Inchcape plc, the global automotive distributor, announces its half year results for the six months to 30 June 2021

Strong first half performance; encouraging strategic progress

First half highlights:

- Group revenue of £3.9bn: up 37% on an organic basis and 30% reported; underlying 3% below 2019 levels
- Pre-exceptional PBT of £143m (1H20: £9m), supported by gross margin resilience and overhead savings
- Statutory profit before tax of £61m, largely reflects the loss on disposal of part of our Retail operations in Russia
- 1H21 free cash flow of £184m further strengthening our financial position: net cash of £435m (Dec-20: £266m)
- Launch of £100m share buyback programme and declaration of 6.4p (£25m) interim dividend
- Distribution footprint expanded with three new contract awards – including a new OEM relationship (Geely)

	1H21	1H20	% change reported	**% change constant FX[1]**	**% change organic[2]**
Key financials					
Revenue	**£3,926m**	£3,019m	+30%	**+34%**	**+37%**
Operating profit (pre exceptionals) [1]	**£159m**	£28m	+468%	**+576%**	
Operating margin[1]	**4.1%**	0.9%	+320bps	**+320bps**	
Profit before tax (pre exceptionals) [1]	**£143m**	£9m	nmf		
Basic EPS (pre exceptionals) [1]	**26.7p**	(0.6)p	nmf		
Dividend per share	**6.4p**	-	nmf		
Free cash flow [1]	**£184m**	£(5)m	nmf		
Statutory financials					
Operating profit / (loss)	**£78m**	£(169)m			
Profit / (loss) before tax	**£61m**	£(188)m			
Basic EPS	**6.1p**	(48.2)p			

1. These measures are Alternative Performance Measures, see note 16.
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, commented:

"The Group delivered a strong set of results in the first half reflecting a good performance across all regions, higher margins and the ongoing benefit of our overhead reduction programme. The Group's inherently cash-generative business model saw a further strengthening of our overall financial position, and we are today launching a new £100m share buyback programme.

At the height of the global pandemic our efforts were focused on protecting our people, collaborating with our partners and ensuring the resilience of the business, and we accordingly prioritised and successfully completed a major cost restructuring programme. We have since been able to turn our attention back to capturing growth opportunities across our markets and I am delighted to report that we expanded our distribution footprint in two new markets in Asia and Americas. We also signed a global strategic partnership with Geely, a new OEM relationship for the Group. We are excited about the number of distribution opportunities across both existing and new markets, whether via acquisition or contract wins, and with both current and new OEM partners.

We have made encouraging progress in realising our strategic priorities, with our central focus on Distribution Excellence. Of particular note is the greater and accelerated use of data and digital. This is evident in the roll-out of our omni-channel capability and the launch of our Digital Delivery Centres. In addition, we are making progress with the opportunities identified to capture more of a vehicle's lifetime value, where we believe there is significant untapped potential, and look forward to sharing more detail on our strategy and future growth prospects at our Capital Markets Day in November.

Looking ahead, whilst there continues to be a high level of uncertainty, both in terms of the pandemic and widely reported issues relating to supply, we expect that the strong first half performance – which in part reflected pent-up demand - will underpin our full year results and expect to deliver FY21 profit before tax of at least £260m.

Our ambition is to become the undisputed distributor of choice for OEMs. We will achieve this by further strengthening our OEM relationships and with more emphasis on capturing the lifetime value of both customers and vehicles."

Market abuse regulation statement

This announcement contains inside information.

Results presentation today

A presentation for analysts and investors will be held today, Thursday 29th July, 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

Ex-dividend date for 2021 interim dividend	5th August 2021
Q3 trading update	28th October 2021
Capital Markets Day	17th November 2021 ****New event****

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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 global automotive distributor, operating in 36 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.

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.

Operational review

Key performance indicators

	1H21	1H20	% change reported	**% change constant FX[1]**	**% change organic[1]**
Revenue	**£3.9bn**	£3.0bn	+30%	**+34%**	**+37%**
Operating profit before exceptional items[1]	**£159m**	£28m	+468%	**+576%**	
Operating margin[1]	**4.1%**	0.9%	+320bps	**+320bps**	
Profit before tax and exceptional items[1]	**£143m**	£9m	nmf		
Free cash flow[1]	**£184m**	£(5)m	nmf		
Return on capital employed[1]	**24%**	14%			

1. See note 16 for definition of Key Performance Indicators and other Alternative Performance Measures.

Performance review: first half 2021

Our performance in the first half was strong, especially in the context of a number of markets still facing pandemic-related restrictions. The impact was less pronounced than in 2020, as we adapted the business to operate in a COVID-19 environment by expediting the adoption of new business practices such as digital investments and click-and-collect services. This also resulted in significant improvements to our operational capability, which along with our cost restructuring programme and an uptick in demand across the business, supported our performance.

In the first half, the Group generated revenue of £3.9bn, operating profit before exceptionals of £159m and free cash flow of £184m.

Group revenue of £3.9bn rose 30% year-on-year reported and 34% in constant currency. In the past twelve months, we have disposed of several retail businesses, which has further reduced our standalone Retail revenue exposure. In addition, during the first half, we won three new distribution agreements, bolstering our global presence with JLR in Indonesia and Daimler in Guatemala, as well as securing our first distribution relationship with Geely in Chile.

On an **organic basis**, excluding currency effects and net M&A, revenue increased by 37%, with all regions growing versus 2020. We started to annualise COVID-19 restrictions towards the end of Q1, which weighed on the comparative period. Nevertheless the underlying performance of the Group has improved. On a comparable basis, the Group's revenue was 3% below the corresponding period of 2019.

The Group delivered an **operating profit before exceptional items** of £159m, up 468% year-on-year reported and 576% in constant currency. The strong rebound reflects the topline increase, coupled with the year-on-year gross margin improvement, and significant overheads reduction following our COVID-19 cost restructuring programme – which we completed in 2021.

Profit before tax and exceptional items of £143m (1H20: £9m) reflects the strong improvement in revenue and operating profit. The net interest expense of £16m is £3m lower than prior year primarily as a result of lower inventory levels, which reduced the related interest expense.

During the reporting period, we incurred **exceptional charges** of £82m. The majority of the charge relates to the £72m loss on the disposal of a part of our Retail operations in Russia, where we realised £108m of accumulated foreign exchange losses upon disposal. In addition, we booked £13m of restructuring costs, and concluded our COVID-19 cost restructuring programme.

The highly cash-generative nature of our business model was evident in the period, with **free cash flow** generation of £184m (1H20: an outflow of £(5)m). In the first half we saw a net working capital inflow of £72m, arising primarily as a result of lower inventories. Capital expenditure in the reporting period was slightly lower than expected, owing to proceeds from the disposal of surplus capital assets.

Other notable elements of the cash flow bridge include: net acquisitions and disposals, which amounted to an inflow of £71m (proceeds from **Retail disposals** offset by the acquisition of **Daimler Guatemala**) and the 2020 final dividend (6.9p) payment of £27m.

The Group closed the reporting period in a **net cash** position of £435m (excluding lease liabilities), which compares to £266m at the end of December 2020, and £89m as at 30 June 2020. On an IFRS 16 basis (including lease liabilities), we ended the period with net cash of £102m (December 2020: net debt of £67m).

Return on capital employed over the period was 24%, compared to 14% for the equivalent period last year. The increase was primarily driven by the recovery in Group profits, but also supported by our Retail disposals and asset impairments triggered by the pandemic.

Second quarter 2021

Group revenue for the second quarter was £2.1bn. In 2020, the pandemic weighed most heavily in the second quarter and as such the comparative period was significantly depressed. In that context, Group revenue was up 88% reported, and on an **organic basis** revenue increased 99%, compared to a 2% increase in Q1.

In **Distribution,** revenue grew 78% organically, following a 4% increase in Q1. In Q2, all regions delivered year-on-year growth, supported by solid demand for Vehicles and Aftersales services.

In **Retail,** revenue increased 139% organically (Q1: fell 2%; resilient in the context of the UK lockdown which lasted the entire quarter) as dealerships reopened (mid-April) in the UK and performance in Russia continued to be solid.

Strategic priorities

In February, we shared our strategic priorities following a thorough review of our businesses and the growth opportunities. We are taking our core **distribution focused growth strategy**, and putting greater emphasis on capturing more of the **lifetime value of both customers and vehicles** – with **smarter use of technology** to improve our business for the benefit of our consumers, our network of retail-partners, our OEMs and our people.

