Inchcape

ANNUAL REPORT AND ACCOUNTS 2018

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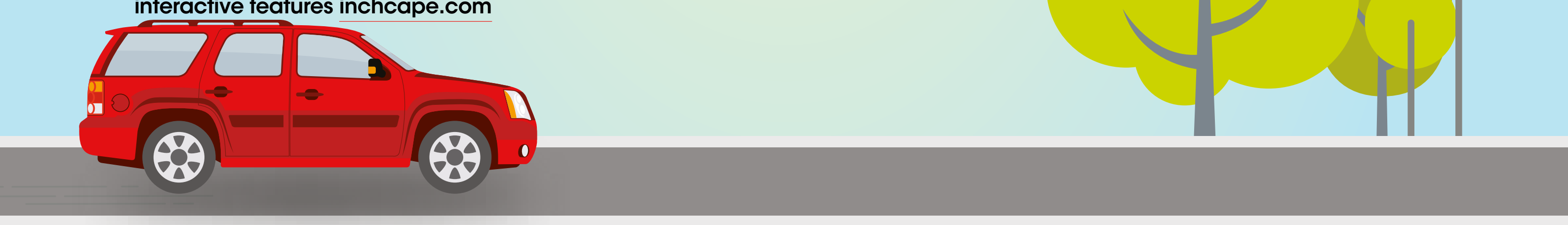
REVENUE
£9.3BN
2017: £9.0BN

DIVIDEND PER SHARE[1]
26.8P
2017: 26.8P

CASH RETURNED TO SHAREHOLDERS
£115.2M
2017: £152.9M

RETURN ON CAPITAL EMPLOYED[1]
28%
2017: 30%

[1]APM (alternative performance measures), page 165



Clarifying our Financial Metrics

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

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

CHAIRMAN'S WELCOME

NIGEL STEIN
Chairman

DEAR SHAREHOLDERS,

I was honoured to be appointed Chairman of Inchcape at last May's annual general meeting, succeeding Ken Hanna in the role. Ken had served on the Board for 17 years, including nine as Chairman, playing a significant part in Inchcape being the successful company it is today. On all stakeholders' behalf, I thank him for his contribution and look forward to taking the Company forward on the next stage of its constant evolution.

2018 TRADING

Inchcape had a resilient trading performance in 2018, a year which saw challenging conditions in several automotive markets, with lower demand in the UK and Australia particularly impacting our results. The Group performed well in its other markets, keeping sales overall moving ahead and pre-exceptional profit before tax only slightly lower. Employees across Inchcape worked extremely hard to deliver this result and I sincerely thank them for their efforts.

STRATEGY

Since assuming my role, I have taken the opportunity to visit several of the Group's larger markets. In each, I was impressed by the capability, commitment and enthusiasm of the Inchcape teams I met and noted their strong support for the Ignite strategy, which is bringing increasing benefits to the bottom line.

Progress against the five drivers of the Ignite strategy is covered elsewhere in this report, but at a time of low growth in Inchcape's main markets, successful execution of those initiatives will be increasingly important to our success.

As is clear from the results, Inchcape's business is increasingly weighted towards the Distribution segment. The Board believes this is a more resilient market position than a purely Retail presence, although it recognises the importance of demonstrating Inchcape's Retail credentials to its global OEM partners. Future investment and capital expenditure are therefore planned to be more weighted to our Distribution than Retail segment.

FUTURE TRENDS

The Board spends considerable time looking at the longer-term outlook in the global automotive industry. This is a time of considerable change in our industry, with some major disruptive trends looking likely to change the way cars are purchased, used and maintained in the medium to longer term. These include electrification of the drivetrain including more battery electric cars; shared ownership; and autonomous or "self driving" vehicles. All of these being enabled by a high degree of digital connectivity inside and between vehicles.

Inchcape is working closely with its OEM partners to evaluate how these changes will impact our automotive markets, how we can benefit from them and what risks we must guard against.

Nearer at hand are changes already taking place in the way our customers choose to interact with Inchcape, with most now using digital channels to evaluate the model they would like before they ever visit a showroom. We are stepping up our investment in digital capability to ensure Inchcape keeps an attractive and competitive online presence.

GOVERNANCE

Inchcape prides itself on a strong governance culture, recognising that in a business spread broadly across emerging markets and with new acquisitions, this cannot be taken for granted. During the year several governance processes were refreshed and a new Code of Conduct and Employee Handbook issued, supported by an extensive training programme.

BOARD CHANGES

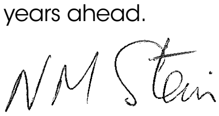
A strong and relevant Board with skills which add to the Company's wider "experience" is an important asset. In that connection we were pleased to welcome Jane Kingston who joined the Board in August 2018. Jane's background and previous career are set out in detail elsewhere in the Directors' Report. Her expertise is already proving useful to our team.

Nigel Northridge, the Senior Independent Director, is standing down from the Board at the AGM after more than nine years' service. I would like to thank Nigel for his excellent contribution to the Board over those years. The Board has approved the appointment of Jerry Buhlmann to succeed Nigel Northridge as Senior Independent Director. Further details are given on page 66.

LOOKING AHEAD

The anticipated softening of demand in a number of major markets and the potential economic impact of Brexit in the UK and Europe will create a challenging backdrop to 2019. Despite this we expect Inchcape to deliver a resilient underlying performance.

The strengths of the Group's business model, its exposure to high growth markets, strong partnership with leading OEMs and weighting towards Distribution, together with a strong focus on cost control, will help us to respond to the current challenges and position us well for the years ahead.



Nigel Stein
Chairman

UNDERLYING STRENGTH DELIVERING LONG-TERM VALUE

STEFAN BOMHARD

Chief Executive

Once more it is my pleasure to write to you at the end of a year that has delivered strategic progress in many markets, despite some external pressures. We have grown our business, adding several new contracts to our portfolio, and placing greater emphasis on Distribution as the core of our business model; we have further leveraged our scale on costs; and we have made good progress in improving our digital capability and execution of the Inchcape customer experience.

In many ways the financial results of 2018 validate our strategic intent to focus our growth on Distribution. Our influence and control of the full value chain in Distribution markets ensured we were able to mitigate market challenges, returning a very positive full year performance in the Asia region. However, we continued to face significant pressures in some of our Retail markets (in particular Australia and the UK) where performance was impacted by factors including a market slowdown and a reduced demand for diesel, leading to a resilient Group profit performance in 2018. We have progressed many strategic objectives during the year and have actions in place to improve our Retail operations in 2019.

I would like to outline why despite facing periodic challenges I believe that Inchcape has the fundamental strength to succeed, to continue to grow and to deliver returns on investment for our shareholders over the long term.

A full review of how our markets performed in 2018 can be found on pages 20-26 in the Operating Review.

A UNIQUE AND SUSTAINABLE BUSINESS MODEL

Inchcape has a unique business model; we are the only independent automotive Distributor and Retailer with global scale.

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

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

Our business model and segmental split are shown in more detail on pages 8-9.

OUR STRATEGY TO DRIVE GROWTH

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

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

Inchcape operates in markets that are subject to changing trends and conditions, and it is through Ignite that we strive to maximise the profit opportunity against that backdrop.

You can read more about the strategic objectives and our progress this year on pages 12-13.

A PLATFORM FOR CONSOLIDATION

Ignite's fifth objective focuses on entry into and consolidation of small to medium-sized markets with high growth potential where we can optimise our unique competitive advantage to establish market-leading positions for our OEM partners. The key to this strategy, and one of the successes of the past year, is in establishing regional platforms for growth, using an initial market presence in a given region as a springboard to further consolidation opportunities. In 2018 we used this approach to consolidate BMW Group's Baltic operations where we were awarded the Distribution contract for Lithuania, in addition to our existing agreements in Latvia and Estonia, which we began to operate at the start of this year. This approach benefits our partners, as well as Inchcape, as we can leverage our scale across the region, adding value through one efficient operation.

Significantly, in March we extended our Latin American platform with a scale acquisition in Costa Rica and Panama. We acquired Grupo Rudelman and with it the Distribution contract for Suzuki and a number of emergent Chinese brands. We have now significantly increased our exposure in the Americas, through both long-standing and newer partnerships, in the high-growth potential markets that we see as fundamental to our continuing consolidation of the industry.

It is important to add that while we have capitalised on a strong set of opportunities recently, we have a disciplined approach to our allocation of capital. We have the firepower to invest and a rich pipeline from which to select the very best opportunities to develop, but we do so in a way that is consistent with our strategy of long-term, sustainable growth.

BUILDING STRUCTURAL AND PEOPLE CAPABILITY

Of course, none of the progress we have made over the past year would have been possible without the expertise and dedication of our people. One of Inchcape's greatest strengths is its talent which we nurture and develop, promoting people to senior positions from within the Company, and mining the deep specialist knowledge base of our existing employees.

We have continued to invest in the skills we need as our industry evolves, managing succession and ensuring long-term viability, and we recognise that the sustainable business of the future must bring new talent in from outside to extend Inchcape's capabilities where we see a gap. In particular, we have expanded our digital teams both at Group and market level, where they are playing a leading role in the continued optimisation of our Retail footprint and customer experience.

On behalf of the Executive Team, I would like to take this opportunity to thank our talented people across the business for their dedication to making our vision a reality.

As we build and improve our people capability, so we evolve our systems and structural capabilities. The potential for technological advancement in our industry should not be underestimated and our aim is to keep pace and anticipate wherever possible to maintain a strong competitive edge, both now and in the years ahead.

You can read more about our view of the changing automotive industry and our responses on page 11.

LONG-TERM VALUE CREATION

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

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

OUTLOOK

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

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

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

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

Stefan Bomhard
Chief Executive

OUR UNIQUE GLOBAL POSITION

Inchcape is the only independent multi-brand automotive Distributor and Retailer with global presence.

Our operations span countries on five continents with a balanced and diverse portfolio of both mature and emerging markets, providing access and in-country expertise for some of the world's leading automotive manufacturers. We seek to maintain a balance between mature and emerging markets to support the strategic agendas of our manufacturer partners.

18,700
EMPLOYEES

32
INTERNATIONAL MARKETS

OVER
90 YEARS
AUTOMOTIVE EXPERIENCE

ASIA

- Brunei
- China
- Guam
- Hong Kong
- Macau
- Saipan
- Singapore
- Thailand

AUSTRALASIA

- Australia
- New Zealand

UK/EUROPE

- Albania
- Belgium
- Bulgaria
- Estonia
- Finland
- Greece
- Latvia
- Lithuania
- Luxembourg
- Macedonia
- Poland
- Romania
- UK

EMERGING MARKETS

- Argentina
- Chile
- Colombia
- Costa Rica
- Ethiopia & Djibouti
- Kenya
- Panama
- Peru
- Russia

1100+

LOCATIONS IN OUR DISTRIBUTION AND RETAIL NETWORK

WORKING WITH LEADING OEM PARTNERS

Inchcape has long-standing partnerships with the world's leading automotive groups, with a core focus on manufacturers of premium and volume passenger vehicles.

In select markets we also represent commercial and agricultural vehicles and machinery as well as emergent passenger vehicle brands.

The OEMs (original equipment manufacturers) with which Inchcape works are some of the foremost drivers of technological innovation in the automotive industry, from advances in hybrid and battery electric drivetrains to future mobility solutions.

Seven core partnerships

We have long-standing relationships with each of our seven core OEM partners, the majority of which are built around exclusive Distribution contracts in multiple markets.

PASSENGER VEHICLES

- Aston Martin
- Audi
- 北京汽车 BAIC MOTOR
- BENTLEY
- BYD
- 长安汽车 CHANGAN
- CHEVROLET
- CITROËN
- DAIHATSU
- DFSK
- Ford
- 长城汽车 Great Wall Motors
- HONDA
- HYUNDAI
- ISUZU
- JAC MOTORS
- KIA
- LEXUS
- mazda
- McLaren
- MINI
- MITSUBISHI MOTORS
- PEUGEOT
- PORSCHE
- ROLLS ROYCE
- smart
- VOLVO

COMMERCIAL VEHICLES

- HINO
- KOMATSU
- Kubota
- MACK
- NEW HOLLAND
- MAXUS

OUR VALUE CHAIN

We have a unique and sustainable business model, providing full-spectrum Distribution capability for our OEM partners, operating throughout the value chain. Acting as custodians of some of the world's most recognisable brands, we provide automotive manufacturers with a highly effective route-to-market and a vital link between the brand and the customer.

