from HMRC, the provision has been released and the impact has been included in the results for the year ended 31 December 2020.

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

	2020 £m	2019 £m
(Loss) / profit before tax	**(128.2)**	401.8
(Loss) / profit before tax multiplied by the weighted average tax rate of 25.9% (2019 – 20.6%)	**(33.2)**	82.8
– Permanent differences	**8.1**	5.4
– Non-taxable income	**(2.4)**	(2.6)
– Prior year items	**(5.1)**	(5.5)
– Derecognition / (recognition) of deferred tax assets	**26.9**	(0.4)
– Tax audits and settlements	**(4.8)**	6.5
– Taxes on undistributed earnings	**1.6**	2.0
– Other items (including tax rate differentials and changes)	**(0.6)**	0.4
– Goodwill impairment (see note 1)	**20.5**	–
– Acquisition and disposals of businesses	**(1.8)**	(20.5)
– Other asset write-offs and impairment (see note 1)	**(0.2)**	5.0
Total tax charge	**9.0**	73.1

Factors affecting the tax expense of future years

The Group's future tax expense, and effective tax rate, could be affected by several factors including; 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.

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. In the event that actual taxable profits are different to those forecast, the Group's future tax expense and effective tax rate could be affected.

The Group has published its approach to tax on www.inchcape.com covering its tax strategy and governance framework.

7 EARNINGS PER SHARE

	2020 £m	2019 £m
(Loss) / profit for the year	**(137.2)**	328.7
Non-controlling interests	**(2.9)**	(5.8)
Basic (loss) / earnings	**(140.1)**	322.9
Exceptional items	**232.9**	(78.0)
Adjusted earnings	**92.8**	244.9
Basic (loss) / earnings per share	**(35.6)p**	79.0p
Diluted (loss) / earnings per share	**(35.6)p**	78.4p
Basic Adjusted earnings per share	**23.6p**	59.9p
Diluted Adjusted earnings per share	**23.4p**	59.5p

	2020 number	2019 number
Weighted average number of fully paid ordinary shares in issue during the year	**394,448,982**	409,513,387
Weighted average number of fully paid ordinary shares in issue during the year:		
– Held by the Inchcape Employee Trust	**(535,394)**	(763,509)
Weighted average number of fully paid ordinary shares for the purposes of basic EPS	**393,913,588**	408,749,878
Dilutive effect of potential ordinary shares	**2,616,104**	2,988,393
Adjusted weighted average number of fully paid ordinary shares in issue during the year for the purposes of diluted EPS	**396,529,692**	411,738,271

Basic (loss) / earnings per share is calculated by dividing the Basic (loss) / 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 and repurchased as part of the share buyback programme.

Diluted (loss) / earnings per share is calculated on the same basis as Basic (loss) / 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 providing an additional performance measure of the Group. Basic 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 and repurchased as part of the share buyback programme.

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

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

8 DIVIDENDS

The following dividends were paid by the Group:

	2020 £m	2019 £m
Interim dividend for the six months ended 30 June 2020 of nil per share (30 June 2019 of 8.9p per share)	–	36.3
Final dividend for the year ended 31 December 2019 of nil per share (31 December 2018 of 17.9p per share)	–	74.2
	–	110.5

The Board previously recommended a final ordinary dividend for the year ended 31 December 2019 of 17.9p per ordinary share. The dividend was due to be paid on 19 June 2020. As announced on 7 April 2020, given the impact of COVID-19, the Group decided to preserve cash and no longer recommend the payment of the previously announced final ordinary dividend. The Directors did not propose an interim dividend for 2020.

A final proposed dividend for the year ended 31 December 2020 of 6.9p per share amounting to £27.2m is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2020.

The Group has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Inchcape plc, currently has adequate levels of realised profits within its retained earnings to support dividend payments. At 31 December 2020, Inchcape plc's company-only distributable reserves were £472.6m. On an annual basis, the distributable reserve levels of the Group's subsidiary undertakings are reviewed and dividends paid up to Inchcape plc where it is appropriate to do so.