During the first six months of the year, we have made encouraging progress on a number of our initiatives:

Distribution Excellence: *taking the core business and making it both bigger and better*

- In February, we revealed our plan to establish **two digital delivery centres** (DDCs) as part of our transformation – these were set up in the first half as part of *Inchcape Digital*, our new division focussed on **accelerating the use of digital and analytics** technologies across all regions. There are already over 250 new 'Inchcapers' working in the DDCs, of which more than 70 are dedicated to our omni-channel platform and over 80 working on analytics.
- We have also continued to make substantial progress with the **harmonisation of our core processes**, which will be completed in three phases. For *phase 1* we prioritised *Product Planning* (*S&OP*) and *Customer Lifecycle Management* (*CLM*), and the results to date have been encouraging:
  - **S&OP:** fewer model variants, reduced stock cover, and lower aged stock led to **improved gross profit**
  - **CLM:** omni-channel roll-out – 10 OEM markets now live - driving higher in-market leads and **better sales conversion** rates
- In line with our focus on markets with high growth potential, we continued to **expand our distribution footprint** in Chile with Geely (signing a global strategic partnership with the fast-growing and leading Chinese OEM), and in two new markets: Indonesia with JLR and in Guatemala with Daimler. The pipeline for both larger and small-scale consolidation opportunities continues to improve.

Vehicle Lifecycle Services: *simply capturing more lifetime value – of customers and vehicles*

- We are **making progress** with the **opportunities identified** to capture more of a **vehicle's lifetime value** where we believe there is significant **untapped potential**, that the business has not fully realised in the past.

We continue to approach our growth in a prudent and structured manner and in close collaboration with our OEM partners. We are already the **largest independent automotive distributor**, and are confident that successful execution of these initiatives will drive growth within our current geographic footprint and even faster expansion in **new markets**, with both existing and **new partners**.

Inchcape is a strong business, with **significant unrealised potential**. Through 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.

Capital allocation

Our **capital allocation policy remains unchanged** based on the following priorities: to invest in the business to strongly position it for the future; to make dividend payments; to conduct value-accretive M&A; and, ahead of concluding any immediate inorganic opportunities, consider share buyback programmes.

Our dividend policy targets a **40% annual payout ratio** of basic adjusted earnings with the interim dividend set at one-third of the prior year's total dividend. In light of the modest 2020 full year dividend reflecting the impact of the pandemic on our results, the Board believes it is appropriate to **declare an interim dividend of 6.4p (£25m)**. This is based on anticipated full year net income, based on profit before tax of at least £260m.

The Group has a healthy M&A pipeline and a number of opportunities are being actively pursued. In line with our capital allocation policy, the Board has concluded it is appropriate to launch a **£100m share buyback,** to be completed before our 2021 full year results.

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

The strength of our business model and financial position means the Group is well placed to continue to **grow profits** and **generate cash**.

Looking ahead, whilst there continues to be a high level of uncertainty, both in terms of the pandemic and widely reported issues relating to supply, we expect that the strong first half performance – which in part reflected pent-up demand - will underpin our full year results and expect to deliver **FY21 profit before tax of at least £260m**.

Beyond the short term, our ambition 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 strategy and mid-term prospects at our Capital Markets Day on the 17th November 2021.

Operating and financial review

Distribution

The Distribution segment saw revenue rise 39% year-on-year, with all regions posting double-digit growth rates. The combination of an encouraging topline and our cost mitigation measures supported the overall performance, resulting in a first half operating profit[1] of £120m (1H20: £46m). The operating margin rose 240bps to 5.1%.

	1H21 £m	1H20 £m	% change reported	% change constant FX	% change organic
Revenue					
Asia	557.1	450.5	+24%	+32%	+32%
Australasia	571.4	421.5	+36%	+27%	+27%
APAC	1,128.5	872.0	+29%	+29%	+29%
Europe	737.8	527.5	+40%	+40%	+27%
Americas & Africa	488.6	330.9	+48%	+62%	+52%
Total Distribution	**2,354.9**	**1,730.4**	**+36%**	**+39%**	**+33%**
Operating profit[1]					
Asia	52.5	28.6	+84%	+97%	
Australasia	18.4	4.2	+338%	+311%	
APAC	70.9	32.8	+116%	+128%	
Europe	20.1	9.1	+121%	+123%	
Americas & Africa	29.5	4.2	+602%	+1,874%	
Total Distribution	**120.5**	**46.1**	**+161%**	**+189%**	
Operating margin					
Asia	9.4%	6.3%	+310bps	+310bps	
Australasia	3.2%	1.0%	+220bps	+220bps	
APAC	6.3%	3.8%	+250bps	+270bps	
Europe	2.7%	1.7%	+100bps	+100bps	
Americas & Africa	6.0%	1.3%	+470bps	+550bps	
Total Distribution	**5.1%**	**2.7%**	**+240bps**	**+270bps**	

- **Asia** revenue grew 32% year-on-year, and operating profit[1] nearly doubled. While all markets posted positive growth in the first half, with the impact of the pandemic relatively limited, the region remains significantly below 2019 levels owing to the vehicle licence cycle in Singapore and softness in Hong Kong. During the period, Singapore benefited from greater availability of vehicle licences (the government's phasing of missed licences over 12 months concluded in June 2021), which will not repeat in the second half. In Hong Kong, the business grew strongly, and while demand is still relatively subdued compared to 2019 levels, an improving trend is expected in the second half. Performance across the rest of Asia was solid, with an encouraging revenue and profit outturn.
- **Australasia** revenue grew 27% year-on-year, and operating profit[1] was up >300%. The revenue performance was supported by the launch of the new Subaru Outback, helping the brand gain market share. While the business was impacted by some pandemic related restrictions, it tended to be localised and short-lived. Profitability improved significantly, with gross margins and overhead savings (following our cost restructuring programme) contributing to the rebound. The favourable movement in the AUD:JPY currency pair will support margins for the six months ahead.
- **Europe** revenue grew 40% year-on-year, and operating profit[1] more than doubled. In the first half of the year, the region saw an uptick in demand across several markets, following restrictions in the fourth quarter of 2020 caused by a second wave of the virus. In addition, we have continued to gain market share in a number of markets, with a solid contribution from the new Toyota Yaris. A combination of the strong topline and overhead savings resulted in a rebound of profitability. Having won the distribution business for JLR in Poland in the second half of 2020, performance to date has been encouraging.
- **Americas & Africa** revenue grew 62% year-on-year, and operating profit[1] recovered as margins rebounded. The Americas continued to be impacted by restrictions in the first half, although the effect was significantly less than what we experienced in 2020 reflecting our operational improvements. Our topline performance has sequentially improved for four consecutive quarters, and the effectiveness of our cost restructuring efforts contributed to the profitability rebound. In Africa, our performance continues to be extremely robust both from a topline and profitability perspective. Looking further ahead, given the low penetration of vehicles per capita in the Americas & Africa region, we are optimistic about the growth prospects over the medium and long term.

Retail

The Retail segment saw revenue rise 27% year-on-year, or up 44% on an organic basis (adjusting for the Retail disposals over the period). Operating profit[1] in the first half was supported by strong gross margins and our cost mitigation measures, resulting in a profit of £39m for the period compared to loss of £18m in 1H20. The operating margin was strong at 2.5%.

	1H21 £m	1H20 £m	% change reported	% change constant FX	% change organic
Revenue					
Australasia	-	9.4	-	-	-
APAC	-	9.4	-	-	-
UK & Europe	1,571.6	1,279.3	+23%	+28%	+44%
Total Retail	**1,571.6**	**1,288.7**	**+22%**	**+27%**	**+44%**
Operating profit[1]					
Australasia	-	0.4	-	-	
APAC	-	0.4	-	-	
UK & Europe	38.6	(18.0)	-	-	
Total Retail	**38.6**	**(17.6)**	**-**	**-**	
Operating margin					
Australasia	-	4.3%	n/a	n/a	
APAC	-	4.3%	n/a	n/a	
UK & Europe	2.5%	(1.4)%	+390nps	+400bps	
Total Retail	**2.5%**	**(1.4)%**	**+390bps**	**+390bps**	

- **UK and Europe** revenue grew 28% year-on-year, and operating profit[1] improved significantly. The region benefited from both an uptick in demand and strong margins across all three Retail-only markets (i.e. UK, Russia and Poland). Despite UK showrooms being forced to close throughout the first quarter of the year, a combination of solid demand for New and Used Vehicles, the operational improvements (e.g. digitally enabled sales and click-and-collect) and our strict cost measures enabled us to deliver an excellent result for the period. The performance in Russia was also strong, and the now disposed operations in St.Petersburg contributed c£110m of revenue and c£10m of profit to the first half result.
- **Australasia:** following a significant disposal programme, which concluded in 2020, we no longer have a Retail segment in Australasia.

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.

	1H21 £m	1H20 £m	% change reported	% change constant FX
Gross Profit (pre exceptionals)				
Vehicles	354.1	205.5	72%	78%
Aftersales	190.3	168.5	13%	17%
Total	**544.4**	**374.0**	**46%**	**51%**

We operate across the automotive value chain, and during the first half we generated 35% of gross profit through Aftersales, compared to 45% in the prior year, and 38% in 2019.

1: Operating profit stated pre-exceptionals

Other financial items

Exceptional items: In the first half of the year, we have incurred exceptional charges of £82m (1H20: £198m). The charge comprised of £69m relating to the gains and losses on disposal of Retail businesses in Russia, the UK, Belgium and Luxembourg and £13m of restructuring charges. The overall loss on disposal of Retail businesses of £69m includes the recycling of £108m of foreign exchange losses previously recognised in other comprehensive income. The restructuring charges relate to the programme announced in July 2020 in response to the COVID-19 pandemic, which is now complete. Further details can be found in note 3 to the interim financial statements.