PRODUCT PLANNING

Our brand partners call upon our local market insights to inform the planning and design of new models, tailoring designs, specifications and sales volumes to the exacting needs of each market.

BRAND POSITIONING

With specialist understanding of the markets in which we operate, we are ideally placed to develop brand propositions that will resonate with local consumers, maximising brand penetration and market share positions on behalf of our partners.

IMPORT & LOGISTICS

Overseeing global transport and operating comprehensive port or border to showroom connections means that we are able to remove all logistical burdens from our partners.

NEW & USED VEHICLE SALES

We want to provide the world's best automotive purchasing experience for New and Used cars throughout the managed network and our own retail operations. Whether online or in person our aim is to make each stage of the vehicle ownership journey easy, effective and enjoyable, and to build lifetime relationships with our customers.

FINANCE & INSURANCE

We partner with financial institutions around the world to help our customers purchase and care for their vehicles with a wide range of transparent financing product options available to support their ownership lifestyle.

AFTERSALES & SERVICING

With long-term investments in state-of-the-art facilities, expert technicians and first-class customer care, our objective is to create life-long Inchcape customers for all their Aftersales needs, from routine servicing to accident repair.

NATIONAL MARKETING

We develop and refine marketing plans on behalf of our partners from pricing and promotion to customer communications, based on extensive research of consumers and competitors as well as our specialist insight of local market dynamics and macro-economic trends.

PARTS DISTRIBUTION

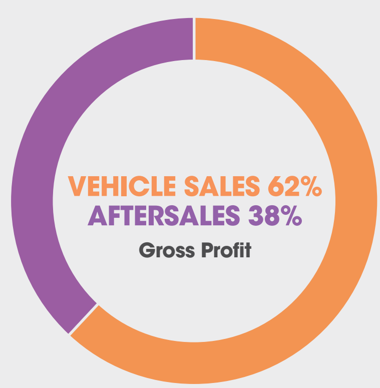
With strong brand relationships, specialist Distribution capabilities and Retail networks, Inchcape is a trusted supplier of original equipment manufacturer parts and accessories throughout any given market.

NETWORK MANAGEMENT

As an OEM Distribution partner, we select and appoint the independent dealer network, training and managing them, and optimising the retail footprint across each geography.

DISTINCT ROUTES TO MARKET

The Inchcape value chain spans both Distribution and Retail competencies, with a weighting towards higher margin Distribution contracts.



DIVERSIFIED REVENUE STREAMS

We have a balanced approach to revenue generation, maximising opportunities at all points in the value chain.

Our partnership with Toyota Motor Corporation is the longest standing in our portfolio, with 51 years as a Distributor in geographies that now reach from South East Asia to East Africa, from Europe to the Americas.

LOCATIONS

DISTRIBUTION

Hong Kong, Macau, Guam, Saipan, Singapore, Brunei, Greece, Belgium, Luxembourg, Albania, Bulgaria, Macedonia, Romania, Ethiopia,

Chile & Colombia (Hino only)

RETAIL

UK, China, Russia

AUTOMOTIVE EVOLVES

The automotive industry is undergoing significant change. Advances in technology and its effect on consumer society are redefining the automotive value chain, enabling innovation to challenge the status quo of our industry; new profit pools are now being found in automotive and creating competition for incumbents. However, continuing our long tradition of embracing change as an opportunity, we are actively monitoring these exciting developments, to participate where we are confident Inchcape has, or can build, the capabilities to succeed. We have identified four trends with the potential to impact our business model: Digitalisation, Electrification, Connectivity and Shared Mobility.

Digitalisation

Advances in mobile connectivity, technology and the ability to leverage data have reset how consumers expect to access and use goods and services. As a Distributor with control of the value chain and expertise in customer experience, this is where we are aiming to build a competitive advantage.

Our customers' experience in other, more digitally advanced consumer industries, has exposed a relative lack of development in the automotive route to market, presenting opportunities for incumbents as well as new entrants. We are seeing trends that have disrupted other markets emerging which may challenge the traditional dealers' position in the value chain; new specialist market entrants who focus on specific 'pain-points' within the existing experience; OEMs re-examining their route to market and the role of the dealer network; and aggregators that come between the dealer-customer relationship. Given our role as both Distributor and Retailer in many markets, we are ideally placed to innovate to stay competitive. For these and other markets, both existing and new, we are developing and piloting an omni-channel digital-to-dealership platform, to transform how we fulfill our customers' needs throughout their vehicle ownership journey.

Electrification

Increasingly challenging emission regulations for vehicle manufacturers combined with increasing restriction on the use of the most polluting vehicles, particularly in cities, are driving the automotive industry to develop cleaner, more efficient powertrains with electrification emerging as the leading alternative technology.

Within Distribution markets our main profit drivers are the sale of new vehicles and parts; as our OEM partners develop new hybrid and electric models, we are upskilling our workforce and restructuring our service capability to ensure that we are able to capitalise on this change. We are collaborating with our OEM partners to ensure an appropriate model pipeline for the markets where we represent their brands, and maintaining excellent procurement and supply links for parts. Given our core focus in small- and medium-sized markets, we expect to see incremental growth in the penetration of alternative drivetrain vehicles, and we are working to ensure that we have the business model and infrastructure in place to maximise future opportunities.

Connectivity

Technology in new vehicles is becoming increasingly sophisticated, optimising the internal functions of the vehicle. Advances in network coverage and the cost of data transfer are presenting opportunities to share this data outside the vehicle ecosystem to optimise both functionality and the in-car experience of passengers. In the coming years we expect almost all new cars to have a high degree of connectivity, either embedded or through tethered technology, for example via smartphone apps.

From Inchcape's point of view, the opportunity is likely to be twofold: first in capturing the data potential of our developed omni-channel platform; and second in our role as the OEM's distribution partner with exclusive control over and access to a given market such as our partnerships with Toyota in Hong Kong or Subaru in Australia.

Shared mobility

Customers' mobility requirements have evolved beyond the current purchase-ownership model resulting in new services centred on customer convenience and flexibility, such as ride hailing, growing rapidly. New technology-focused companies have led the way in developing this emerging mobility model with OEMs making strategic investments to ensure a stake in the development of these new channels.

As a Distributor with the required infrastructure to import, finance, prepare and maintain vehicles, Inchcape can play a significant role in the shared mobility value chain. Our core competencies should provide a competitive advantage in providing asset management for fleet mobility operators and we are already active in this area, with a contract in place to provide fleet servicing and insurance (as 'Total-care Service') for the ride-hailing company Grab in Singapore. Additionally, we are involved in the trial of an autonomous shuttle service at the National University of Singapore as we look to learn as much as we can from this emergent new technology.

INCHCAPE'S FUTURE, NOW

It is crucial to the long-term sustainability of our business that we continue to monitor the changes in our industry, to maximise the potential opportunities and mitigate risk[1].

Our Ignite strategy is proving the value which can be generated today through focusing on customer experience, nurturing strong and long-lasting OEM relationships, continually improving our operations, leveraging our global scale and making strategic investments to accelerate growth.

These strategic imperatives become even more important as we navigate a changing industry and success across them will combine to differentiate us from competitors both within and outside of our industry, supporting our vision of becoming the world's most trusted automotive Distributor and Retailer.

1. See Key Risks 6 and 7 on pages 39 and 41

OUR STRATEGY

IGNITE STRATEGY DRIVING OUR GROWTH

Inchcape's strategic objectives are what drives the business. With the twin focal points of our customers and OEM partners at the heart of the strategy, Ignite combines five objectives to bring to life our vision to become the world's most trusted automotive Distributor and Retailer.

Our strategy was developed to drive operational excellence across our markets; to consolidate markets with high-growth potential in our fragmented industry; to innovate to take advantage of our scale and expertise; and to build a sustainable business model for the long term.

Ignite is structured to drive continual improvement and the spread of best practice across all our revenue streams, powering our defence against fluctuating market conditions. And within this structure the strategy has room to evolve to ensure that the business can react with agility, to keep pace with and anticipate the changing automotive industry.

DELIVERING OUR STRATEGY: OUR GLOBAL LEADERSHIP TEAM

Our Group Executive Committee is a global team of business leaders that combines a strong focus on operational excellence with a wealth of experience in automotive and a wide range of other industries, including FMCG, management services, utilities and finance. The executive team drives the strategic vision and operational direction of the Company on behalf of the Board.

Stefan Bomhard
Group Chief Executive Officer

Richard Howes
Chief Financial Officer

Aris Aravanis
CEO Continental Europe

George Ashford
CEO Asia

Stéphane Chatal
Chief Information Officer

Alison Clarke
Chief Human Resources Officer

James Brearley
CEO Inchcape UK

Ruslan Kinebas
CEO Emerging Markets

Bertrand Mallet
Chief Development Officer

Nick Senior
CEO Australasia

OBJECTIVE	WHAT IT MEANS	PRIORITIES
LEAD IN CUSTOMER EXPERIENCE	As the global automotive industry rapidly evolves, the purchasing behaviour and service-level expectations of consumers are clearly changing. We will invest to maintain our position as leader in customer service innovation in automotive Distribution and Retail, with digital a key priority	– **Build digital and data capabilities at Group and market levels** – **Improve mobile performance to better reflect customers' preferences** – **Optimise digital traffic to improve online performance** – **Introduce structured measurement to improve customer experience**
BECOME THE OEM PARTNER OF CHOICE	We have a very strong portfolio of brands. We now need to build on our OEM partnerships to ensure that we thoroughly deserve to achieve the status of 'partner of choice' across all our relationships, and then to robustly defend that position	– **Understand and support our OEM partners' objectives** – **Ensure we maintain and reinforce contact with OEM partners** – **Maintain and grow market share for existing partners** – **Partner with OEMs to consolidate regional Distribution markets**
DELIVER THE FULL POTENTIAL ON ALL OUR REVENUE STREAMS	The addressable market for Aftersales is set to grow faster than New car sales. The Used car market, which is typically a multiple of that of New cars in most of our territories, is a further growth opportunity. Finance and Insurance (F&I) is another significant focus for growth	– **Implementation of Aftersales playbooks in all territories including new markets** – **Strong focus on extending F&I product coverage to more of portfolio** – **Deploying proven Used car initiatives to grow GPU**
LEVERAGE OUR GLOBAL SCALE	We aim to maximise the opportunity of our unique position in the automotive industry to share more expertise and best practice across our organisation, leveraging our global scale to improve collaborative working and cost optimisation	– **Development and initial implementation of procure-to-payment (P2P) programme** – **Continue to drive savings through extension of procurement initiatives to new opportunities for centralised purchasing** – **Demonstrate shared best practice globally through extending rollout of commercially successful initiatives**
INVEST TO ACCELERATE GROWTH	The automotive Distribution and Retail markets are highly fragmented; we apply a disciplined use of capital to fuel further growth through selective participation in market consolidation	– **Continue to develop rich pipeline of relevant M&A opportunities** – **Focus on acquisitions in strong growth potential, small- to medium-sized markets** – **Build regional platforms of consolidated Distribution contracts to support OEMs, leverage our scale and drive improvements in customer experience**

PROGRESS IN 2018

- Developed omni-channel platform, launching in Australia in 2019
- Increasing proportion of annual capex spend to support digitisation
- Continued rollout of Salesforce CRM (customer relationship marketing), Brightedge SEO (search engine optimisation) and reputation.com, creating a 360° view of the customer journey and enabling us to deliver the experiences that customers are seeking

- Meaningful expansion of relationship with Suzuki, new to our core set of OEMs
- Consolidation of regional markets with BMW and Jaguar Land Rover
- Regular contact through strategic 'top-to-top' and regular operational meetings
- Market share growth in 15 territories that had TIV (total industry volume) growth vs 2017

- Good growth in Aftersales gross profit driven by increased capacity in Singapore and leveraging processes in South America
- Used car initiatives drove double digit growth in Russia and South America
- F&I programmes delivering ahead of plan, profit growth at twice rate of vehicle sales: incremental £15m in 2018

- Cumulative procurement savings £32m to date
- Key 2018 initiatives include tyre distribution, vehicle storage and transportation, parts
- Began rollout of P2P platform to enable global savings in 2019+
- Expanded rollout of vehicle protection product GardX demonstrates shared best practice and leveraged scale

- Scale acquisition in Costa Rica and Panama including Distribution contract for Suzuki
- South America business acquired in 2016 achieved target ROIC in 2018, one year early
- Contract wins with JLR in Kenya, BMW in Guam
- In early 2019 consolidated all Baltic countries for BMW with addition of Lithuania
- Award of BMW contract in Kenya to extend east Africa representation

Our 26 years strong distribution partnership with Subaru Corporation is one of our most important. We distribute and operate the brand in Australia, maintaining Subaru's highest share globally in that market. Subaru was the OEM brand central to our biggest recent acquisition, leading our expansion in South America in 2016 and helping to create a significant platform for further growth in the region.