9 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of cash generated from operations

	2020 £m	2019 £m
Cash flows from operating activities		
Operating (loss) / profit	**(91.6)**	448.6
Exceptional items (see note 3)	**257.1**	(75.5)
Amortisation of intangible assets	**18.4**	16.0
Depreciation of property, plant and equipment	**35.3**	42.6
Depreciation of right-of-use assets (including non-exceptional impairment charges)	**54.0**	66.3
Profit on disposal of property, plant and equipment	–	(4.4)
Gain on disposal of right-of-use assets	**(1.6)**	(0.1)
Share-based payments charge	**3.3**	6.1
Decrease in inventories	**351.0**	94.8
Decrease / (increase) in trade and other receivables	**124.4**	(29.4)
Decrease in trade and other payables	**(413.0)**	(121.5)
Increase in provisions	**5.1**	1.7
Pension contributions less than the pension charge for the year[1]	**3.3**	2.3
Decrease in interest in leased vehicles	**15.9**	7.3
Payments in respect of operating exceptional items	**(24.3)**	(10.5)
Other non-cash items	**1.5**	1.6
Cash generated from operations	**338.8**	445.9

1. Includes additional payments of £3.7m (2019 – £2.8m).

b. Net debt reconciliation

	Liabilities from financing activities			Assets	
	Borrowings £m	Leases £m	Sub-total £m	Cash / bank overdrafts £m	Total net debt £m
Net debt at 1 January 2019	(448.9)	(460.4)	(909.3)	463.4	(445.9)
Cash flows	197.4	65.7	263.1	(214.0)	49.1
Acquisitions	(22.9)	(12.5)	(35.4)	(41.2)	(76.6)
Disposals	–	41.8	41.8	230.4	272.2
New lease liabilities	–	(30.2)	(30.2)	–	(30.2)
Transferred to liabilities held for sale	–	30.1	30.1	–	30.1
Foreign exchange adjustments	(1.8)	12.7	10.9	(59.4)	(48.5)
Net movement in fair value	(0.1)	–	(0.1)	–	(0.1)
Net debt at 1 January 2020	**(276.3)**	**(352.8)**	**(629.1)**	**379.2**	**(249.9)**
Cash flows	**66.1**	**57.4**	**123.5**	**55.3**	**178.8**
Acquisitions	**–**	**(1.1)**	**(1.1)**	**(31.5)**	**(32.6)**
Disposals	**–**	**–**	**–**	**73.5**	**73.5**
New lease liabilities	**–**	**(35.7)**	**(35.7)**	**–**	**(35.7)**
Transferred to liabilities held for sale	**–**	**1.0**	**1.0**	**–**	**1.0**
Foreign exchange adjustments	**0.2**	**(1.6)**	**(1.4)**	**(0.2)**	**(1.6)**
Net debt at 31 December 2020	**(210.0)**	**(332.8)**	**(542.8)**	**476.3**	**(66.5)**

Net debt is analysed as follows:

	2020 £m	2019 £m
Cash and cash equivalents as per the statement of financial position	**481.2**	423.0
Cash and cash equivalents included in disposal groups held for sale	**1.2**	–
Borrowings – disclosed as current liabilities	**(6.1)**	(50.1)
Add back: amounts treated as debt financing (see below)	**–**	6.3
Cash and cash equivalents as per the statement of cash flows	**476.3**	379.2
Debt financing		
Borrowings – disclosed as current liabilities and treated as debt financing (see above)	**–**	(6.3)
Borrowings – disclosed as non-current liabilities	**(210.0)**	(270.0)
Lease liabilities	**(332.8)**	(352.8)
Debt financing	**(542.8)**	(629.1)
Net debt	**(66.5)**	(249.9)
Add back: lease liabilities	**332.8**	352.8
Net cash	**266.3**	102.9

Cash and cash equivalents are analysed as follows:

	2020 £m	2019 £m
Cash at bank and cash equivalents	**378.5**	321.5
Short-term deposits	**102.7**	101.5
	481.2	423.0

£81.2m (2019 – £88.0m) of cash and cash equivalents is held in Ethiopia where prior approval is required to transfer funds abroad, and currency may not be available locally to effect such transfers.

10 ACQUISITIONS AND DISPOSALS

a. Acquisitions

On 24 March 2020, the Group acquired the Mercedes-Benz passenger car and private vans Distribution operations in Colombia from Daimler Colombia S.A., for a total cash consideration of £27.1m. A distribution agreement with a provisional fair value of £14.2m has been recognised at the date of acquisition. The business was acquired to strengthen the Group's partnership with Daimler-Mercedes-Benz in South America and follows on from the acquisition on 2 December 2019 of Autolider, the distributor of certain Daimler brands such as Mercedes-Benz passenger and commercial vehicles, Freightliner and Fuso in Uruguay and Mercedes-Benz passenger and commercial vehicles in Ecuador.