Net financing costs: Net finance costs were £16m (1H20: £19m). The decrease is largely due to a reduction in the cost of financing inventory following our retail disposals, and the overall reduction in inventory and associated inventory financing following our S&OP improvements and restrictions in vehicle supply globally. The interest charge is stated on an IFRS 16 basis and, excluding interest relating to leases, our net finance charge was £11m compared to £12m in the first half of 2020.

Tax: The effective tax rate for the first half of 2021, before exceptional items, is 24.5% compared to 113.7% for the same period last year. The effective rate for the half year, after exceptional items, is 56.1% (negative 0.5% for the same period last year). The effective tax rate is not comparable to the same period of the prior year due to the impact of COVID-19 on the Group's performance in the period to 30 June 2020.

Non-controlling interests: Profits attributable to our non-controlling interests were £3m (1H20: £1m). The Group's non-controlling interests comprise a 40% holding in PT JLM Auto Indonesia, a 33% share in UAB Vitvela in Lithuania, a 30% share in NBT Brunei, a 30% share in Inchcape JLR Europe, a 10% share of Subaru Australia and 6% of the Motor Engineering Company of Ethiopia.

Dividend: The Board has declared an interim ordinary dividend of 6.4p per ordinary share which will be paid on 3 September 2021 to shareholders on the register at close of business on 6 August 2021. The Dividend Reinvestment Plan is available to ordinary shareholders and the final date for receipt of elections to participate is 12 August 2021.

Cash flow and net debt: The Group generated free cash flow of £184m (1H20: an outflow of £5m) driven primarily by an improvement in profitability, the level of working capital and continued careful capital allocation. After the proceeds received from our Retail disposals, as well as the acquisition of the Distribution business in Guatemala, the Group had net funds excluding lease liabilities of £435m (£266m as at 31 December 2020; £89m as at 30 June 2020). Including lease liabilities (IFRS 16), the Group had net funds of £102m (net debt of £67m as at 31 December 2020; £262m as at 30 June 2020).

Capital expenditure: Net capital expenditure in the first half of 2021 was £19m (1H20: £16m), consisting of £24m of capital expenditure and £5m of proceeds from the sale of property. In 2021, we expect net capital expenditure will be less than £70m.

Financing: As at 30 June 2021, the committed funding facilities of the Group comprised a syndicated revolving credit facility of £700m (1H20: £700m) and sterling Private Placement loan notes totalling £210m (1H20: £210m). As at 30 June 2021, none of the £700m syndicated revolving credit facility was drawn (£nil as at 31 December 2020; £170m as at 30 June 2020).

Pensions: At 30 June 2021, the IAS 19 net post-retirement surplus was £74m (£20m as at 31 December 2020; (£5m as at 30 June 2020), with the increase driven largely by a rise in the discount rate used to determine the value of scheme liabilities. In line with the funding programme agreed with the Trustees, the Group made additional cash contributions to the UK pension schemes amounting to £5m (1H20: £2m). Discussions with the Trustees of the Inchcape Motors Pension Scheme in respect of the actuarial valuation as at 5 April 2019 were finalised during the first half of the year and the Group has agreed to contribute an additional £3m per annum to the scheme over the next seven years.

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	**544.4**	Direct profit contribution from Value Drivers (e.g. Vehicles and Aftersales)
Add back: Exceptional items charged to gross profit	-	
Gross Profit (before exceptional items)[1]	**544.4**	
Less: Segment operating expenses	(385.3)	
Operating Profit (before exceptional Items)[1]	**159.1**	Profit generated by the Group
Less: Exceptional items	(81.6)	
Operating Profit	**77.5**	Statutory measure of Operating Profit
Less: Net Finance Costs	(16.2)	
Profit Before Tax	**61.3**	Statutory measure of profit after the costs of financing the Group
Add back: Exceptional Items	81.6	
Profit Before Tax & Exceptional Items[1]	**142.9**	

1. APM (alternative performance measure), see note 16

Reconciliation of free cash flow[1]

	1H21 £m	**1H21 £m**	1H20 £m	1H20 £m
Net cash generated from operating activities		**225.4**		32.5
Add back: Payments in respect of exceptional items		**7.4**		8.9
Net cash generated from operating activities, before exceptional items		**232.8**		41.4
Purchase of property, plant and equipment	**(18.1)**		(10.5)	
Purchase of intangible assets	**(6.0)**		(7.2)	
Proceeds from disposal of property, plant and equipment	**5.5**		1.3	
Net capital expenditure		**(18.6)**		(16.4)
Net payment in relation to leases		**(28.2)**		(27.4)
Dividends paid to non-controlling interests		**(1.8)**		(2.5)
Free cash flow		**184.2**		(4.9)

1. APM (alternative performance measure), see note 16

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]

	1H21 £m	1H20 £m
Operating Profit (before exceptional items)	**159.1**	28.5
Operating Profit (before exceptional items) for the previous 6 month period	**137.0**	193.3
Operating Profit (before exceptional items) on a 12 month basis	**296.1**	221.8
Net assets	**1,190.1**	1,122.8
Less (net cash) / add net debt	**(101.9)**	262.2
Capital employed	**1,088.2**	1,385.0
Effect of averaging	**148.4**	243.6
Average capital employed	**1,236.6**	1,628.6
Return on Capital Employed	**23.9%**	13.6%

1. APM (alternative performance measure), see note 16

Risks

Principal business risks

The Board has reassessed the principal business risks which could impact the performance of the Group. These include:

Strategic risks, including:

- Loss of distribution contract;
- Threats to the Group's role in the value chain, driven by digital technologies and new business models;
- Delivery of business transformation and change programmes;
- The attraction and development of future skill sets;
- Optimising the supply of electric vehicles to meet changing demand; and
- Achieving optimal returns from acquisitions.

Material operational risks, including:

- COVID-19;
- Disruptions to the supply of vehicles and parts;
- A major cyber incident / data breach;
- Loss of technology systems;
- Political risks / social unrest;
- Health, safety and environmental incidents;
- Legal / regulatory compliance;
- Foreign exchange volatility; and
- Risks of fraud or financial mis-statement.

The materialisation of these risks could have an adverse effect on the Group's results or financial condition. If more than one of these risks occur, the combined overall effect of such events may be compounded. The Group faces many other risks which, although important and subject to regular review, have been assessed as less significant and are not listed here. These include, for example, natural catastrophe and business interruption risks and certain financial risks.

The Group has defined and implemented systems of risk management and internal control designed to address these risks. These systems can offer reasonable, but not absolute assurance, regarding the management of these risks to an acceptable level. In particular, the effectiveness of these systems may change over time, for example with acquisitions or disposals or as the business implements major change programmes. The effectiveness of these systems are reviewed annually by the Audit Committee and improvements are made as required.

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
Indonesia	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 five 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, Geely
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, Freightliner
El Salvador	Distribution & Retail	Mercedes-Benz, Freightliner
Guatemala	Distribution & Retail	Mercedes-Benz, Freightliner

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2021

		Six months to 30 Jun 2021			Six months to 30 Jun 2020		
	Notes	**Before exceptional items £m**	**Exceptional items (notes 3,6) £m**	**Total £m**	Before exceptional items £m	Exceptional items (notes 3,6) £m	Total £m
Revenue	2	**3,926.5**	**–**	**3,926.5**	3,019.1	–	3,019.1
Cost of sales		**(3,382.1)**	**–**	**(3,382.1)**	(2,645.1)	(9.5)	(2,654.6)
Gross profit		**544.4**	**–**	**544.4**	374.0	(9.5)	364.5
Net operating expenses		**(385.3)**	**(81.6)**	**(466.9)**	(345.5)	(188.3)	(533.8)
Operating profit / (loss)	2	**159.1**	**(81.6)**	**77.5**	28.5	(197.8)	(169.3)
Finance income	4	**6.9**	**–**	**6.9**	8.1	–	8.1
Finance costs	5	**(23.1)**	**–**	**(23.1)**	(27.1)	–	(27.1)
Profit / (loss) before tax		**142.9**	**(81.6)**	**61.3**	9.5	(197.8)	(188.3)
Tax	6	**(35.0)**	**0.6**	**(34.4)**	(10.8)	9.9	(0.9)
Profit / (loss) for the period		**107.9**	**(81.0)**	**26.9**	(1.3)	(187.9)	(189.2)
Profit / (loss) attributable to:							
– Owners of the parent				**23.9**			(190.4)
– Non-controlling interests				**3.0**			1.2
				26.9			(189.2)
Basic earnings / (loss) per share (pence)	7			**6.1p**			(48.2)
Diluted earnings / (loss) per share (pence)	7			**6.0p**			(48.2)