LOCATIONS

DISTRIBUTION

Australia, New Zealand, Chile, Colombia, Peru, Argentina

A POWERFUL MULTI-LAYERED INVESTMENT PROPOSITION

Well positioned to deliver shareholder value through organic growth, consolidation and cash returns.

DISTRIBUTION AT OUR CORE

2014	2018
80%	93%

PROFIT CONTRIBUTION EVOLUTION: DISTRIBUTION

Distribution strengths:

- High ROCE
- Lower fixed costs
- Strong cash generation
- High barriers to entry

STRONG AND INCREASING WEIGHTING TO HIGH GROWTH MARKETS

2014	2018
10%	26%

PROFIT CONTRIBUTION EVOLUTION: EMERGING MARKETS

New contracts since 2016:

Chile, Peru, Costa Rica, Panama, Kenya, Thailand, Lithuania, Estonia, Guam, Australia

IGNITE STRATEGY

- Underlying existing Distribution markets expected to grow 3% through the cycle
- Operational optimisation and innovation creating the right internal conditions for inorganic growth

CONTINUED CONSOLIDATION IN A FRAGMENTED MARKET WILL CREATE VALUE

- Highly fragmented industry
- Inchcape is the largest global independent distributor
- Inchcape has a 1% share of the addressable market of Distribution-led regions (c.14m TIV, 20% of global total) and envisages significant opportunity

SUSTAINABLE BUSINESS MODEL

- Strong, long-term partnerships with OEMs
- Strong track-record of value creation
- Investing for the future

TOTAL RETURN COMPONENTS

Multi-layered earnings growth opportunity

Annual return consideration

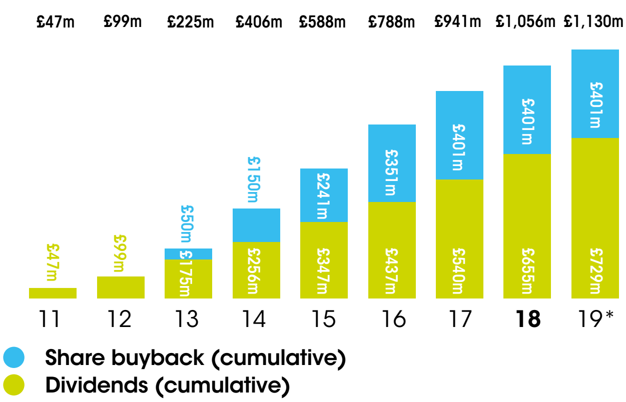
ORGANIC GROWTH	MARKET DRIVERS	– **Inchcape market growth expectations** – **Supported by increasing exposure to fast growth markets**	→ ATTRACTIVE TOTAL RETURN
	OPERATIONAL EXCELLENCE	– **Revenue stream optimisation** – **Global cost efficiencies and best practices**	→
STRATEGIC OPTIONS	CONTRACT WINS/ M&A	– **Strong balance sheet, annual free cash flow** – **Large consolidation opportunity** – **Actively shifting to higher growth, cash generative businesses**	→
	BUYBACKS	– **Excess cash returned to shareholders**	→
DIVIDEND		– **40% payout ratio (targeted)**	→

CAPITAL ALLOCATION FRAMEWORK

Inchcape has a disciplined capital allocation policy. We have a strong balance sheet and an attractive cash conversion model, resulting in excess free cash post investment in organic capex and payment of dividends. We look to utilise this strong position to grow the business inorganically, investing in value-accretive acquisitions that will ensure longer-term growth of the business and value for shareholders. Beyond this we will look to return any excess cash to shareholders through share buybacks.

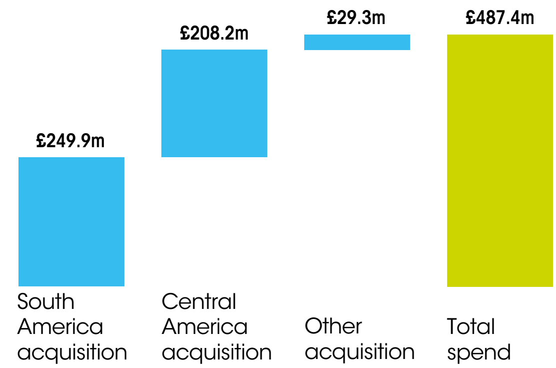
CASH UTILISATION PRIORITIES

CUMULATIVE CASH RETURNS



* For final dividend announced with FY18 results

ACQUISITION SPEND SINCE 2016



PROGRESSIVE DIVIDEND POLICY

- Target 40% annual payout ratio on basic adjusted EPS (pre exceptionals)
- Full year dividend at least maintained on the prior year
- Interim dividend set at 1/3 of the prior year's total DPS

Our partnership with BMW Group is nearly 30 years strong and has been a key focus for consolidating growth. We completed our consolidation of BMW Distribution in the Baltic region with the award of the contract for Lithuania in 2018, also adding the Distribution contract for Guam last year. As well as holding Distribution contracts in South America, we also have significant operations in our largest Retail-only markets: UK and Russia.

LOCATIONS

DISTRIBUTION

Chile, Peru, Latvia, Lithuania, Estonia, Guam, Kenya

RETAIL

UK, Russia, Poland, Australia

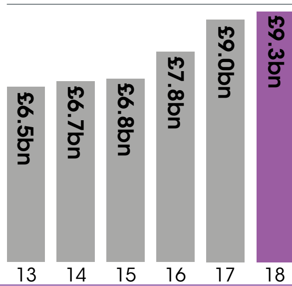
KEY PERFORMANCE INDICATORS

KPIs provide insight into how the Board and Executive Committee monitor the Group’s strategic and financial performance, as well as directly linking to the key measures for executive remuneration. KPIs are stated in actual rates of exchange.

REVENUE

£9.3BN

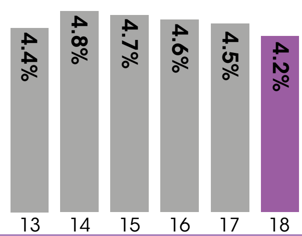
2017: £9.0BN



OPERATING MARGIN

4.2%

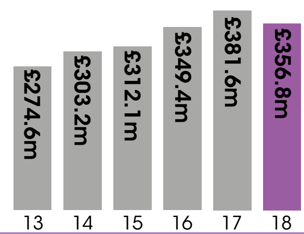
2017: 4.5%



PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS

£356.8M

2017: £381.6M

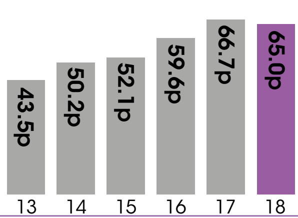


	Revenue	Operating margin	Profit before tax and exceptional items
Definition	Consideration receivable from the sale of goods and services. It is stated net of rebates and any discounts, and excludes sales related taxes.	Operating profit (before exceptional items) divided by sales.	Represents the profit made after operating and interest expense excluding the impact of exceptional items and before tax is charged.
Why we measure	Top-line growth is a key financial metric of both ‘Becoming the OEMs’ Partner of Choice’ and ‘Leading in Customer Experience’.	A key metric of operational efficiency, ensuring that we are leveraging global scale to translate sales growth to profit.	A key driver of delivering sustainable and growing earnings to shareholders.
2018 Highlights	The Group delivered £9.3bn, growth of +3.6% vs. last year.	Operating margin at 4.2% was 30bps lower than the prior year impacted by some Retail markets	In 2018 pre-exceptional PBT declined by 2.6% in constant currency, 6.5% in actual currency.

ADJUSTED EARNINGS PER SHARE

65.0P

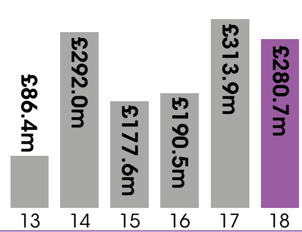
2017: 66.7P



FREE CASH FLOW

£280.7M

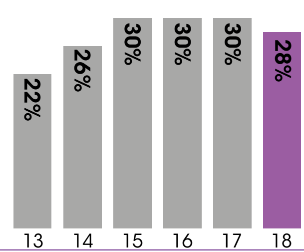
2017: £313.9M



RETURN ON CAPITAL EMPLOYED

28%

2017: 30%



	Adjusted earnings per share	Free cash flow	Return on capital employed
Definition	Adjusted earnings per share is calculated on earnings which exclude exceptional items, and the weighted average number of fully paid ordinary shares in issue during the year.	Net cash flows from operating activities, before exceptional cash flows, less normalised net capital expenditure and dividends paid to non-controlling interests.	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.
Why we measure	A key metric highlighting the earnings achieved for shareholders over the year.	A key driver of the Group’s ability to ‘Invest to Accelerate Growth’ and to make distributions to shareholders.	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.
2018 Highlights	Adjusted EPS declined less than PBT given a lower tax rate.	The Group delivered free cash flow of £280.7m, in line with normalised annual conversion.	The Group delivered ROCE of 28%.

Inchcape and Jaguar Land Rover's partnership stretches back nearly 50 years in total. We have continued our Jaguar Land Rover growth story right up to the present day, with Distribution contracts awarded for Thailand in 2016, and Colombia and Kenya in 2018. We now represent Jaguar and Land Rover both as Distributor and Retailer in 12 markets on four continents.

LOCATIONS

JAGUAR
LAND ROVER

DISTRIBUTION

Thailand, Hong Kong, Macau, Colombia, Finland, Estonia, Latvia, Lithuania, Kenya

RETAIL

UK, Russia, Australia

GOOD DISTRIBUTION GROWTH AMIDST CHALLENGING HEADWINDS

RICHARD HOWES

Chief Financial Officer

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

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

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

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

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

Continues on page 22

Key Performance Indicators – results

	Year ended 2018 £m	Year ended 2017 £m	% change	% change in constant currency
Revenue	**9,277.0**	8,953.3	3.6%	5.8%
Operating profit before exceptional items[1,2]	**385.1**	406.6	(5.3%)	(1.4%)
Operating margin[1]	**4.2%**	4.5%	–	–
Profit before tax[3]	**132.1**	369.0	(64.2%)	–
Profit before tax before exceptional items[1]	**356.8**	381.6	(6.5%)	(2.6%)
Free cash flow[1]	**280.7**	313.9	(10.6%)	–
Return on capital employed[1]	**28%**	30%	–	–

1. These measures are Alternative Performance Measures, see page 165.
2. 2018 adjusted operating profit excludes an exceptional primarily non-cash charge of £210.8m, comprising £198.2m of goodwill and asset impairment (UK & Europe), £5.4m of non-cash pension charge relating to GMP equalisation and £7.2m relating to acquisitions. 2017 adjusted profit excludes an exceptional charge of £12.6m, comprising £10.5m of primarily cash exceptional charges relating to the fixed cost review, and £2.1m of costs relating to the South American acquisition.
3. 2018 adjusted profit before tax excludes a £13.9m exceptional non-cash finance cost relating to fair value adjustments against repayment of US Private placement loans in 2009.

Our results are stated at actual rates of exchange. However, to enhance comparability we also present year-on-year changes in sales and trading profit in constant currency, thereby isolating the impact of exchange. Unless otherwise stated, changes in sales and trading profit in the operating review are at constant currency. The 2019 outlook commentary is also referenced at constant currency.

We have a long-standing Distribution partnership with Suzuki stretching back over 40 years. In March 2018 our acquisition of Grupo Rudelman introduced not only two new markets to our portfolio, but also a step-change in our relationship with Suzuki, and we are delighted that the brand is now a volume Distribution partner and the lead brand in our newly formed Central America platform.