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

	Fair value £m
Assets and liabilities acquired	
Distribution agreements recognised on acquisition	**14.2**
Property, plant and equipment	**0.4**
Right-of-use assets	**0.6**
Inventory	**13.3**
Lease liabilities	**(0.6)**
Provisions	**(0.8)**
Net identifiable assets	**27.1**
Goodwill	**–**
Net assets acquired	**27.1**
Consideration comprises	
Cash consideration	**27.1**
Total consideration	**27.1**

Revenue and profit contribution

Income statement items	Total £m
Revenue recognised since the acquisition date in the consolidated income statement	**41.7**
Profit after tax since the acquisition date in the consolidated income statement	**0.4**

Other acquisitions

On 31 July 2020, the Group was awarded the Daimler Distribution contract in El Salvador and entered into an asset purchase agreement to acquire assets from the exiting distributor, with a cash purchase price at completion of £0.8m. During the year, the Group also entered into distribution contracts with BMW to distribute the MINI and Motorrad brands in Peru and the MINI brand in Chile. The total cost of these acquisitions was £3.6m. Total goodwill arising on the transactions was £0.5m.

Measurement period adjustments

During the year, adjustments have been made to the fair value of assets and liabilities acquired in business combinations in 2019. These fair value adjustments were not material and therefore prior periods have not been restated. These changes, together with the finalisation of the purchase consideration, have resulted in an increase in the amount of goodwill recognised on acquisition of £0.7m.

	2020 £m	2019 £m
Cash outflow to acquire businesses, net of cash and overdrafts acquired		
Cash consideration	**31.5**	43.4
Less: Cash acquired	**–**	(2.2)
Net cash outflow	**31.5**	41.2

b. Disposals

	Australia Retail £m	UK Retail £m	Total £m
Assets and liabilities disposed of			
Goodwill	**5.5**	**2.1**	**7.6**
Property, plant and equipment	**2.4**	**53.5**	**55.9**
Right-of-use assets	**11.7**	**9.3**	**21.0**
Tax assets	**0.2**	**–**	**0.2**
Inventory	**21.9**	**40.8**	**62.7**
Trade and other payables	**(19.1)**	**(36.8)**	**(55.9)**
Provisions	**(0.4)**	**–**	**(0.4)**
Lease liabilities	**(15.5)**	**(13.8)**	**(29.3)**
Net assets disposed of	**6.7**	**55.1**	**61.8**
Consideration received	**6.1**	**59.5**	**65.6**
Disposal costs incurred	**–**	**(1.5)**	**(1.5)**
(Loss) / gain on disposal	**(0.6)**	**2.9**	**2.3**

During the period, the Group continued to optimise its UK Retail portfolio and has disposed of thirteen sites, generating disposal proceeds of £59.5m. In Australia, two further sites in our Retail business were disposed of in February 2020, generating disposal proceeds of £6.1m. The Group also received deferred consideration of £7.9m and incurred £0.4m of costs relating to the disposal of Retail operations in China in 2019.

None of these disposals are material enough to be shown as discontinued operations on the face of the consolidated income statement as they do not represent a separate major line of business or geographical area of operations.

c. 2019 acquisitions and disposals

In 2019, the Group acquired the full share capital of Krasta Auto in Lithuania, an authorised dealer of BMW Group, from Modus Group for a total cash consideration of £16.3m (net of cash acquired). The business was acquired to strengthen the Group's partnership with BMW in Northern Europe. A distribution agreement with a fair value of £19.0m has been recognised at the date of acquisition. The goodwill arising on the acquisition represents intangible assets that do not qualify for separate recognition and the premium paid to complete the Group's consolidation of BMW's representation across the Baltic region. None of the goodwill is expected to be deductible for tax purposes.

The Group also acquired the full share capital of Autolider, a distributor of Mercedes-Benz passenger and commercial vehicles in both Uruguay and Ecuador, for cash consideration of £24.9m (net of cash acquired) and contingent consideration with a fair value of £3.9m. A distribution agreement with a provisional fair value of £14.2m has been recognised at the date of acquisition. This business builds further on the Group's presence in Latin America, adding two new markets, and is consistent with the focus on core Distribution capabilities. The goodwill arising on the acquisition represents intangible assets that do not qualify for separate recognition and the Group strengthening its Latin American platform. None of the goodwill is expected to be deductible for tax purposes.