The notes on pages 16 to 30 are an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months to 30 Jun 2021 £m	Six months to 30 Jun 2020 £m
Profit / (loss) for the period	**26.9**	(189.2)
Other comprehensive income / (loss):		
Items that will not be reclassified to the consolidated income statement		
Defined benefit pension scheme remeasurements	**49.1**	(1.7)
Deferred tax recognised in consolidated statement of comprehensive income	**(0.4)**	(0.2)
	48.7	(1.9)
Items that may be reclassified subsequently to the consolidated income statement		
Cash flow hedges	**16.6**	10.9
Exchange differences on translation of foreign operations	**(62.1)**	39.3
Recycling of foreign currency reserve	**108.1**	–
Deferred tax recognised in consolidated statement of comprehensive income	**(3.2)**	(3.1)
	59.4	47.1
Other comprehensive income for the period, net of tax	**108.1**	45.2
Total comprehensive income / (loss) for the period	**135.0**	(144.0)
Total comprehensive income / (loss) attributable to:		
– Owners of the parent	**132.3**	(146.8)
– Non-controlling interests	**2.7**	2.8
	135.0	(144.0)

The notes on pages 16 to 30 are an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	As at 30 Jun 2021 £m	As at 31 Dec 2020 £m
Non-current assets			
Intangible assets		**437.2**	450.2
Property, plant and equipment		**535.7**	569.8
Right-of-use assets		**264.4**	257.3
Investments in joint ventures and associates		**2.3**	2.4
Financial assets at fair value through other comprehensive income	11e	**3.3**	3.6
Trade and other receivables		**48.0**	49.2
Deferred tax assets		**69.6**	68.6
Retirement benefit asset		**128.9**	101.0
		1,489.4	1,502.1
Current assets			
Inventories		**1,060.3**	1,216.2
Trade and other receivables		**392.4**	369.6
Financial assets at fair value through other comprehensive income	11e	**0.2**	0.2
Derivative financial instruments	11e	**12.7**	13.3
Current tax assets		**16.2**	20.6
Cash and cash equivalents	9b	**652.6**	481.2
		2,134.4	2,101.1
Assets held for sale and disposal group	12	**15.9**	31.2
		2,150.3	2,132.3
Total assets		**3,639.7**	3,634.4
Current liabilities			
Trade and other payables		**(1,564.1)**	(1,610.3)
Derivative financial instruments	11e	**(22.9)**	(42.4)
Current tax liabilities		**(58.1)**	(65.0)
Provisions		**(35.3)**	(26.8)
Lease liabilities	9b	**(54.4)**	(58.5)
Borrowings	9b	**(7.8)**	(6.1)
		(1,742.6)	(1,809.1)
Liabilities directly associated with the disposal group	12	**–**	(7.7)
		(1,742.6)	(1,816.8)
Non-current liabilities			
Trade and other payables		**(69.0)**	(69.3)
Provisions		**(18.8)**	(19.8)
Deferred tax liabilities		**(75.6)**	(79.1)
Lease liabilities	9b	**(278.5)**	(274.3)
Borrowings	9b	**(210.0)**	(210.0)
Retirement benefit liability		**(55.1)**	(81.4)
		(707.0)	(733.9)
Total liabilities		**(2,449.6)**	(2,550.7)
Net assets		**1,190.1**	1,083.7
Equity			
Share capital	8	**39.4**	39.4
Share premium		**146.7**	146.7
Capital redemption reserve	8	**141.2**	141.2
Other reserves		**(188.8)**	(248.5)
Retained earnings		**1,030.2**	985.6
Equity attributable to owners of the parent		**1,168.7**	1,064.4
Non-controlling interests		**21.4**	19.3
Total equity		**1,190.1**	1,083.7

The notes on pages 16 to 30 are an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Equity attributable to equity owners of the parent £m	Non-controlling interests £m	Total shareholders' equity £m
At 1 January 2020		40.0	146.7	140.6	(190.4)	1,141.4	1,278.3	20.3	1,298.6
Loss for the period ended 30 June 2020		–	–	–	–	(190.4)	(190.4)	1.2	(189.2)
Other comprehensive income for the period		–	–	–	45.5	(1.9)	43.6	1.6	45.2
Total comprehensive loss for the period		–	–	–	45.5	(192.3)	(146.8)	2.8	(144.0)
Share-based payments, net of tax		–	–	–	–	2.1	2.1	–	2.1
Share buyback programme	8a	(0.6)	–	0.6	–	(31.4)	(31.4)	–	(31.4)
Dividends:									
– Owners of the parent	8b	–	–	–	–	–	–	–	–
– Non-controlling interests		–	–	–	–	–	–	(2.5)	(2.5)
At 30 June 2020		39.4	146.7	141.2	(144.9)	919.8	1,102.2	20.6	1,122.8
Profit for the period		–	–	–	–	50.3	50.3	1.7	52.0
Other comprehensive loss for the period		–	–	–	(103.6)	13.9	(89.7)	(1.2)	(90.9)
Total comprehensive loss for the period		–	–	–	(103.6)	64.2	(39.4)	0.5	(38.9)
Share-based payments, net of tax		–	–	–	–	1.6	1.6	–	1.6
Dividends:									
– Owners of the parent	8b	–	–	–	–	–	–	–	–
– Non-controlling interests		–	–	–	–	–	–	(1.8)	(1.8)
At 1 January 2021		**39.4**	**146.7**	**141.2**	**(248.5)**	**985.6**	**1,064.4**	**19.3**	**1,083.7**
Profit for the period		**–**	**–**	**–**	**–**	**23.9**	**23.9**	**3.0**	**26.9**
Other comprehensive income for the period		**–**	**–**	**–**	**59.7**	**48.7**	**108.4**	**(0.3)**	**108.1**
Total comprehensive income for the period		**–**	**–**	**–**	**59.7**	**72.6**	**132.3**	**2.7**	**135.0**
Share-based payments, net of tax		**–**	**–**	**–**	**–**	**5.3**	**5.3**	**–**	**5.3**
Transactions with non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**1.2**	**1.2**
Net purchase of own shares by the Inchcape Employee Trust		**–**	**–**	**–**	**–**	**(6.2)**	**(6.2)**	**–**	**(6.2)**
Dividends:									
– Owners of the parent	8b	**–**	**–**	**–**	**–**	**(27.1)**	**(27.1)**	**–**	**(27.1)**
– Non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(1.8)**	**(1.8)**
At 30 June 2021		**39.4**	**146.7**	**141.2**	**(188.8)**	**1,030.2**	**1,168.7**	**21.4**	**1,190.1**

The notes on pages 16 to 30 are an integral part of these condensed consolidated interim financial statements.

Share-based payments include a deferred tax credit of £0.6m (30 June 2020 – deferred tax charge of £0.8m; 31 December 2020 – deferred tax credit of £0.4m).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Notes	Six months to 30 Jun 2021 £m	Six months to 30 Jun 2020 £m
Cash generated from operating activities			
Cash generated from operations	9a	**278.5**	78.7
Tax paid		**(38.6)**	(28.4)
Interest received		**7.0**	7.9
Interest paid		**(21.5)**	(25.7)
Net cash generated from operating activities		**225.4**	32.5
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired	10a	**(6.9)**	(27.1)
Net cash inflow from sale of businesses	10b	**77.5**	17.9
Purchase of property, plant and equipment		**(18.1)**	(10.5)
Purchase of intangible assets		**(6.0)**	(7.2)
Proceeds from disposal of property, plant and equipment		**5.5**	1.3
Receipt from sub-lease receivables		**1.0**	0.4
Net cash used in investing activities		**53.0**	(25.2)
Cash flows from financing activities			
Share buyback programme		**–**	(32.1)
Net purchase of own shares by the Inchcape Employee Trust		**(6.2)**	–
Cash inflow from Covid Corporate Financing Facility	9b	**–**	99.6
Net cash inflow from other borrowings	9b	**–**	105.1
Payment of capital element of lease liabilities	9b	**(29.2)**	(27.8)
Equity dividends paid	8b	**(27.1)**	–
Transactions with non-controlling interests		**1.2**	–
Dividends paid to non-controlling interests		**(1.8)**	(2.5)
Net cash generated from financing activities		**(63.1)**	142.3
Net increase in cash and cash equivalents	9b	**215.3**	149.6
Cash and cash equivalents at beginning of the period		**476.3**	379.2
Effect of foreign exchange rate changes		**(46.8)**	41.2
Cash and cash equivalents at end of the period		**644.8**	570.0
Cash and cash equivalents consist of:			
– Cash at bank and cash equivalents		**388.3**	311.5
– Short-term deposits		**264.3**	279.9
– Bank overdrafts		**(7.8)**	(21.4)
		644.8	570.0

The notes on pages 16 to 30 are an integral part of these condensed consolidated interim financial statements.