LOCATIONS

DISTRIBUTION

Costa Rica, Panama, Singapore, Argentina

SEGMENTAL PERFORMANCE

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

DISTRIBUTION

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

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

1. 2017 restated following the adoption of IFRS 15 and segmental change

- **Asia** revenue grew 1% and trading profit grew 12%, driven by a pleasing New car performance and supported by Aftersales. In Hong Kong, we saw very strong underlying market share growth of more than 140bps against a broadly flat market, excluding incentive-driven electric vehicle volumes in 2017. This was helped by the successful launch of the new Toyota Alphard product. Singapore's sales performance was pleasing against the new vehicle market decline of 18% which was driven by the anticipated reduction in Certificates of Entitlement (COEs) availability. The annualising effect of the Harrier product launch, historically a domestic-Japanese focused product for Toyota, helped to drive market share gains in Singapore and was also beneficial to margin mix. Trading profit margins for Asia as a whole grew 90bps, driven by double digit profit growth in Hong Kong alongside a strong top-line and good management of Singapore headwinds which enabled profit growth in the market.
- **Australasia** saw sales growth of 3% and trading profit growth of 1%. On our previous classification Australasia trading profit grew 14%. The Australian new car market declined by 3% over the year, with weakness driven by the New South Wales submarket, although outperformance continued to be seen in the SUV segment. Against these market trends our Subaru operations were able to broadly maintain their global leading market share at 4.3% over the year, although the phasing of the new Forester launch impacted sales growth in the second half. Australasia trading profit was supported by a net c.£16m transactional currency tailwind. The division's profit decline excluding the Yen benefit includes the weaker profit generated in Retail sites, in part due to a high Sydney concentration, where the Australian market saw greater contraction. The Peugeot Citroën business, which saw the successful launch of the Peugeot 3008, albeit in a competitive market, remains broadly breakeven.
- **UK & Europe** sales grew 5% and trading profit declined 5%. The Greek market was up 17% over the year as it continued to recover from years of decline following a sustained period of macro-economic and political uncertainty. Our Toyota Lexus operations benefited from this trend and drove good growth for the division. In Belgium, the Passenger car market grew by 1% and

was impacted by competitor actions around WLTP which impacted profit growth. Our Balkan and Baltic operations continued to structurally grow over 2018, however competitive behaviours, including linked to WLTP, in the Baltics restricted profit growth later in the year.

- **Emerging Markets** sales grew 26% over the year and trading profit grew 8%, strongly supported by Ignite initiatives. Excluding the Central America acquisition, trading profit declined by 8%. The new South American operations we acquired at the end of 2016 have continued to demonstrate strength, with benefits from being part of the wider Inchcape Group being realised. Within the mix, commercial vehicles saw a recovery in Colombia and Subaru sales across the region have remained encouraging. Our pre-existing South American BMW Distribution business saw both Chile and Peru achieve market leadership, although Peru was affected by a sales tax change. The organic performance of the division was however mostly impacted by a profit decline in Ethiopia. Ethiopia was impacted by more limited currency availability which caused supply constraints in this high margin Aftersales driven business despite demand remaining high.
- The **Central America** acquisition which we made in March 2018 has contributed £140m of revenue over the year and £12m of trading profit. The business has integrated well although the Costa Rica and Panama markets have declined during 2018. The merits of the acquisition however remain intact and we are pleased with the progress we are making with our meaningful increase in Suzuki exposure.

RETAIL

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

	Year ended 2018 £m	Year ended 2017[1] £m	% change	% change in constant currency
Revenue				
Australasia	382.2	401.6	(4.8%)	0.8%
UK & Europe	3,057.6	3,174.4	(3.7%)	(3.7%)
Emerging Markets	849.1	583.8	45.4%	60.0%
Total Retail	**4,288.9**	**4,159.8**	**3.1%**	**5.0%**
Trading profit				
Australasia	(7.7)	9.4	(181.9%)	(187.0%)
UK & Europe	14.8	52.0	(71.5%)	(71.6%)
Emerging Markets	19.4	3.6	438.9%	490.0%
Total Retail	**26.5**	**65.0**	**(59.2%)**	**(58.7%)**
Trading profit margin				
Australasia	(2.0%)	2.3%	(4.3ppt)	(4.3ppt)
UK & Europe	0.5%	1.6%	(1.1ppt)	(1.1ppt)
Emerging Markets	2.3%	0.6%	1.7ppt	1.7ppt
Total Retail	**0.6%**	**1.6%**	**(1.0ppt)**	**(1.0ppt)**

1. 2017 restated following the adoption of IFRS 15 and segmental change

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

2019 OUTLOOK

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

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

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

VALUE DRIVERS

We provide disclosure on the value drivers behind our revenue and profit. This includes:

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

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

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

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

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

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

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

OTHER FINANCIAL ITEMS

Central costs

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

Operating exceptional items

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

Net financing costs

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

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

Tax

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

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

Non-controlling interests

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

Foreign currency

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

Dividend

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

Pensions

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

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

Acquisitions and disposals

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

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

Financing

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

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

Capital expenditure

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

Cash flow and net funds

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

Lease accounting (IFRS 16)

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

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

RECONCILIATION OF FREE CASH FLOW

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

Included within free cash flow are movements in restricted cash balances described in note 18.

ASIA

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

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

AUSTRALASIA

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

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

UK AND EUROPE

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

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

EMERGING MARKETS

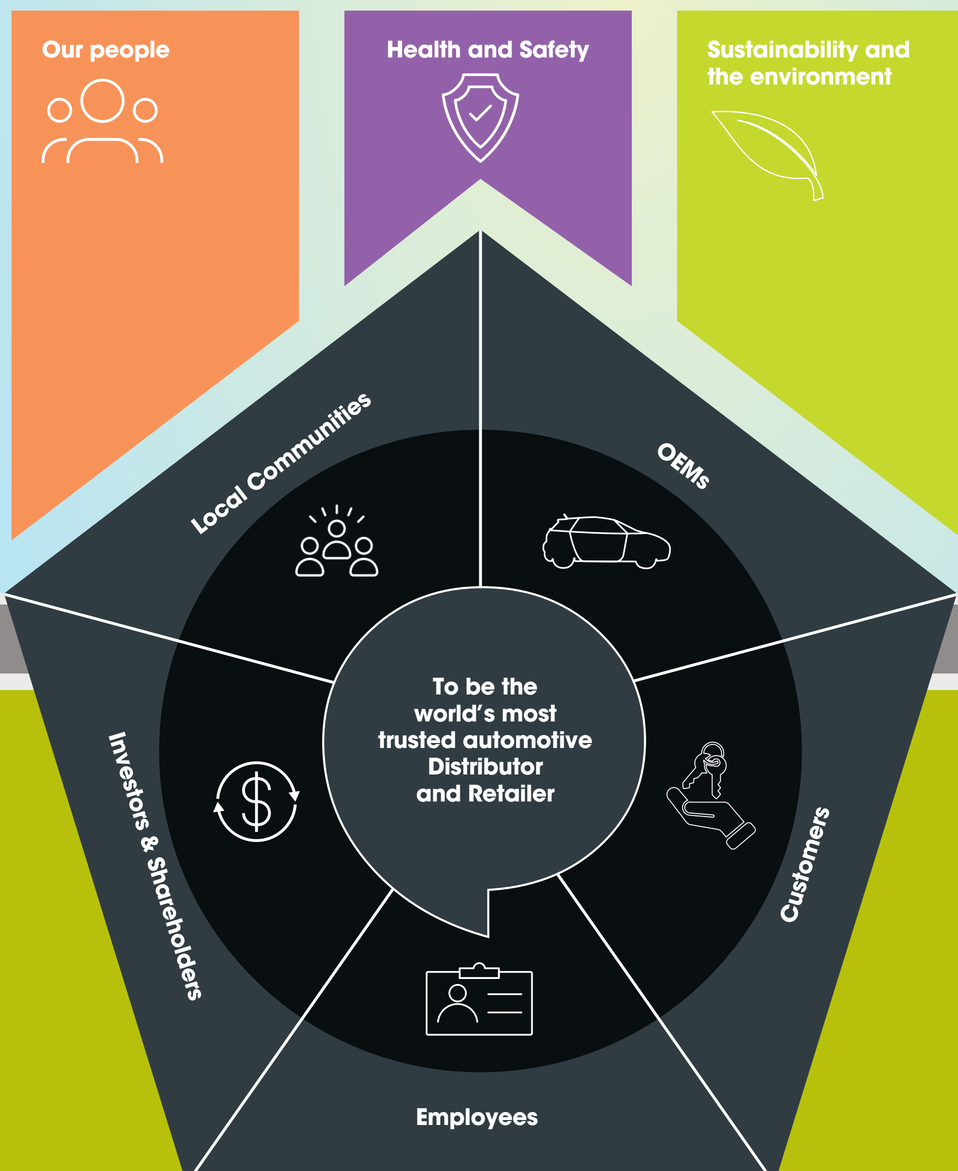
In South America, we have BMW Distribution businesses in Chile and Peru as well as Subaru and Hino operations across these markets, Colombia and Argentina. Our business in Ethiopia is centred on Distribution and exclusive Retail for Toyota. In Russia we operate 22 retail centres in Moscow and St Petersburg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

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

SUPPORTING OUR LONG-TERM SUSTAINABILITY

CSR is one of the mechanisms that helps to ensure the long-term sustainability of the Company. It is an important contributor to building Trust, which is at the heart of our Ignite strategy's vision: to become the world's most trusted automotive Distributor and Retailer.

OUR CSR STRATEGY IS COMPRISED OF THREE CORE PILLARS



STAKEHOLDER ENGAGEMENT

Complementing this approach, and creating a further level of support to deliver our vision of Trust, is how we identify and interact with key groups for whom Inchcape provides value: engagement with our stakeholders.

Our goal is to create value and build Trust through commercially and societally beneficial dialogues with all our key stakeholder groups.

Group	How we create value	How we engage	Outcomes in 2018
OEMS	We provide our OEM partners with professional and efficient routes to market for the post-factory automotive value chain.	– 'Top-to-top' executive management meetings – Regular market-level operational meetings focus on maximising performance – Pan-market brand development support for leading OEMs	– Establishment of Suzuki as a core partner with scale acquisition in Costa Rica and Panama – Relationship-driven expansions into new Distribution markets for BMW and JLR
CUSTOMERS	We provide access to automotive ownership and support services throughout the customer journey, and aim to deliver the best experiences for customers in our industry globally.	– Analysis of reviews to feed in to continuous cycle of improvement – Single view of customer through Salesforce implementation – Ongoing surveys at market level	– Introduction of reputation.com review aggregation tool to produce clear overviews of and improvement in performance – Continued rollout of Salesforce CRM to build full journey service capability
EMPLOYEES	We aim to enable every colleague to achieve their personal goals at each stage of the employee journey; to recognise and develop talent; and to foster a socially conscious culture based on inclusion, empowerment and optimised potential through learning.	– Bi-annual engagement & pulse surveys – Employee intranet and collaborative platforms provide two-way communications capability Group-wide – Prospective employees – maintain active awareness of issues to stay relevant	– Survey completed in 16 markets and results shared with senior teams – Action planning in progress – Survey planned for completion in all markets by end Q2 2019
INVESTORS & SHAREHOLDERS	Our objective is to deliver outstanding returns on long-term investment based on a sustainable platform for growth, disciplined approach to capital allocation and cash returns through dividends and share buy-back.	– Regular dialogue with institutional investors – AGM – Annual Report & plc website – Capital Markets Day held at regular intervals – last in May 2018	– Positive reaction to in-depth focus given at Capital Markets presentations – Positive change to analyst position; deeper understanding of our strategy and how we create value
LOCAL COMMUNITIES	We have a balanced approach to engagement with the communities in which we operate, empowering ownership at local level with structural support from Group.	– Market-specific activity, coordinated at local level – Group-level support for extraordinary events affecting our market communities	– Local support given to provide emergency shelter to our employees and their families affected by typhoon in Saipan – Funds raised by colleagues and matched by Group for Saipan relief

OUR PEOPLE

The knowledge, experience and dedication to excellence embodied by Inchcape people in all fields of activity is the Company's greatest asset. Our human resources function both at a Group and market level focuses on ensuring that our people's value is recognised and rewarded; that talent is developed through learning; and that all employees are empowered to achieve their personal goals at each stage of their career with Inchcape.

Our ambition is to create a socially conscious culture based on inclusivity and learning.