The Group disposed of six Retail sites in Australia and seven in the UK, generating disposal proceeds of £96.6m. Additionally, the Group sold its Retail sites in China for total proceeds of £91.9m, out of which £8.1m was deferred for payment over 12 months, as well as the Inchcape Fleet Solutions business for cash proceeds of £100m.

11 FOREIGN CURRENCY TRANSLATION

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

	Average rates		Year-end rates	
	2020	2019	**2020**	2019
Australian dollar	**1.87**	1.84	**1.78**	1.89
Chilean peso	**1,024.2**	908.04	**973.00**	996.59
Ethiopian birr	**45.18**	37.39	**52.91**	42.42
Euro	**1.13**	1.14	**1.12**	1.18
Hong Kong dollar	**10.01**	10.01	**10.59**	10.34
Russian rouble	**94.11**	82.96	**101.21**	82.13
Singapore dollar	**1.78**	1.74	**1.81**	1.78
US dollar	**1.29**	1.28	**1.37**	1.33

12 EVENTS AFTER THE REPORTING PERIOD

The Group disposed of a retail business in Luxembourg in January 2021 for £4.7m.

Lenders with total syndicated revolving credit facility commitments of £620m approved a 2nd extension option in February 2021, resulting in £620m of commitments being further extended to 2026.

13 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 trends, performance and position of the Group.

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

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

Changes to APMs

Net cash is introduced as a measure of the Group's net indebtedness. It is based on cash and cash equivalents less borrowings adjusted for the fair value of derivatives that hedge interest rate or currency risk. Organic growth is also introduced and is a measure of growth in sales in operations that have been open for at least a year at constant foreign exchanges rates. Trading profit is removed as central costs are now fully allocated to the Group's reporting segments. Central costs represent the costs of Group functions and were previously reported separately.

Constant currency

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

Performance measure	Definition	Why we measure it
Gross profit before exceptional items	Gross profit before exceptional items. Refer to the consolidated income statement.	A key metric of the direct profit contribution from the Group's revenue streams (e.g. Vehicles and Aftersales)
Operating profit before exceptional items	Operating profit before exceptional items. Refer to the consolidated income statement.	A key metric of the Group's 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 & exceptional items	Represents the profit made after operating and interest expense excluding the impact of exceptional items and before tax is charged. Refer to consolidated income statement.	A key driver of delivering sustainable and growing earnings to shareholders.
Exceptional items	Items that are charged or credited in the consolidated income statement which are material and non-recurring in nature. Refer to note 3.	The separate reporting of exceptional items helps provide additional useful information regarding the Group's 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 add net debt / 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 and lease liabilities adjusted for the fair value of derivatives that hedge interest rate or currency risk on borrowings. Refer to note 9.	A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength.
Net cash	Cash and cash equivalents less borrowings adjusted for the fair value of derivatives that hedge interest rate or currency risk on borrowings and before the incremental impact of IFRS 16 lease liabilities. Refer to note 9.	A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength and is widely used by external parties.
Net capital expenditure	Cash outflows from the purchase of property, plant and equipment and intangible assets less the proceeds from the disposal of property, plant and equipment and intangible assets.	A measure of the net amount invested in operational facilities in the period.
Constant currency % change	Presentation of reported results compared to prior period translated using constant rates of exchange.	A measure of business performance which excludes the impact of changes in exchange rates used for translation.
Organic growth	Organic growth is defined as sales growth in operations that have been open for at least a year at constant foreign exchange rates.	A measure of business performance which excludes the impact of acquisition and disposals in the period.

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

A	Loss of Distribution contract.
B	Digitisation
C	Covid-19 Pandemic
D	Cyber incident / data breach
E	OEM brand damage / supply chain disruption
F	Acquisition Return on Investment (ROI)
G	Political risk, social unrest
H	Legal / regulatory compliance
I	Legal / regulatory change
J	Foreign exchange
K	IT systems failure / interruption
L	People retention and development
M	Credit retrenchment impacts demand
N	Health, safety, environmental incident
O	Disruption: go-to-market model
P	Fraud, financial mis-statement
Q	‘Brexit’
R	Electrification of the drivetrain
S	Portfolio optimisation

UK trading arrangements with the European Union (‘Brexit’)

In late December 2020, the UK agreed the basis for its future trading arrangements with the European Union. At that point, the Group’s exposure to ‘Brexit’ risks reduced significantly.

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

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

Directors' 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.