NOTES to the financial statements (UNAUDITED)

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated interim financial statements for the period ended 30 June 2021 have been prepared on a going concern basis in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting' and the Disclosure and Transparency Rules of the Financial Conduct Authority. These condensed consolidated interim financial statements should be read in conjunction with the Annual Report and Accounts 2020, which have been prepared in accordance with UK adopted International Financial Reporting Standards and International Financial Reporting Interpretation Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These condensed consolidated interim financial statements are unaudited but have been reviewed by the external auditors. The condensed consolidated interim financial statements in the Interim Report do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Group's published consolidated financial statements for the year ended 31 December 2020 were approved by the Board of Directors on 24 February 2021 and delivered to the Registrar of Companies.

The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph or a statement under section 498 of the Companies Act 2006. The condensed consolidated interim financial statements on pages 11 to 30 were approved by the Board of Directors on 28 July 2021.

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 on-going 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 reflect the latest view on the economic impact of COVID-19 on the markets in which the Group operates, with a key emphasis on the latest Group forecasts for 2021 and 2022. The period of assessment was for 18 months to 31 December 2022.

Given the global political and economic uncertainty resulting from the COVID-19 pandemic, we expect to see continued volatility, some business disruption and the impact of economic downturns in the markets in which the Group operates during the remainder of 2021 and into 2022. During the first half of 2021, the business has continued to be impacted by government action to control the COVID-19 pandemic with some of the Group's businesses operating under trading restrictions from time-to-time and to a greater or lesser extent.

Committed bank facilities and Private Placement borrowings totalling £910m, of which £210m was drawn at 30 June 2021, are subject to the same interest cover covenant based on an adjusted EBITA measure to interest on consolidated borrowings measured on a trailing 12-month basis at June and December.

The latest Group forecasts for 2021 and 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 both in the second half of 2020 and the first half of 2021, impacting half of the Group's markets simultaneously for a period of time in 2022;
- a reduction in New and Used vehicle sales due to a short-term shortage of semi-conductor chips, reducing gross profit in the second half of 2021 and the first half of 2022;
- 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 and 2022. 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 18 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 the Group's markets in the first half of 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 condensed consolidated interim financial statements.

Newly adopted accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those of the Group's Annual Report and Accounts 2020 with the exception of standards, amendments and interpretations, which have been newly adopted from 1 January 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform – Phase 2; and
- Amendments to IFRS 16 - COVID-19 Related Rent Concessions beyond 30 June 2021.

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

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

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

Standards not yet effective

The following standards were in issue but were not yet effective at the balance sheet date. These standards have not yet been early adopted by the Group, and will be applied for the Group's financial years commencing on or after 1 January 2022:

- 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;
- Amendments to IAS 1 - Classification of liabilities;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies; and
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates.

Management are currently reviewing the new standards to assess the impact that they may have on the Group's reported position and performance. Management do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group.

Critical accounting judgements and sources of estimation uncertainty

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

The Directors have made a number of estimates and assumptions regarding the future and made some significant judgements in applying the Group's accounting policies. The critical accounting judgements and key sources of estimation uncertainty remain consistent with those presented in the accounting policies note within the Group's 2020 Annual Report and Accounts. Those that are significant to the preparation of the interim financial statements are presented below.

Impairment of goodwill and other indefinite life intangible assets

The carrying amount of goodwill and other indefinite life intangible assets has been allocated to CGU groups within the following reporting segments:

		As at 30 Jun 2021			As at 31 Dec 2020		
Reporting segment	CGU group	**Goodwill £m**	**Distribution agreements £m**	**Total £m**	Goodwill £m	Distribution agreements £m	Total £m
UK and Europe Distribution	Baltics – BMW	**5.9**	**27.7**	**33.6**	6.2	28.9	35.1
Americas and Africa Distribution	Americas – Daimler	**5.5**	**29.5**	**35.0**	4.4	27.7	32.1
	Americas – Hino/Subaru	**45.2**	**132.1**	**177.3**	47.2	137.8	185.0
	Americas – Suzuki	**37.0**	**51.6**	**88.6**	37.6	52.2	89.8
	Kenya	**1.1**	**–**	**1.1**	1.1	–	1.1
APAC Distribution	Singapore	**21.8**	**–**	**21.8**	22.5	–	22.5
		116.5	**240.9**	**357.4**	119.0	246.6	365.6

Goodwill acquired in a business combination is allocated to the cash generating units (CGUs) or group of CGUs (hereafter collectively referred to as 'CGU groups') that are expected to benefit from the synergies associated with that business combination. Indefinite-life intangible assets, principally distribution agreements acquired in a business combination, are also allocated to the CGUs or CGU groups that are expected to benefit from the cash flows associated with the relevant agreements.

Indicators of impairment in goodwill and other indefinite-life intangible assets

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. In 2020, in light of the Covid-19 pandemic, all of these assets were subject to impairment reviews at both half year and full year and, where appropriate, testing was performed. The outcome from this was that the Group incurred aggregate impairment charges of £128.7m.

In the first half of 2021, the Group carried out an assessment as to whether any impairment testing is required to be performed for the six months ending 30 June 2021. As set out in IAS 36 Impairment of Assets, the assessment involved the Group reviewing potential indicators of impairment to determine if any of the Group's assets should be tested.

The review included examining data trends on asset valuations, reviewing latest macro-economic data including forecast recovery of global economies, reviewing latest industry data including industry volumes and comparing the Group's results against cash flows used in previously prepared impairment models and latest forecasts. The conclusion reached from the review performed was that there was no requirement to test any assets or cash generating units for impairment for the six month period to 30 June 2021.

At 31 December 2020, the Group's value in use calculations prepared for the cash generating units represented by Central America and the Daimler businesses in the Americas were sensitive to a change in the key assumptions used.

In 2020, the recoverable amount calculated for the Central America CGU was £146.5m. This resulted in impairment charges totalling £37.4m being recognised. The cash flows used within the impairment model were based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could therefore lead to a further impairment. The table below shows the sensitivity analysis performed on the key assumptions in the impairment model using reasonably possible changes in these key assumptions and what additional impairment charges would arise.

	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)**

The recoverable amount of Americas – Daimler was estimated to exceed the carrying amount of the CGU at 31 December 2020 by a low level of headroom. 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)**

Impairment of computer software, 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 2020, due to the impact 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 outcome was that the Group incurred aggregate write-off and impairment charges of £94.3m.

The assessment outlined above as to whether any impairment testing required performing for the six months ending 30 June 2021 also incorporated computer software, property, plant and equipment and right-of-use assets. The conclusion reached was that there was no requirement to test any of these assets for impairment for the six month period to 30 June 2021.

Consolidation of Jaguar Land Rover ("JLR") distribution businesses

During the period, the Group entered into an agreement to act as the automotive distributor of JLR in Indonesia. In addition, the Group developed its position in Europe whereby it will act as the distributor for JLR in certain markets, namely Finland, Poland, Latvia, Lithuania and Estonia. The Group, through its majority shareholding and board majority, can control decisions and the Directors consider that these rights provide control over the relevant activities that most significantly influence the variable returns of these businesses. The Group has concluded that it controls both of the JLR businesses in Indonesia and Europe and consequently are fully consolidated with a non-controlling interest of 40% and 30% respectively.

Sources of estimation uncertainty

Deferred tax

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

Other key areas of critical accounting judgement and estimation uncertainty that have the most significant effect on the consolidated financial statements are further disclosed in the accounting policies within the Annual Report and Accounts for the year ended 31 December 2020.

Significant accounting policies

Restructuring provisions

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

Exceptional items

In the period, the Group has reported aggregate pre-tax exceptional losses of £81.6m (see note 3). Exceptional items are those items that, in the judgement of the Group, need to be disclosed separately by virtue of their nature, size or incidence. The separate reporting of exceptional items helps provide additional useful information regarding the Group's underlying business performance and is used by management to facilitate internal performance analysis. Items that may be considered exceptional in nature include gains or losses on the disposal of businesses, restructuring of businesses, acquisition costs, asset impairments and the tax effects of these items. Any reversal of an amount previously recognised as an exceptional item would also be recognised as an exceptional item in a subsequent period.

Government grants and assistance

In the first half of the year, the Group received an immaterial amount (2020: £30.5m) of support from government support schemes. Grants received from governments are recognised when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Once a government grant is recognised, any related deferred income is treated in accordance with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

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.