- We believe that the business is enriched by embracing diversity in the workplace and this is underpinned by market-relevant policies and practices.
- We foster a learning culture to enable people to optimise their performance in role and truly realise their potential.
- We aim to empower our people to collaborate in communities of practice; to share and work together socially knowing that their contribution is truly valued.

The approach we take to engaging and developing our workforce is designed to proactively mitigate Principal Risk 16, see pages 39 and 44.

2018 PROGRESS

Over the past year we have developed and implemented several initiatives to support our people strategy over the long term, the rollout of which will continue in 2019.

Leadership and talent

Our global leadership development programme was created to identify and support a pipeline of talent to ensure succession and the long-term sustainability of the business. Currently this consists of around 100 leaders and managers in 19 countries, but this rolling programme continues to identify a pool of high-potential individuals at different stages of their careers.

In addition to internal development, we have also broadened our talent pool by hiring from outside the automotive industry as we seek to bring new skills and capabilities to support our digital transformation.

Learning and development

We have partnered with Hive Learning to build a new learning and development platform for Inchcape, as an enabler to sharing best practice on a wide range of subjects relevant to our business. The digital Hive tool allows teams to leverage expertise both from inside and outside of the business, to build a knowledge-bank of reference materials that improve skill-sets and ultimately develop more successful customer propositions.

In 2019, rollout of Hive will be extended to more individuals and teams with greater scope for collaboration and communication to leverage our global scale.

Employee KPI dashboard

In 2018 our objective was to aggregate and measure demographic information at different levels, from individual markets to total Group, in support of our overall people strategy. Ultimately our ambition is to employ a well-equipped and capable workforce that is relevant to the markets in which we operate and reflective of our local communities and wider society.

HEALTH AND SAFETY

The health and safety of our people, customers and all who use our facilities is of the utmost importance to us. We are committed to providing environments that can be trusted as spaces in which to work, where risks are controlled and that are clean, safe and promote healthy work-life balance.

Our aim is to achieve zero safety incidents and to reduce our exposure to risk[1] by continually challenging ourselves, sharing best practices and investing in the systems, structure and training to support our objectives.

With operations in 32 international markets and no single worldwide Health and Safety standard to apply to the business, it is our ambition to build a consistent approach through shared best practice and leveraged scale. We have appointed a Group HSE Director to lead this work (plus Environment) through a global 'Community of Practice'. The primary function of the H&S CoP is to develop a single direction for Inchcape's Health and Safety culture across all our business, as described below.

1. See Principal Risk 10 on pages 39 and 43

BUILDING HSE CAPABILITY

Main activities	Description
ESTABLISHING PERFORMANCE TRANSPARENCY	– Develop set of common KPIs – Introduce a reporting system that shares results and highlights best practice – Develop and use one set of business policies and procedures with the objective of ensuring the level of compliance required in each market – Develop and introduce online reporting dashboard to facilitate transparent reporting
MANAGING COMMUNITIES OF PRACTICE (COP)	– Launch the CoPs by deploying HSE members across business regions to support locally on the codification of best practices and standards – Commence the CoP communication, promote the business focus toward HSE with support from HSE team
CODIFYING INCHCAPE – PRACTICES AND STANDARDS	– Prioritise capability areas for standard setting (incl. ways of working and ways of thinking) – Drive standard development and documentation of fit for purpose implementation road map, led by Group HSE experts – Define Inchcape practices, three tiered approach: 1. Inchcape Compliance Practice, 2. Inchcape Good Practices, 3. Inchcape Best Practices
COORDINATING OPPORTUNITY ASSESSMENTS	– Create approach and format for opportunity assessments, e.g. health checks combined with on-site audits – Oversee regions conducting the assessments, participate in assessments and share learnings for speedy implementation – Analyse results, share opportunities with business partners, CoP committee, give recommendations on how to proceed
PROVIDING EXPERT SUPPORT	– Develop robust prioritisation logic for start point and rollout sequence – Engage on-site with managers to support implementation of CoP and/or best practice – Help to solve specific problems by delivering hard output
SUPPORT TRAINING	– Prepare training material (how to implement, deploy, measure and improve best practices) – Train and disseminate capabilities (local CoP members to become coaches) – Train people selectively on market level to close capability gaps in markets (i.e. through training products)

SUSTAINABILITY AND THE ENVIRONMENT

2018 PROGRESS

During the year we have continued to improve our data collection processes for greenhouse gas emissions ("GHG emissions") and have also incorporated the data for our newly acquired businesses.

We have also been collecting information which will help us set science-based targets. We are working towards ensuring that the data is robust and that the targets are both achievable and meaningful before we roll out globally and will continue this work into 2019.

The GHG emissions for 2018 and for the prior year are given on page 90 of the Directors' Report.

CDP CLIMATE CHANGE

During the year, we participated in the CDP Climate Change project (formerly The Carbon Disclosure Project). We, along with our shareholders and customers, recognise the tangible business benefits of disclosure and are taking steps to address our environmental impact and improve our score year-on-year. We will continue to participate annually and endeavour to manage our impact on the environment positively.

FOCUS FOR 2019

Our new Group HSE Director, will also have responsibility for our environmental strategy and will begin to embed standardised practices in the markets during the year. We will monitor effectiveness of these policies and report the outcomes in future years.

ENVIRONMENT CASE STUDY

The employees at VW Romford have been preparing energy consumption data to monitor their usage for several years in order to minimise energy waste. During 2018, the site consumed a total of 454,178kWh of electricity equal to approximately £43,412.

However, it was noted that the overnight electricity consumption was not being managed as efficiently as possible and data analysis calculated that £7,727 worth of electricity was overconsumed outside of operational hours which could be avoided. As a result of the energy audit the following observations and actions were made:

- Areas prone to having lights left on were identified
- PIR sensors were adjusted to shorten the timer and increase LUX sensitivity
- Boiler controls were located and programmed correctly
- Air Conditioning controls that require manual operation were identified
- Showroom lighting switches were turned off at night
- The showroom heating and ventilation timer clock was reprogrammed

The actions taken did not impact the general operations of the site and resulted in a large reduction in electricity usage, with savings of approx. £7,700 or 67,410.80kW of electricity on track for 2019.

NON-FINANCIAL INFORMATION STATEMENT

The table sets out the non-financial information as required under the Non-Financial Reporting Directive.

Reporting Requirement	Relevant Policy	Where to read more	Page
Employees	Code of Conduct	CSR Report	30
	Health & Safety Policy	Directors' Report	90-91
		See below	–
Human Rights	Code of Conduct	See below	
	Modern Slavery Statement	www.inchcape.com	–
Social matters	Code of Conduct	CSR Report	
Environmental matters	Code of Conduct	See below	–
Anti-bribery and corruption	Anti-bribery and Corruption Policy	Code of Conduct	–
	Gifts and Hospitality Policy		–
Business Model	–	Our business model	8-9

The Inchcape Code of Conduct is available on www.inchcape.com/Governance

STAKEHOLDER VOICE

The CSR Report on pages 28 to 33 sets out the key stakeholders and how the Group has engaged with them during the year. The Board receives regular updates from stakeholders including shareholders, OEM brand partners and employees. The Board will consider the process for workforce engagement to ensure that it complies with the 2018 UK Corporate Governance Code and will report on progress in next year's Annual Report and Accounts.

EMPLOYEES

Our employees are integral to our business model and the delivery of our strategy and failure to attract, retain and develop our people is recognised as a key risk, further details of which are given in the Risk Management Report on page 44. Regular reviews are undertaken to ensure that we have the right skills to deliver for our customers, including technician programmes and apprenticeships. A new employee experience survey and focus group sessions have been rolled out globally and the results of these, along with any action plans, will be communicated to our designated Non-Executive Director, as part of the workforce engagement required under the 2018 UK Corporate Governance Code. Employee policies are implemented at a local level and include policies on pay and rewards, flexible working, maternity and paternity policies,

HUMAN RIGHTS

We embrace, support and respect the human rights of everyone we work with and we comply fully with appropriate human rights legislation in the countries in which we operate. We don't use or accept forced, bonded or involuntary prison or child labour. We only employ people who choose to work freely and respect their rights to equal opportunities and freedom of association.

ENVIRONMENTAL MATTERS

The Group's business model is not reliant on natural resources however the Company acknowledges that our main suppliers, our OEM partners, do. Each of our brand partners have developed comprehensive sustainability programmes and the automotive industry in general has made significant progress in reducing vehicle emissions. Our OEM partners are at the forefront of technological advances to improve fuel efficiency. Further information on future trends can be found on page 11.

As an automotive Distributor and Retailer we do not have a manufacturing footprint to manage however we use energy in our dealerships, transport cars and parts globally and have an impact from business travel. Further details of our greenhouse gas emissions can be found on page 90.

ANTI-BRIBERY AND CORRUPTION

The Company has in place an anti-bribery and corruption training programme which employees are required to complete. This programme is being refreshed in 2018 and employees will be required to undertake a new online training module which will also be included in the induction programme for new employees where applicable. Our anti-bribery and corruption policy sets out our zero tolerance stance to bribery and corruption. Compliance is monitored via reports to Speak Up!, the external whistleblowing channel, and adherence to other relevant policies such as the gifts and hospitality policy.

In the UK Inchcape represents Mercedes-Benz as a Retailer, and with 12 dealerships in the Midlands and North West of England, we are one of the largest in the market. Our relationship with Daimler's brands dates to 1985.

LOCATIONS

RETAIL

Ellesmere Port
Coventry
Derby
Leicester
Liverpool
Loughborough
Conwy
Nottingham
Oxford
Southport
Stratford – upon Avon
Warrington

OUR RISK FRAMEWORK

The Board is responsible for determining the nature and extent of the risks it is willing to take in order to achieve its objectives and has implemented a comprehensive risk management framework to help it do so. By managing our risks in a professional and consistent way, we aim to operate with true 'peace of mind'.

INCHCAPE PEACE OF MIND – OUR APPROACH TO RISK

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

The Group has a three lines of defence model, with the first line of defence the policies and procedures implemented locally, the second line of defence comprising oversight functions and regional and Group management and the third line of defence the Internal Audit function. Continuously reviewing and building on our procedures, processes and frameworks to prevent risks from impacting our business, or to enable us to respond promptly and decisively when they do, gives us confidence in our ability to achieve our strategic objectives and support the long-term sustainable growth of our business.

The automotive industry is set to experience a period of rapid and unprecedented change, bringing both risks and opportunities, and our overview of the industry is given on page 11. Additionally, as a global business with a focus on growth by acquisition, we operate in an ever-changing, dynamic risk environment where economic, political, environmental, social, legal and technological changes present a complex risk landscape which threatens our ability to achieve our strategic objectives. However, we believe that our diversity of brand portfolio and geographic spread, combined with our strong balance sheet, cost control and risk-aware decision-making processes, make us resilient to all but the most significant and persistent risks.

The Board reviews the Group Principal Risk Footprint and its appetite for risk on an annual basis, and adopts an integrated approach to risk by regularly discussing the principal risks as part of its agenda.

In 2018 the Board focused its review of the principal risks according to both the potential severity of those risks, but also with regard to the level of influence we are able to exert over them. In doing so it ensured that the Group's risk mitigation activities centred on those risks where it can have the greatest influence in the context of its risk appetite.

RISK APPETITE STATEMENT

During the year the Board considered its risk appetite against each of the principal risks, but with a strong focus on strategic and managed risks where we perceive we have the greatest influence. The Board also discussed its risk appetite with regard to inherent risks, but with recognition that we have proportionately less influence upon these, and whilst we mitigate as far as we can, inherent risks are an accepted part of doing business.

In summary, the Board has a very low appetite for risks that could lead to violations of health, safety and environmental legislation, or to breaches of legal and regulatory requirements, and we have recently made additional investments in these areas to ensure we maintain appropriate compliance processes.

In keeping with the Ignite strategy, we also have a low appetite for risks that could impact our reputation, or that of our OEM partners, customers or employees, for example in the areas of data management and cyber security, as evidenced by our focus on GDPR compliance processes and through the implementation of a comprehensive cyber security strategy.

In contrast, the Group has a higher risk appetite in relation to operating in economically or politically challenging markets, as demonstrated by the acquisition of the Grupo Rudelman business during the year, and by our expansion into Kenya with JLR. We appreciate that without taking risks in new and sometimes unstable territories we would miss out on valuable opportunities for growth, particularly in emerging markets. We have experience in successfully managing operations in volatile markets and, accordingly, we have the capability and control procedures in place to address the challenges that come with those risks.