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

Distribution	APAC, UK and Europe, Americas and Africa	Exclusive distribution, sales and marketing activities of New vehicles and Parts. Sale of New and Used vehicles together with logistics services where the Group may also be the exclusive distributor, alongside associated Aftersales activities of service, bodyshop repairs and parts sales
Retail	APAC, UK and Europe	Sale of New and Used vehicles, together with associated Aftersales activities of service, bodyshop repairs and parts sales

	Distribution				Retail		
Six months to 30 June 2021	**APAC £m**	**UK and Europe £m**	**Americas and Africa £m**	**Total Distribution £m**	**UK and Europe £m**	**Total Retail £m**	**Total £m**
Revenue from third parties	**1,128.5**	**737.8**	**488.6**	**2,354.9**	**1,571.6**	**1,571.6**	**3,926.5**
Results							
Operating profit / (loss) before exceptional items	**70.9**	**20.1**	**29.5**	**120.5**	**38.6**	**38.6**	**159.1**
Operating exceptional items							**(81.6)**
Operating profit after exceptional items							**77.5**
Finance income							**6.9**
Finance costs							**(23.1)**
Profit before tax							**61.3**
Tax							**(34.4)**
Profit for the period							**26.9**

Revenue is further analysed as follows:

Six months to 30 June 2021	**£m**
UK	**1,005.5**
Russia	**450.0**
Australia	**537.4**
Rest of the world	**1,933.6**
Group	**3,926.5**

	Distribution				Retail			
Six months to 30 June 2020	APAC £m	UK and Europe £m	Americas and Africa £m	Total Distribution £m	APAC £m	UK and Europe £m	Total Retail £m	Total £m
Revenue from third parties	872.0	527.5	330.9	1,730.4	9.4	1,279.3	1,288.7	3,019.1
Results								
Operating profit / (loss) before exceptional items	32.8	9.1	4.2	46.1	0.4	(18.0)	(17.6)	28.5
Operating exceptional items								(197.8)
Operating loss after exceptional items								(169.3)
Finance income								8.1
Finance costs								(27.1)
Loss before tax								(188.3)
Tax								(0.9)
Loss for the period								(189.2)

Revenue is further analysed as follows:

Six months to 30 June 2020	£m
UK	809.7
Russia	375.1
Australia	408.9
Rest of the world	1,425.4
Group	3,019.1

3 EXCEPTIONAL ITEMS

	Six months to 30 Jun 2021 £m	Six months to 30 Jun 2020 £m
Goodwill impairment (note 1)	–	(91.3)
Other asset write-offs and impairments (note 1)	–	(93.3)
Inventory and other provisions	–	(9.8)
Disposal of businesses (note 10)	**(68.5)**	0.9
Restructuring costs	**(12.9)**	(9.1)
Acquisition of businesses	**(0.2)**	(3.6)
Other operating exceptional items	–	8.4
Total exceptional items before tax	**(81.6)**	(197.8)
Exceptional tax	**0.6**	9.9
Total exceptional items	**(81.0)**	(187.9)

During the period, the Group has disposed of businesses in the UK, Belgium & Luxembourg and Russia. The loss on disposal in Russia relates to the sale of Toyota and Audi retail operations in St. Petersburg. The reported loss includes a loss of £108.0m relating to the recycling of cumulative exchange differences previously recognised in other comprehensive income, as required under IFRS. The disposal of retail sites in the UK and Belgium & Luxembourg have also been reported as exceptional items as they form part of the group-wide disposal of retail operations referred to above.

In 2020, due to the impact of COVID-19 on the Group's operations a review of the Group's cost base was initiated to identify savings and plan longer-term changes to the way in which the Group operates. A proposal was approved by the Board for a planned restructuring activity under which the Group incurred restructuring costs of £28.4m during 2020. These costs were principally in relation to redundancy, consultancy and occupancy costs. In 2021, a further £12.9m (2020: £9.1m) of restructuring costs have been recognised, mainly in relation to Group-wide transformation projects impacting both Finance and IT, encompassing the potential for sharing back-office services and review of organisational structures and costs. These costs have been reported as exceptional costs in line with the Group's policy to report significant Group-wide restructuring impacting multiple geographies and functions as an exceptional item.

During the period exceptional operating costs of £0.2m have been incurred in connection with the acquisition and integration of businesses, primarily the Daimler business in Guatemala.

In the period to 30 June 2020, due to COVID-19 and the 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. Exceptional items also include asset impairments of £93.3m following an impairment review of certain site-based assets across the Group.

In the period to 30 June 2020, the Group also:

- recognised additional inventory and other provisions of £9.8m, which were determined to be directly attributable to the COVID-19 pandemic and therefore disclosed as an exceptional charge;
- continued to optimise its retail market portfolio and recognised an exceptional operating profit of £0.9m related to the disposal of six retail sites in the UK and Australia;
- incurred exceptional operating costs of £3.6m in connection with the acquisition and integration of businesses. These primarily related to the Daimler businesses acquired in South America; and
- recognised exceptional other operating items of £8.4m including the recycling of a cumulative gain previously recorded in other comprehensive income (OCI) which arose due to the reorganisation of the ownership structure for some of the Group's operations in the APAC region.

4 FINANCE INCOME

	Six months to 30 Jun 2021 £m	Six months to 30 Jun 2020 £m
Bank and other interest receivable	**6.3**	6.1
Net interest income on post-retirement plan assets and liabilities	**0.2**	0.2
Lease finance income	**0.3**	0.3
Other finance income	**0.1**	1.5
Total finance income	**6.9**	8.1

5 FINANCE COSTS

	Six months to 30 Jun 2021 £m	Six months to 30 Jun 2020 £m
Interest payable on bank borrowings	**3.8**	3.9
Interest payable on Private Placement	**3.2**	3.3
Lease finance costs	**5.6**	7.6
Stock holding interest	**7.9**	9.9
Other finance costs	**2.6**	2.4
Total finance costs	**23.1**	27.1

6 TAX

		Six months to 30 Jun 2021 £m	Six months to 30 Jun 2020 £m
Current tax	– UK corporation tax	**–**	–
	– Overseas tax	**43.7**	20.7
Adjustments to prior year liabilities	– UK	**–**	–
	– Overseas	**(0.9)**	(2.0)
Current tax		**42.8**	18.7
Deferred tax		**(8.4)**	(17.8)
Total tax charge		**34.4**	0.9
– Tax charge on profit / (loss) before exceptional items		**35.0**	10.8
– Tax credit on exceptional items		**(0.6)**	(9.9)
Total tax charge		**34.4**	0.9

Tax charged within the 6 months ended 30 June 2021 has been calculated by applying the estimated average annual effective income tax rate for each jurisdiction in which Inchcape operates to the interim period pre-tax income of each jurisdiction as required by IAS 34 'Interim Financial Reporting'. Tax charged on exceptional profits and losses has been separately calculated and is disclosed above.

The effective tax rate for the half year, before exceptional items, is 24.5% compared to 113.7% for the same period last year. The effective rate for the half year, after exceptional items, is 56.1% compared to (0.5)% for the same period last year. The effective tax rate is not comparable to the same period in the prior year due to the performance impact of COVID-19 in the period to 30 June 2020.

Factors affecting current and future tax charges

The Group's tax expense, and effective tax rate, can 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 tax expense.

The utilisation of brought forward tax losses or the recognition and de-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. If actual taxable profits are different to those forecast, the Group's future tax expense and effective tax rate could be affected. In particular, the effective tax rate in the current period, before exceptional items, is higher than the weighted average of statutory tax rates in the jurisdictions in which Inchcape operates principally due to the non-recognition of a deferred tax asset associated with losses arising in the UK.

7 EARNINGS PER SHARE

	Six months to 30 Jun 2021 £m	Six months to 30 Jun 2020 £m
Profit / (loss) for the period	**26.9**	(189.2)
Non-controlling interests	**(3.0)**	(1.2)
Basic earnings / (loss)	**23.9**	(190.4)
Exceptional items	**81.0**	187.9
Adjusted earnings / (loss)	**104.9**	(2.5)
Basic earnings / (loss) per share	**6.1p**	(48.2p)
Diluted earnings / (loss) per share	**6.0p**	(48.2p)
Basic Adjusted earnings / (loss) per share	**26.7p**	(0.6p)
Diluted Adjusted earnings / (loss) per share	**26.5p**	(0.6p)

	Six months to 30 Jun 2021 number	Six months to 30 Jun 2020 number
Weighted average number of fully paid ordinary shares in issue during the period	**393,274,393**	395,636,479
Weighted average number of fully paid ordinary shares in issue during the period:		
– Held by the Inchcape Employee Trust	**(550,548)**	(725,133)
Weighted average number of fully paid ordinary shares for the purposes of basic EPS	**392,723,845**	394,911,346
Dilutive effect of potential ordinary shares	**3,168,318**	–
Adjusted weighted average number of fully paid ordinary shares in issue during the period for the purposes of diluted EPS	**395,892,163**	394,911,346

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

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

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

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

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

8 SHAREHOLDERS' EQUITY

A. Issue of ordinary shares

During the period, the Group issued £nil (June 2020 – £nil, Dec 2020 – £nil) of ordinary shares exercised under the Group's share option schemes.

Share buyback programme

During the six months ended 30 June 2021, the Company repurchased none of its own shares (June 2020 – 5,858,343, Dec 2020 – 5,858,343) through purchases on the London Stock Exchange, at a cost of £nil (June 2020 – £29.8m, Dec 2020 – £29.8m). The shares repurchased during the prior period were cancelled, with none held as treasury shares at the end of the prior reporting period. An amount of £nil (June 2020 – £0.6m, Dec 2020 – £0.6m), equivalent to the nominal value of the cancelled shares, has been transferred to the capital redemption reserve. Costs of £nil (June 2020 – £1.6m, Dec 2020 – £1.6m) associated with the transfer to the Group of the repurchased shares and their subsequent cancellation were charged to the profit and loss reserve.