We recognise that the automotive industry is ripe for disruption and as such we are closely monitoring the opportunities and challenges that may arise. We are willing to take measured risks and make calculated investments to preserve and improve our position in the future automotive value chain, for example through significant investments in the digital customer journey.

Group risk framework

Direction & Oversight
Risk Appetite and Risk Governance Framework

BOARD

The Board is responsible for setting out its risk appetite and for reviewing the Group's principal risks in that context. In addition to the annual risk assessment, the Board adopts an integrated approach by discussing the principal risks as part of its annual agenda.

AUDIT COMMITTEE

The Audit Committee has delegated responsibility from the Board for reviewing the effectiveness of risk management, internal controls, compliance and whistleblowing, receiving regular reports from management, the Head of Corporate Assurance, and the Head of Internal Audit. The Audit Committee also undertake 'deep dives' on the Group's principal risks.

Internal Audit

Provide risk-based independent assurance to the Audit Committee over the effectiveness of internal controls and risk management.

3rd line of defence

GROUP EXECUTIVE COMMITTEE

The Group Executive Committee carries out routine evaluations of the Group's principal risks and ensures that appropriate mitigating actions are identified and implemented and annually reviews and approves the Group Principal Risk Footprint.

GROUP IPOM COMMITTEE

A sub-committee of the Group Executive Committee, whose remit is to ensure:

- There is the correct mechanism in place to identify, evaluate and mitigate the Group's principal risks;
- A compliance programme is in place that meets or exceeds external benchmarks and is appropriate in terms of legal requirements, content, sector, costs and resources;
- Internal controls are appropriate, well designed and operating consistently;
- The Group's fraud and whistleblowing programme is operating effectively.

Corporate assurance

Leads continuous improvement in our risk management practices and risk mitigation techniques, and coordinates the Group Risk Assessment Process.

Risk information
Identification, evaluation, management, mitigation, monitoring

FUNCTIONAL LEADERS

Oversee risk management activity within their area of expertise, providing detailed input into the risk process, including biannual risk assessments to the Group iPOM Committee.

2nd line of defence

REGIONAL IPOM COMMITTEES

Provide direct oversight of risk management activity across each region. They meet quarterly to review the principal risks and mitigating actions, reporting twice annually to the Group iPOM Committee.

2nd line of defence

Regional risk champions

Market based experts who coordinate regional risk management activity, including risk reports.

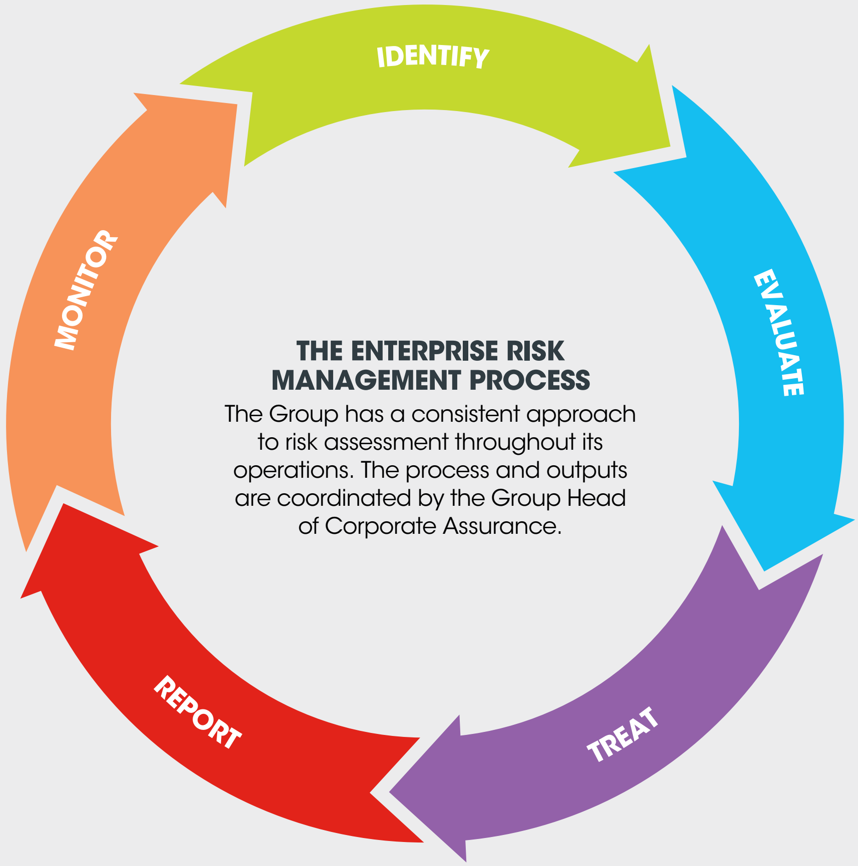
Finance leadership team

Deliver ongoing support for the implementation of mitigating actions, and also provide independent challenge to the risk footprint at least annually.

Market iPOM Committees

In each market, a Market iPOM Committee ensures that risk management remains a management priority. Meetings and outputs are aligned with the Regional/Group iPOM Committees, Audit Committee and Board meetings.

1st line of defence



Identify	We identify the risks and opportunities that may impede or expedite our ability to achieve our Ignite strategic objectives. We articulate those risks and opportunities in a consistent way.
Evaluate	We prioritise our risks according to a consistent set of definitions, considering both the impact and the likelihood, allowing us to focus our mitigation plans.
Treat	Management teams take action to address the risks we face either to control the likelihood of the risks crystallising or mitigate the impact if they do and bring our risk profile in line with the Board's risk appetite.
Report	The Group Executive Committee and the Board regularly review the output from the Enterprise Risk Management process.
Monitor	We maintain an up-to-date assessment of risks and ensure that the controlling and mitigating actions we have identified are taken in a timely way.

Market and regional iPOM Committees, and functional leads, review their risks on a quarterly basis and risk registers are formally reported to the Group twice per year.

GROUP PRINCIPAL RISK FOOTPRINT

The principal risk footprint comprises the most pressing risks that would cause the greatest damage to the reputation or financial strength of the Company if not effectively evaluated, understood and managed. The Group iPOM Committee discusses and reviews the Group's principal risks on a rolling basis as part of its normal operations. During 2018 the leadership team of each region presented a detailed regional risk assessment to the Committee.

We recognise, and are actively managing, further risks (both at Group level and within individual business units) as identified by our comprehensive risk management process, but these are deemed less material than the 16 principal risk factors noted on the footprint.

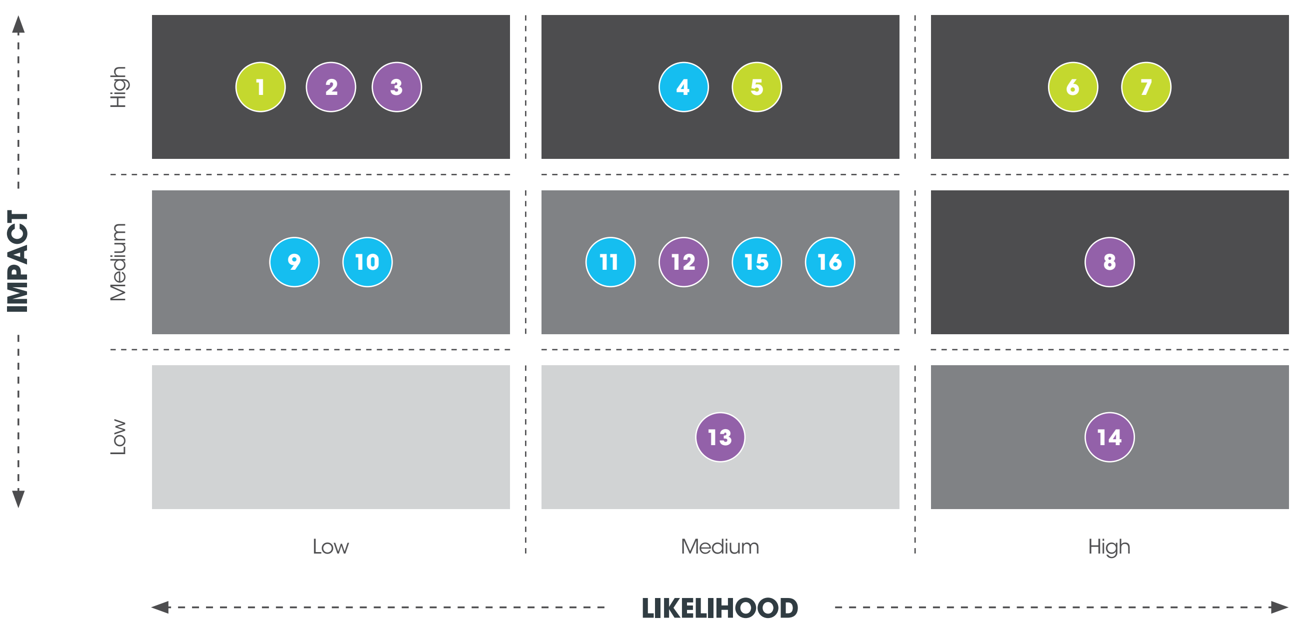
Given the size and geographical diversity of our business, we understand there may be additional risks not currently known to management and we continuously improve our iPOM processes to ensure we capture as complete a picture as possible.

Changes to the risk footprint

Following a detailed review of the Group principal risk footprint, the Board has in some cases made revisions to either the scope of the risk or its assessment of its severity. These changes are noted in the detailed commentary on pages 40 to 45.

In addition, the following risk was removed from the principal risk footprint as the Board felt that there was now sufficient certainty for the implications to be managed under normal business operations.

- Dynamic changes in local or international tax rules (e.g. domestic tax reform in markets in which we operate or changes to transfer pricing rules as a result of the OECD's Base Erosion and Profit Sharing initiative.



Note:

The Board reviews its risks according to where we have most influence over the outcome

- STRATEGIC risks directly addressed by Ignite
- MANAGED risks where our ability to influence the impact and/or likelihood is relatively high
- INHERENT risks where our ability to influence the impact and/or likelihood is relatively low

Principal risks
The principal risks to achievement of our strategy are:

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

Key
- Become the OEM partner of choice
- Deliver full potential on all our revenue streams
- Invest to accelerate growth
- Lead in customer experience

KEY RISKS

STRATEGIC RISKS

Risks which are mitigated directly by the implementation of our Ignite strategy

Description	Impact	Mitigating actions	Trend
Loss of distribution contract with major brand partner		**Impact: High** / **Likelihood: Low**	→
Distribution and Retail contracts are fundamental to our business model. Our ability to maintain those contracts, and attract and execute further business development opportunities, depends upon the quality of our OEM relationships. The underlying factors which could contribute to a contract being terminated include: – Failure to deliver a sufficiently attractive value proposition to brand partners. – Consistent failure to deliver to targets or standards or comply with the terms of Distribution agreements. – Failure to deliver on growth strategy or defend our business model against new entrants. – Major fraud, bribery, data security or other systemic compliance failure.	Non-renewal, or termination, of Distribution or Retail contracts. Negative impacts on revenue and profit. Reduced ability to deliver inorganic growth.	OEM partner of choice is a central pillar of Ignite strategy. Partner development teams continuously improve relations, share knowledge and address common issues with each OEM globally. Diversification of brand partner relationships acts as a natural hedge against the impact of a loss of a single OEM relationship. Focus on agreeing, and delivering to, OEM volume expectations. Strong focus on legal and regulatory compliance. Comprehensive risk management framework to mitigate unforeseen threats.	
Failure to achieve sufficient return on investment through our acquisitions strategy leads to reduced EPS and/or deterioration of our relationship with our OEM partners		**Impact: High** / **Likelihood: Medium**	↑
Inchcape complements its organic growth agenda by pursuing inorganic growth through acquisition. We have made several successful acquisitions in recent years. Failure to identify appropriate targets, acquire them on the right terms or to efficiently integrate those businesses into our existing operation will adversely impact our ability to deliver the benefits expected from those acquisitions.	Inefficient capital allocation. Failure to realise growth objectives. Damage to relationship with OEM partner. Overpayment for acquisition impacts on profitability. Exposure to unknown/misunderstood risks in unfamiliar markets.	Top down and bottom up approach to target identification. Dedicated business development team in place to project manage M&A. Strong M&A governance process through M&A Committee and Board. Partnering with the OEM, where appropriate, to align expectations and requirements. Robust valuation and comprehensive due diligence process supported by external advisors. Codified, regionally driven integration strategy developed and supported by Group functions. Intensive performance focus for newly acquired businesses. Roll out of Minimum Control Framework (MCF) in each new business.	