B. Dividends

The following dividends were paid by the Group:

	Six months to 30 Jun 2021 £m	Six months to 30 Jun 2020 £m	Year to 31 Dec 2020 £m
Final dividend for the year ended 31 December 2020 of 6.9p per share (2019 – nil per share)	**27.1**	–	–
Interim dividend for the six months ended 30 June 2020 of nil per share (2019 – 8.9p per share)	**–**	–	–
	27.1	–	–

An interim dividend of 6.4p per share for the period ending 30 June 2021 was approved by the Board on 28 July 2021 and will be paid on Wednesday 3 September 2021 to shareholders who are on the register at close of business on Friday 6 August 2021. The Dividend Reinvestment Plan (DRIP) is available to ordinary shareholders and the final date for receipt of elections to participate in the DRIP is 12 August 2021.

9 NOTES TO THE STATEMENT OF CASH FLOWS

A. Reconciliation of cash generated from operations

	Six months to 30 Jun 2021 £m	Six months to 30 Jun 2020 £m
Cash flows from operating activities		
Operating profit / (loss)	**77.5**	(169.3)
Exceptional items	**81.6**	197.8
Amortisation including non-exceptional impairment charges	**9.1**	10.0
Depreciation of property, plant and equipment including non-exceptional impairment charges	**15.1**	19.5
Depreciation of right-of-use assets	**24.0**	27.8
Profit on disposal of property, plant and equipment	**(1.3)**	(0.1)
Gain on disposal of right-of-use assets	**(0.1)**	(0.6)
Share-based payments charge	**4.7**	2.9
Decrease in inventories	**123.3**	113.1
(Increase) / decrease in trade and other receivables	**(46.8)**	118.5
Decrease in trade and other payables	**(4.1)**	(245.0)
Increase in provisions	**4.9**	2.0
Pension contributions (more) / less the pension charge for the period[1]	**(5.5)**	2.3
Decrease in interest in leased vehicles	**2.6**	8.0
Payments in respect of operating exceptional items	**(7.4)**	(8.9)
Other non-cash items	**0.9**	0.7
Cash generated from operations	**278.5**	78.7

1. Includes additional payments of £4.7m (June 2020 – £1.6m).

9 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

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 2020	(276.3)	(352.8)	(629.1)	379.2	(249.9)
Cash flows	(204.7)	27.8	(176.9)	158.8	(18.1)
Acquisitions	–	(0.6)	(0.6)	(27.1)	(27.7)
Disposals	–	–	–	17.9	17.9
New lease liabilities	–	(15.2)	(15.2)	–	(15.2)
Foreign exchange adjustments	0.2	(10.6)	(10.4)	41.2	30.8
Net debt at 30 June 2020	(480.8)	(351.4)	(832.2)	570.0	(262.2)
Cash flows	270.8	29.6	300.4	(103.5)	196.9
Acquisitions	–	(0.5)	(0.5)	(4.4)	(4.9)
Disposals	–	–	–	55.6	55.6
New lease liabilities	–	(20.5)	(20.5)	–	(20.5)
Transferred to liabilities held for sale	–	1.0	1.0	–	1.0
Foreign exchange adjustments	–	9.0	9.0	(41.4)	(32.4)
Net debt at 1 January 2021	**(210.0)**	**(332.8)**	**(542.8)**	**476.3**	**(66.5)**
Cash flows	**–**	**29.2**	**29.2**	**144.7**	**173.9**
Acquisitions	**–**	**(1.6)**	**(1.6)**	**(6.9)**	**(8.5)**
Disposals	**–**	**0.1**	**0.1**	**77.5**	**77.6**
New lease liabilities	**–**	**(34.2)**	**(34.2)**	**–**	**(34.2)**
Transferred from liabilities held for sale	**–**	**(1.3)**	**(1.3)**	**–**	**(1.3)**
Foreign exchange adjustments	**–**	**7.7**	**7.7**	**(46.8)**	**(39.1)**
Net debt at 30 June 2021	**(210.0)**	**(332.9)**	**(542.9)**	**644.8**	**101.9**

Net debt is analysed as follows:

	As at 30 Jun 2021 £m	As at 30 Jun 2020 £m	As at 31 Dec 2020 £m
Cash and cash equivalents as per the balance sheet	**652.6**	591.4	481.2
Cash and cash equivalents included in disposal groups held for sale	**–**	–	1.2
Borrowings – disclosed as current liabilities	**(7.8)**	(122.9)	(6.1)
Add back: amounts treated as debt financing (see below)	**–**	101.5	–
Cash and cash equivalents as per the statement of cash flows	**644.8**	570.0	476.3
Debt financing			
Borrowings – disclosed as current liabilities and treated as debt financing (see above)	**–**	(101.5)	–
Borrowings – disclosed as non-current liabilities	**(210.0)**	(379.3)	(210.0)
Lease liabilities	**(332.9)**	(351.4)	(332.8)
Debt financing	**(542.9)**	(832.2)	(542.8)
Net debt	**101.9**	(262.2)	(66.5)
Add back: lease liabilities	**332.9**	351.4	332.8
Net cash	**434.8**	89.2	266.3

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

	As at 30 Jun 2021 £m	As at 30 Jun 2020 £m	As at 31 Dec 2020 £m
Cash at bank and cash equivalents	**388.3**	311.5	378.5
Short-term deposits	**264.3**	279.9	102.7
	652.6	591.4	481.2

£66.4m (30 June 2020 – £91.1m; 31 December 2020 – £81.2m) 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 1 March 2021, the Group acquired the Mercedes-Benz passenger and commercial vehicles distribution operations in Guatemala, and the distribution and retail of Freightliner Trucks in Guatemala and El Salvador, from Grupo Q, for a total cash consideration of £5.5m. A distribution agreement with a provisional fair value of £2.8m has been recognised at the date of acquisition. The business was acquired to strengthen and further expand the Group's partnership with Daimler-Mercedes-Benz in Central and South America. Goodwill of £1.0m arose on the acquisition. None of the goodwill is expected to be deductible for tax purposes.

During the period, the Group acquired inventory assets from Star Motors SA de CV, a company register in El Salvador, as well as the Daimler Trucks North America distribution rights in Ecuador. The total cost of these acquisitions was £1.4m.

In 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 fair value of £14.3m was recognised at the date of acquisition. The business was acquired to strengthen the Group's partnership with Daimler-Mercedes-Benz in South America and followed 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.

B. Disposals

	Russia Retail £m	UK Retail £m	Belgium & Luxembourg £m	Total £m
Disposal proceeds, net of disposal costs	**107.3**	**5.1**	**6.6**	**119.0**
Net assets disposed of	**(71.3)**	**(4.8)**	**(3.3)**	**(79.4)**
Gain on disposal before reclassification of foreign currency translation reserve	**36.0**	**0.3**	**3.3**	**39.6**
Recycling of foreign currency translation reserve	**(108.0)**	**–**	**(0.1)**	**(108.1)**
(Loss) / gain on disposal	**(72.0)**	**0.3**	**3.2**	**(68.5)**

	Russia Retail £m	UK Retail £m	Belgium & Luxembourg £m	Total £m
Consideration received, net of disposal costs paid	**112.9**	**5.1**	**6.6**	**124.6**
Cash & cash equivalents disposed of	**(46.0)**	**–**	**(1.1)**	**(47.1)**
Net cash inflow on disposal of business	**66.9**	**5.1**	**5.5**	**77.5**

During the period the Group continued to reduce its retail operations and disposed of its Toyota and Audi retail business in St Petersburg, Russia, generating disposal proceeds of £110.0m. In Belgium, the Group disposed of three retail sites, generating disposal proceeds of £1.9m and two sites in the UK, generating disposal proceeds of £5.8m. The Group also disposed of its Retail business in Luxembourg in January 2021 for £4.7m.

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 major line of business or geographical area of operations.

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

11 FINANCIAL RISK MANAGEMENT

A. Financial risk factors

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

During the six months to 30 June 2021, the Group has continued to apply the financial risk management process and policies as detailed in the Group's principal risks and risk management process included in the Annual Report and Accounts 2020. The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and further details can be found in the Annual Report and Accounts 2020.

B. Credit risk

Credit risk represents the risk that a counterparty will not meet its obligations leading to a financial loss for the Group. Credit risk arises from cash and cash equivalents, trade receivables and other financial assets. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy of limiting its exposure to any one party to ensure that they are within Board approved limits and that there are no significant concentrations of credit risk. Group policy is to deposit cash and use financial instruments with counterparties with a long-term credit rating of A or better, where available. The concentration of credit risk with respect to trade receivables is very limited due to the Group's broad customer base across a number of geographic regions and the historically low default loss percentage incurred by the Group. Even in light of COVID-19 and its impact on economic conditions and the uncertainty it has created, the Group's credit risk has not been significantly affected.

11 FINANCIAL RISK MANAGEMENT CONTINUED

C. Liquidity risk

As at 30 June 2021, the committed funding facilities of the Group comprised a syndicated revolving credit facility of £700m (31 December 2020 - £700m) and sterling Private Placement loan notes totalling £210m (31 December 2020 - £210m). As at 30 June 2021, £nil of the £700m syndicated revolving credit facility was drawn (31 December 2020 - £nil).