2018 Update

In recognition of the quickening pace of investment in new businesses under Ignite, the definition of this principal risk has been widened to reflect the financial and reputational risks in the full M&A process, rather than focussing purely on extraction of value as reported in the 2017 risk assessment. Given the increasing volume of deals and opportunities we have also increased our assessment of the gross likelihood from 'low' to 'medium'.

Description	Impact	Mitigating actions		Trend
Impact of disruptive technologies and/or new entrants to the industry threatens our position in the value chain		**Impact: High**	**Likelihood: High**	→
The automotive sector is set to experience a period of rapid and unprecedented change bringing both risks and opportunities. Specific risk factors include: – Electrification of drivetrains. – Connected cars and the associated increase in available data. – Autonomous vehicles and/or mobility solutions replacing vehicle ownership as the preferred model. – OEM consolidation and disintermediation in the value chain.	Volume and margin are adversely impacted across our markets. Adverse impact on value of retail sites due to falling demand. Uncompetitive product line up leads to a long-term loss of sales. Loss of ability to own and therefore monetise data. Long-term change in vehicle ownership model may lead to changes in the automotive value chain including disintermediation.	Diversification of brand partnerships across different vehicle types and technologies. Continually seeking to understand how best to deploy our core capabilities to position ourselves in the changing automotive model e.g. capacity for fleet management services and network infrastructure offerings. Initiatives to monetise data such as targeted marketing, predictive maintenance and recall management. Regular liaison with OEM partners to match pipeline and product planning to emerging technologies and support demand. Understand the connectivity strategy of our OEM partners and where we can help / position ourselves in the value chain. Close monitoring of developments in industry and local market, including monitoring possible disruptors and likely timeframe for entry into the market. Pilot of possible new partner technologies.		

Failure to keep pace with changes in the digital economy impacts on revenues and/or OEM relations		**Impact: High**	**Likelihood: High**	↑
Technologies are continuing to develop that allow for real-time processing of vast amounts of data, and the development of networks connecting people, service providers and appliances (including vehicles). The digitalisation of the customer journey, and growth of online customer platforms, presents the opportunity to improve the customer offering, whilst at the same time presenting new risks around data protection, maintenance of standards and customer engagement through, for example, social media. Digital platforms may also allow our brand partners to reach out to our customer base directly with consequences for our place in the value chain.	Volume and margin are adversely impacted. Adverse impact on value of retail sites as demand is fulfilled online. Reduced ability to drive demand/margin as online consumers are no longer geographically dependent – driving competitive price reductions. Lower customer retention rates impact Aftersales profits.	Digitalisation strategy driving investment in seamless, omni-channel brand experience and a best in class digital platform. Group and market level monitoring and management of social media presence. Focus on data analysis to identify opportunities to monetise data. Local use of the internet and social media as a communications channel for our customers.		

2018 Update

The Board has increased its assessment of the gross impact of this risk from 'medium' to 'high' as a reflection of the quickening pace of the digitalisation of the customer journey, and therefore of the velocity with which it needs to implement its response.

MANAGED RISKS

Risks over which we are able to exert considerable influence on the impact or likelihood of occurrence.

Description	Impact	Mitigating actions		Trend
Major loss or misappropriation of confidential or sensitive data results in financial penalty and/or reputational damage		**Impact: High**	**Likelihood: Medium**	→
We hold, and process, a significant amount of data belonging to a range of stakeholders including our OEM partners, our customers, our employees, and our suppliers. Cyber-attacks are on the increase and data is an ever more valuable commodity. Increasingly sophisticated attacks are being perpetrated by a wide range of well-resourced threat actors. A major cyber security incident, or data breach, which leads to a compromise or misuse of confidential, business critical or sensitive information could not only interrupt our business, but also lead to civil or criminal penalties and significant reputational damage.	Impact on customer and/or OEM relationship and erosion of reputation. Adverse financial impact as a result of civil or criminal action. Regulatory intervention leads to impact on financial performance (fine) or business operations.	Global Information Security policies and procedures developed by IT Security Manager. Information assets defined and security controls benchmarked to ensure best practices. Global vulnerability and risk scanning in place to enhance likelihood of early response and intervention. Cyber awareness training deployed to all relevant staff globally. Investment in advanced network threat detection and malicious communications filters. Physical and logical security measures control access to key infrastructure, and subject to regular penetration testing. Encryption of valuable and sensitive data.		

2018 Update

A reference to 'misappropriation' of data has been added to this risk to more clearly reflect the fact that there are two principal factors: loss of data due to human error, and theft of data by malicious actors.

Description	Impact	Mitigating actions		Trend
Major cyber incident or other systems interruption impacts on ability to service customers and/or operational efficiency		**Impact: Medium**	**Likelihood: Low**	→
Our business performance, and our ability to service our customers and our OEM partners, depends upon the ability of our systems to deliver a very high degree of operational reliability. We have a diverse, and reasonably complex, IT landscape with multiple potential points of failure and must ensure that redundancies are built into our infrastructure to enable continuity should there be a large-scale disruption. Our iPower programme is intended to standardise and energise the core systems infrastructure that supports our business and we must ensure that controls and processes are maintained across all of our systems infrastructure whether iPower or legacy.	Business continuity interruption, leading to lost sales opportunity and adverse reputational impact. Loss, or compromise, of data crucial to business operation impacts the efficiency of operation.	Built-in resilience and security in place with active monitoring for core systems. Minimum controls framework including manual back-ups in place. SLA assurances and relevant accreditations from major systems infrastructure providers. Business continuity plans in place in all markets. Close management of iPower implementations and period of post implementation 'hyper care'.		

2018 Update

The title of this risk has been updated to reflect that the most likely, and damaging, threat to systems continuity is a cyber incident perpetrated by malicious actors. The balance of mitigating action has also been changed to address this.

Description	Impact	Mitigating actions	Trend
Failure to safeguard our customers and employees by not consistently applying EH&S standards across the Group		**Impact: Medium** / **Likelihood: Low**	→
Inchcape employs more than 18,000 people across the globe. We are also responsible for the safety of significant numbers of customers and visitors to our sites. Our businesses are subject to a wide range of laws and regulations which vary significantly in stringency from country to country depending on the prevailing culture. Our OEM partners also have their own health and safety standards that they apply. Wherever in the world they may happen, though, the consequences of failing to prevent accidents can lead to employee injury, business interruption, significant fines, criminal consequences for directors and senior managers and reputational damage.	Injury to customers, employees or third parties. Serious incident leading to lost time. Unlimited fines. Personal sanctions (for directors and officers). Damage to reputation following injury to, or death of, employees or customers. Civil or criminal action.	Local Health & Safety policies in place in all markets to comply with local legislation. Qualified Health & Safety practitioners in major markets (UK, Russia, Australia, Asia, Latam), and at Group level. Basic training offered to all staff with more advanced training for higher risk roles. Clear 'ways of working' displayed in prominent areas in the higher risk areas (e.g. workshops). Health & Safety audits undertaken to confirm compliance with standards. Accidents, hazards and near misses monitored on a regular basis with corrective actions tracked.	
Internal controls failure or fraud of sufficient scale to materially affect financial performance or reputations		**Impact: Medium** / **Likelihood: Medium**	→
Strong internal controls and processes underpin our operations. Without them we would fail to protect the value we create and undermine our growth potential.	Significant fraud with financial and reputational consequences. Significant error or financial misstatement. Procedural breakdown with consequences for efficiency and/or business interruption.	Minimum Controls Framework (MCF) sets an unambiguous global controls standard. Delegation of Authorities policy in place to ensure that decisions are undertaken within approved authority limits and parameters. Central internal controls team created to oversee implementation and development of MCF. Clear management accountability for internal controls. Automation of control through iPower implementation including automated controls reduces the possibility of error or oversight. Fraud and other major control incidents monitored by the Audit Committee. Close monitoring of MCF compliance by Group Internal Audit.	

2018 Update

The Board added the risk of fraud to reflect the increasing level of identified incidents during the year.

Description	Impact	Mitigating actions		Trend
Failure to comply with laws or regulations leads to material financial penalty or reputational damage		**Impact: Medium**	**Likelihood: Medium**	↑
The Group, and its businesses, are subject to a wide range of laws and regulations. The consequences of a failure to comply with those laws and regulations can vary from small fines, and orders to take remedial actions, to significant financial consequences, reputational damage and even imprisonment of directors and officers.	Financial impact of fines/ sanctions. Regulatory intervention leads to business interruption or other inefficiencies. Adverse reputational impact affecting brand partner relationships.	Key appointments at Group level to help oversee legal compliance. Head of Legal & Regulatory Compliance, Group Legal Counsel. Creation of Group Legal Community to facilitate knowledge sharing. Nominated legal representative and/or retained counsel in major markets to monitor existing and emerging legislation. Code of Conduct refreshed to set out overarching standards of behaviour and compliance globally. Local training programmes in place for relevant staff to raise awareness and confirm expectations. Online legal/compliance training solution to be implemented globally in 2019.		

2018 Update

During the year, we completed our preparations for the implementation of the European General Data Protections Regulations which became fully enforceable from 25 May 2018. The Board has increased its assessment of the likelihood of this risk from 'low' to 'medium' to reflect the trend towards increasing regulatory pressure in the automotive industry, and also in recognition of our growing global footprint, particularly in emerging markets.

Description	Impact	Mitigating actions		Trend
Failure to attract, retain and develop our people leading to knowledge drain and operational inefficiency		**Impact: Medium**	**Likelihood: Medium**	→
Inchcape employs over 18,000 people across 32 different territories in various roles including Sales, Aftersales, and back office functions. The fragmented nature of the automotive sector, coupled with remuneration strategies that typically reward short-term performance, mean that the industry suffers from high turnover rates, especially in retail businesses. These can exceed 30-35% per annum. Our Ignite strategy, as well as the impact of disruptive trends and emerging technologies in the automotive industry, mean that the skills and capabilities needed to succeed are constantly changing. Not having the right talent, and diversity, at all levels may compromise our ability to deliver the Ignite strategy.	Loss of core knowledge and experience. Business interruption or operational inefficiency. Failure to deliver strategic objectives.	Global Talent Strategy to ensure resources are aligned to strategic requirements. Talent review pipeline to maximise the value-add of our people. Recruitment, induction and continuous development policies in all markets. Drive5 behaviours underpin development process. Performance related pay structure calibrated to incentivise and drive talent retention. Key policies, procedures and other documentation to facilitate handovers. Restructuring where necessary to right-skill the business.		

INHERENT RISKS

The Board recognises that there are some risks over which Inchcape's influence is somewhat limited, and the impact and likelihood of the risk are more heavily affected by external factors. The Board ensures that, as far as possible, actions are taken to address these risks according to its risk appetite but recognises and accepts an inherent level of risk as a natural part of doing business.