In February 2019, the Group entered into the syndicated revolving credit facility of £700m with an initial expiry date of February 2024 and options, at lender discretion, to extend until 2026. Lenders approved the 1st extension option in February 2020 resulting in the £700m commitment extending to 2025. Lenders with total commitments of £620m approved the 2nd extension option in February 2021, resulting in £620m of commitments being further extended to 2026.

The committed bank facilities and Private Placement borrowings are subject to the same interest cover covenant based on an adjusted EBITA measure to interest on consolidated borrowings measured on a trailing 12 month basis at June and December. The Group is required to maintain a ratio of not less than three to one and was compliant with this covenant as at 30 June 2021.

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

D. Vehicle funding arrangements

The Group finances the purchase of new vehicles for sale and a portion of used vehicle inventories using vehicle funding facilities provided by various lenders including the captive finance companies associated with brand partners. Such arrangements generally are uncommitted facilities, have a maturity of 180 days or less and the Group is normally required to repay amounts outstanding on the earlier of the sale of the vehicles that have been funded under the facilities or the stated maturity date. Amounts due under these vehicle funding arrangements are included within trade and other payables in the consolidated statement of financial position. Related cash flows are reported within cash flows from operating activities in the consolidated statement of cash flows. As at 30 June 2021, the total amount outstanding under such arrangements was £928.1m (31 December 2020 – £1,015.8m).

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

E. Fair value measurements

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

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

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

	As at 30 June 2021				As at 31 December 2020			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivatives used for hedging	**–**	**12.7**	**–**	**12.7**	–	13.3	–	13.3
Financial assets at fair value through other comprehensive income	**0.7**	**–**	**2.8**	**3.5**	0.5	–	3.3	3.8
	0.7	**12.7**	**2.8**	**16.2**	0.5	13.3	3.3	17.1
Liabilities								
Derivatives used for hedging	**–**	**(22.9)**	**–**	**(22.9)**	–	(42.4)	–	(42.4)

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

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

Level 3 primarily represents the Group's equity interest in Hino Motors Manufacturing Company SAS. Fair value is based on discounted free cash flows, using the projection of annual income and expenses mainly based on historical financial figures.

Derivative financial instruments are carried at their fair values. The fair value of forward foreign exchange contracts and foreign exchange swaps represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the spot rates of exchange and prevailing forward interest rates at 30 June 2021.

The Group's derivative financial instruments comprise the following:

	Assets		Liabilities	
	As at 30 Jun 2021 £m	As at 31 Dec 2020 £m	**As at 30 Jun 2021 £m**	As at 31 Dec 2020 £m
Forward foreign exchange contracts	**12.7**	13.3	**(22.9)**	(42.4)

12 ASSETS AND LIABILITIES HELD FOR SALE AND DISPOSAL GROUP

	As at 30 Jun 2021 £m	As at 31 Dec 2020 £m
Assets held for sale	**13.0**	7.5
Assets directly associated with the disposal group	**2.9**	23.7
Assets classified as held for sale and disposal group	**15.9**	31.2
Liabilities directly associated with assets held for sale	**–**	(7.7)

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

At 30 June 2021, the disposal groups relate to the assets and liabilities attributable to one retail centre in the UK. The site was disposed of on 23 July 2021.

13 OTHER DISCLOSURES

A. Related parties

There have been no material changes to the principal subsidiaries and joint ventures as listed in the Annual Report and Accounts for the year ended 31 December 2020, except for the disposal of those subsidiaries that formed the Group's Toyota and Audi businesses in Russia and the Group investing in a subsidiary in Indonesia.

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

There were no material transactions or balances between the Group and its key management personnel during the six months to 30 June 2021.

B. Contingencies

Franked Investment Income Group Litigation Order

Inchcape is a participant in an action in the United Kingdom against HM Revenue and Customs (HMRC) in the Franked Investment Income Group Litigation Order (FII GLO). There are 21 corporate groups in the FII GLO. The action concerns the treatment for UK corporate tax purposes of profits earned overseas and distributed to the UK.

HMRC was previously granted leave to appeal a number of items at the Supreme Court. The first of these hearings was in February 2020 and the second hearing occurred in December 2020. The judgment for the February hearing was handed on 20 November 2020 and the judgment for the December 2020 hearing was handed down on 23 July 2021. As previously reported and as a result of the February 2020 hearing, the Supreme Court has returned the test case to the High Court to establish when the claimant could have reasonably discovered the relevant mistake. The date for the High Court hearing has not yet been set. The December hearing dealt with certain computational issues.

Given the February 2020 judgment, resolution of the test case in the FII GLO remains incomplete. As at 30 June 2021, no further receipts have been recognised in relation to the balance of Inchcape's claim in the FII GLO due to the uncertainty of the eventual outcome given the test case has not yet completed nor has Inchcape's specific claim been heard by the Courts.

Takata airbag inflator recall

We note that a class action has been brought against our subsidiary, Subaru (Aust) Pty Limited, in connection with the global Takata airbag inflator recall. Subaru (Aust) Pty Limited has, with a number of other named defendants, agreed to settle the matter, but this is still subject to court endorsement expected later in 2021 or early 2022. While the proposed settlement sum is confidential, the Group's liability under the proposed settlement is not material.

14 FOREIGN CURRENCY TRANSLATION

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

	Average rates			Period end rates		
	30 Jun 2021	30 Jun 2020	31 Dec 2020	**30 Jun 2021**	30 Jun 2020	31 Dec 2020
Australian dollar	**1.81**	1.93	1.87	**1.84**	1.80	1.78
Chilean peso	**1,001.40**	1,037.86	1,024.2	**1,015.72**	1,018.39	973.00
Ethiopian birr	**57.28**	42.01	45.18	**60.55**	43.63	52.91
Euro	**1.15**	1.15	1.13	**1.17**	1.10	1.12
Hong Kong dollar	**10.76**	9.86	10.01	**10.74**	9.61	10.59
Russian rouble	**103.5**	88.86	94.11	**101.16**	88.25	101.21
Singapore dollar	**1.85**	1.77	1.78	**1.86**	1.73	1.81
US dollar	**1.39**	1.27	1.29	**1.38**	1.24	1.37

15 EVENTS AFTER THE REPORTING PERIOD

The Group disposed of a Retail business in the UK on 23 July 2021 for £4.6m.

16 ALTERNATIVE PERFORMANCE MEASURES

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

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

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

Constant currency

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

Performance Measure	Definition	Why we measure it
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 underlying business performance.
Operating margin	Operating profit (before exceptional items) divided by revenue.	A key metric of operational efficiency, ensuring that we are leveraging global scale to translate sales growth to profit.
Profit before tax & exceptional Items	Represents the profit made after operating and interest expense excluding the impact of exceptional items and before tax is charged. Refer to 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 underlying business performance and is consistent with the way that financial performance is measured by the Board and the Executive Committee.
Free cash flow	Net cash flows from operating activities, before exceptional cash flows, less normalised net capital expenditure and dividends paid to non-controlling interests. Refer to page 8.	A key driver of the Group's ability to 'Invest to Accelerate Growth' and to make distributions to shareholders.
Return on capital employed (ROCE)	Operating profit (before exceptional items) divided by the average of opening and closing capital employed, where capital employed is defined as net assets less net funds. Refer to page 8.	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 9b.	A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength.
Net cash	Cash and cash equivalents less borrowings adjusted for the fair value of derivatives that hedge interest rate or currency risk on borrowings and before the incremental impact of IFRS16 lease liabilities. Refer to note 9b.	A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength and is widely used by external parties.
Net capital expenditure	Cash outflows from the purchase of property, plant, equipment and intangible assets less the proceeds from the disposal of property, plant, equipment and intangible assets. Refer to page 8.	A measure of the net amount invested in operational facilities in the period.
Constant currency percentage change	Presentation of reported results compared to prior period translated using constant rates of exchange.	A measure of underlying business performance which excludes the impact of changes in exchange rates used for translation.
Organic growth	Organic growth is defined as sales growth in operations that have been open for at least a year at constant foreign exchange rate.	A measure of underlying business performance which excludes the impact of acquisition and disposals in the period.

Independent Review Report to Inchcape plc

We have been engaged by Inchcape plc ("the Company") to review the condensed set of consolidated interim financial statements for the six months ended 30 June 2021 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes 1 to 16. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim financial statements.

DIRECTORS' RESPONSIBILITIES

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

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

OUR RESPONSIBILITY

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements in the interim financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

USE OF OUR REPORT

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

Deloitte LLP
Statutory Auditor
London, England
28 July 2021

Statement of Directors' Responsibilities

INTRODUCTION

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

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

The Directors and positions held during the period were as published in the Annual Report and Accounts 2020. A list of current Directors is maintained on the Inchcape plc website (www.inchcape.com).

On behalf of the Board

Duncan Tait

28 July 2021

Group Chief Executive