Risk	Comments	Impact	Likelihood	Trend
Significant retrenchment of credit available to customers, dealer network or Inchcape plc negatively impacts vehicle sales and/or operational capability	Readily available, affordable credit is fundamental to our customers ability to buy, and to our and our dealers ability to operate. Whilst we have various local initiatives in place to help our customers and dealers access appropriate finance, we are also reliant on our banking and OEM partners to provide suitably attractive options.	High	Low	→
Material damage to OEM brand or product reputation, or a major interruption to OEM operations or product supply negatively impacts vehicle sales	As a Distributor and Retailer, our performance is correlated with that of our OEM partners. We work closely with them to foresee and address issues in our role as representative of their brand, but ultimately, we have only very limited control over their performance. Our brand diversity acts as a natural hedging strategy to further minimise this risk. **The Board has revised its definition of this risk to include damage to OEM or product reputation.**	High	Low	→
Fluctuations in exchange rates with negative impact on financial performance	As a global organisation we accept the risk that outside normal hedged transactions we are exposed to currency fluctuations. These can be both positive and negative and our geographical diversity provides a certain amount of natural hedging.	Medium	High	→
Individual governments increasing restrictions on cross-border currency movements leading to higher incidents of trapped cash across the Group	We regularly look for mitigating strategies including investment opportunities in local businesses that can generate hard currency earnings or engaging with government and central banks to ensure we receive our fair allocation of hard currency reserves.	Medium	Medium	→
Social, political and regulatory instability leads to economic uncertainty, market interruption and/or threat to safety	We accept that in certain markets there is an enhanced risk of social, political and regulatory instability. We recognise that there is little we can do to prevent such risks, but instead ensure we have plans in place to respond quickly and decisively if they do occur. **The scope of this risk has been widened by the Board to recognise the impact of economic uncertainty, reflective of the implications of Brexit.**	Low	Medium	→
Changes in legislation or the way that legislation is applied directly affects customer demand for certain vehicle types or our ability to generate income from Aftersales	We accept that demand for vehicles is heavily impacted by prevailing legislation. There is little we can do to influence that legislation in our favour. Instead we implement processes to foresee and prepare for its impact (alongside our OEM partners), our geographic and OEM diversity also providing a natural hedge. **The Board has widened the scope of this risk to include Aftersales legislation.**	Low	High	→

BREXIT

The UK is currently scheduled to leave the European Union on 29 March 2019. There is uncertainty, however, as to whether this will indeed be the departure date and as to the terms of the UK/EU relationship after that date.

In "agreed deal" scenarios, there will be a sufficient planning period of at least 21 months available to plan and prepare for the implications of Brexit. In the event of a no-deal Brexit, however, there will be no such transition period.

Our immediate focus, therefore, has been on preparing for a no-deal scenario. We have taken steps to understand the potential impacts of such a scenario upon our business and have identified, and taken, those mitigating actions that are available to us.

The nature, and location, of our business means that there are three principal potential impacts. These are

- Macro-economic impacts in the UK economy lead to reduced consumer confidence and a reduction in the overall size of the addressable market;
- The introduction of tariffs on UK automotive exports to European markets, and certain third countries, results in increased costs that are not able to be recovered from customers;
- A fall in the value of sterling increases the sterling value of the Group's foreign currency earnings.

The Board has considered these potential impacts carefully together with the mitigation plans in place. We are working closely with our OEM partners to ensure that any impacts are minimised.

The Board and Group Executive Committee are actively monitoring the position and will continue to take the actions that are available to them to respond to events as they unfold.

VIABILITY STATEMENT

The long-term viability of the Group is intrinsically linked to the delivery of the Ignite strategy and the cash-generative nature of this business model. Our continued viability is dependent upon the continuation of our relationships with our OEM partners. In addition, three years is also the key timeline for New vehicle purchase in mature markets with good personal finance penetration. In seeking to be the OEM partner of choice, we continue to build on the long-term strategic relationships we have developed to grow our businesses together over a far longer timeframe.

The plans and projections prepared as part of the Group's annual strategic planning process consider the Group's cash flows, committed and uncommitted funding positions, forecast future funding requirements and lending covenants. As part of the strategic planning process, the Board adopts a rigorous approach to the identification of the principal risks and to monitoring the actions taken to mitigate these risks.

The Board has prioritised three of the principal risks for the purposes of assessing the longer-term viability of the Group:

- Loss of global distribution contract with major brand partner;
- Significant retrenchment of credit available to customers, dealer network or the Group negatively impacts vehicle sales and/or operational capability;
- Material damage to OEM brand or product reputation, or a major interruption to OEM operations or product supply, negatively impacts vehicle sales.

Sensitivity analysis is undertaken to stress-test the resilience of the Group and its business model. For the purposes of viability testing we modelled the first and third of these risks. The risk of a liquidity / credit shock, has been modelled as a sensitivity on top of both of these risks to understand their combined financial impact. For 2019, the Board has also considered the impact of a "no deal no transition" Brexit.

The Group is considered to be viable if the interest cover covenant is maintained within the prescribed limit and there is available debt headroom to fund operations. The Group's committed facilities, provided by the US Private Placement market and through our syndicate of relationship banks, coupled with the existing cash-generative nature of our business model, combine to generate sufficient cash flow headroom under the extreme scenarios tested and the interest cover covenant is not breached.

On the basis of an assessment of the principal risks, and on the assumption that the principal risks are managed and mitigated as described, and based on the Board's review of the strategic plan and the results of the sensitivity analysis undertaken, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2021.

DIRECTORS' APPROVAL OF THE STRATEGIC REPORT

Our 2018 Strategic Report, from pages 1 to 46, has been reviewed and approved by the Board of Directors on 27 February 2019.

Stefan Bomhard
Chief Executive

Inchcape has a Retail-only partnership with VW Group and represents the core VW and Audi brands as well as the performance marque Porsche. Our VW Group relationship goes back 30 years in four international markets.

LOCATIONS	RETAIL
	UK, Russia, China, Australia

EXPERIENCED AND EFFECTIVE LEADERSHIP

Nigel Stein

Non-Executive Director

Appointed to the Board:

October 2015

Appointed as Chairman:

May 2018

Skills and experience:

Nigel was Chief Executive of GKN plc until his retirement in December 2017. He has a wide range of international, general management and finance experience gained in various roles at GKN plc and also has experience in the automotive and manufacturing sectors.

Nigel is a chartered accountant.

Committee membership:

Chair of the Nomination Committee and member of the CSR Committee.

Stefan Bomhard

Group Chief Executive

Appointed:

April 2015

Skills and experience:

Stefan has senior level experience gained in a wide range of retail and FMCG businesses. Prior to joining the Group, he was President of Bacardi Limited's European region and has held a number of senior positions at Cadbury Plc, Unilever PLC, Diageo plc, Burger King and Procter & Gamble.

Other appointments:

Non-Executive Director of Compass Group PLC.

Richard Howes

Chief Financial Officer

Appointed:

April 2016

Skills and experience:

Richard has a wealth of experience across the financial and commercial sectors, working for multi-site businesses with substantial global footprints. He joined the Group from Coats plc where he was Chief Financial Officer.

Richard is a chartered accountant.

Jerry Buhlmann

Non-Executive Director

Appointed:

March 2017

Skills and experience:

Jerry has over 30 years' experience in the media and advertising industries. He was CEO of Dentsu Aegis from 2013 until earlier this year and prior to its acquisition by Dentsu Inc, Jerry was the CEO of Aegis Group PLC.

Jerry is also a director of Madison Sports Group and the Media Trust.

Committee membership:

Remuneration, CSR and Nomination Committees.

Rachel Empey

Non-Executive Director

Appointed:

May 2016

Skills and experience:

Rachel was appointed Chief Financial Officer of Fresenius SE & Co. KGaA, a top healthcare company listed on the DAX index, in August 2017.

Previously Rachel was Chief Financial and Strategy Officer of Telefónica Deutschland Holding AG ("Telefónica Deutschland").

Rachel is a chartered accountant.

Committee membership:

Audit and Nomination Committees.

Full biographies, including past employment history, can be found on www.inchcape.com

Jane Kingston

Non-Executive Director

Appointed:

July 2018

Skills and experience:

Jane served as Group Human Resources Director for Compass Group PLC from 2006 until her retirement in 2016. Jane also held senior positions at Enodis PLC, Blue Circle PLC (now Lafarge SA) and Coats Viyella PLC. Jane has significant remuneration experience and is Remuneration Committee Chair of National Express plc and Spirax-Sarco Engineering plc.

Other appointments:

Non-Executive Director of Spirax-Sarco Engineering plc and National Express plc.

Committee membership:

Remuneration and Nomination Committees.

John Langston

Non-Executive Director

Appointed:

August 2013

Skills and experience:

John has corporate finance, accounting and international experience acquired in senior financial roles in the engineering sector. He is an experienced Non-Executive Director who has a strong governance background and was the Audit Committee Chair of Rexam PLC until its sale to Ball Group in 2016.

John is a chartered accountant.

Committee membership:

Chair of Audit Committee and member of Nomination Committee.

Coline McConville

Non-Executive Director

Appointed:

June 2014

Skills and experience:

Coline has extensive remuneration experience as the Remuneration Committee Chair of Travis Perkins plc, Fevertree plc and of TUI Travel plc until its merger with TUI AG. Coline is an experienced Non-Executive Director and has served as a director on several UK boards.

Other appointments:

Non-Executive Director of Fevertree Drinks plc, Travis Perkins plc, 3i Group plc and a member of the supervisory board of TUI AG.

Committee membership:

Chair of Remuneration Committee and member of Nomination and CSR Committees.

Nigel Northridge

Senior Independent Director

Appointed:

July 2009

Skills and experience:

Nigel brings international and commercial experience acquired across a number of sectors. He is an experienced Non-Executive Director and has served as a director on the boards of several large UK and global plc's.

Other appointments:

Chairman of Hogg Robinson plc, Chairman of Scandinavian Tobacco Group A/S and non-executive Chairman of Belfast City Airport.

Committee membership:

Remuneration, Audit and Nomination Committees.

Till Vestring

Non-Executive Director

Appointed:

September 2011

Skills and experience:

Till is an Advisory Partner with Bain & Co, based in Singapore. He has extensive experience advising multinationals on growth strategy across Asia and leading Asian companies on strategy, M&A and organisation.

Other appointments:

Non-Executive Director of Keppel Corporation.

Committee membership:

Chair of CSR Committee and member of Remuneration and Nomination Committees.

CHAIRMAN'S STATEMENT

A GOVERNANCE CULTURE

NIGEL
STEIN
Chairman

Watch online inchcape.com/AR18

DEAR SHAREHOLDER

I am pleased to present the Corporate Governance Report for the year ended 31 December 2018. The next few sections explain how the Board and its Committees have discharged their duties throughout the year and I hope you find it informative.

OUR BUSINESSES

As part of my induction, I have been able to travel to several markets to meet colleagues and learn more about the business. The Board also travelled to Singapore for its annual overseas meeting in October 2018. The visit provided an opportunity for our Non-Executive Directors to meet personally with colleagues and observe how Ignite is being implemented within our markets. The Board visited the Inchcape Lexus Boutique and Toyota World and also spent time at the Suzuki dealership. The local teams updated the Board on the latest customer initiatives being introduced across the region, including the automated Leads Distribution System and other digitalisation projects which are enhancing our sales capabilities.

The Board also received presentations on industry trends including on future mobility from Mr Yutaka Okayma from Toyota Asia Pacific and Professor Lee Der Horng, a leading transport academic in Singapore. Industry insights such as these increased the Board's knowledge on specialist areas and are vital for Non-Executive Directors who are not involved in the day-to-day running of the business.

A clear understanding of future industry trends is imperative for the Board to aid its decision making process and an overview of the trends is given on page 11.

GOVERNANCE AND CULTURE

As previously mentioned the Board approved a new Code of Conduct which is being rolled out globally. The Code sets out the minimum standards of behaviour expected from our employees to act with honesty and integrity. The Code gives clear guidance on ethical decision making, the identification of misconduct and whistleblowing procedures. The Code also sets out our commitment to all our stakeholders. These concepts are at the heart of our vision to be the world's most trusted automotive Distributor and Retailer and create the cornerstone of the culture within Inchcape.

2018 saw a considerable number of governance and regulatory changes which were duly discussed by the Board. The new UK Corporate Governance Code was published in July 2018 and the Board agreed the actions it needed to take to comply during 2019. The Board is considering how and what information it receives from key stakeholders and whether these engagement mechanisms are appropriate. The Board has also considered engagement with the workforce and the three options given in the new Code. The Board feels that a designated Non-Executive Director is the most appropriate method at this time and has appointed Till Vestring, Chair of the CSR Committee, to take up the role. Till will set out how the CSR Committee intends to engage with our employees during the year. The Board will review periodically to ensure that both the Board and our employees are getting value from the engagement process.

BOARD COMPOSITION

As mentioned in my statement on page 1, Nigel Northridge will retire following the AGM, and I am delighted to confirm Jerry Buhlmann will succeed him as Senior Independent Director. Further details are given on page 66. As a result of the planned Board changes, I have been considering our succession process to ensure that we are planning ahead to have the right balance of skills and experience. I am focused on ensuring that we have 33% female representation by 2020. To help us achieve this we are looking at our candidate selection processes to ensure a truly diverse range of candidates are being considered. Further details of succession planning are given in the Nomination Committee Report on pages 65 to 66.

I thank you for your support during 2018 and look forward to the coming year.

Nigel Stein
Chairman

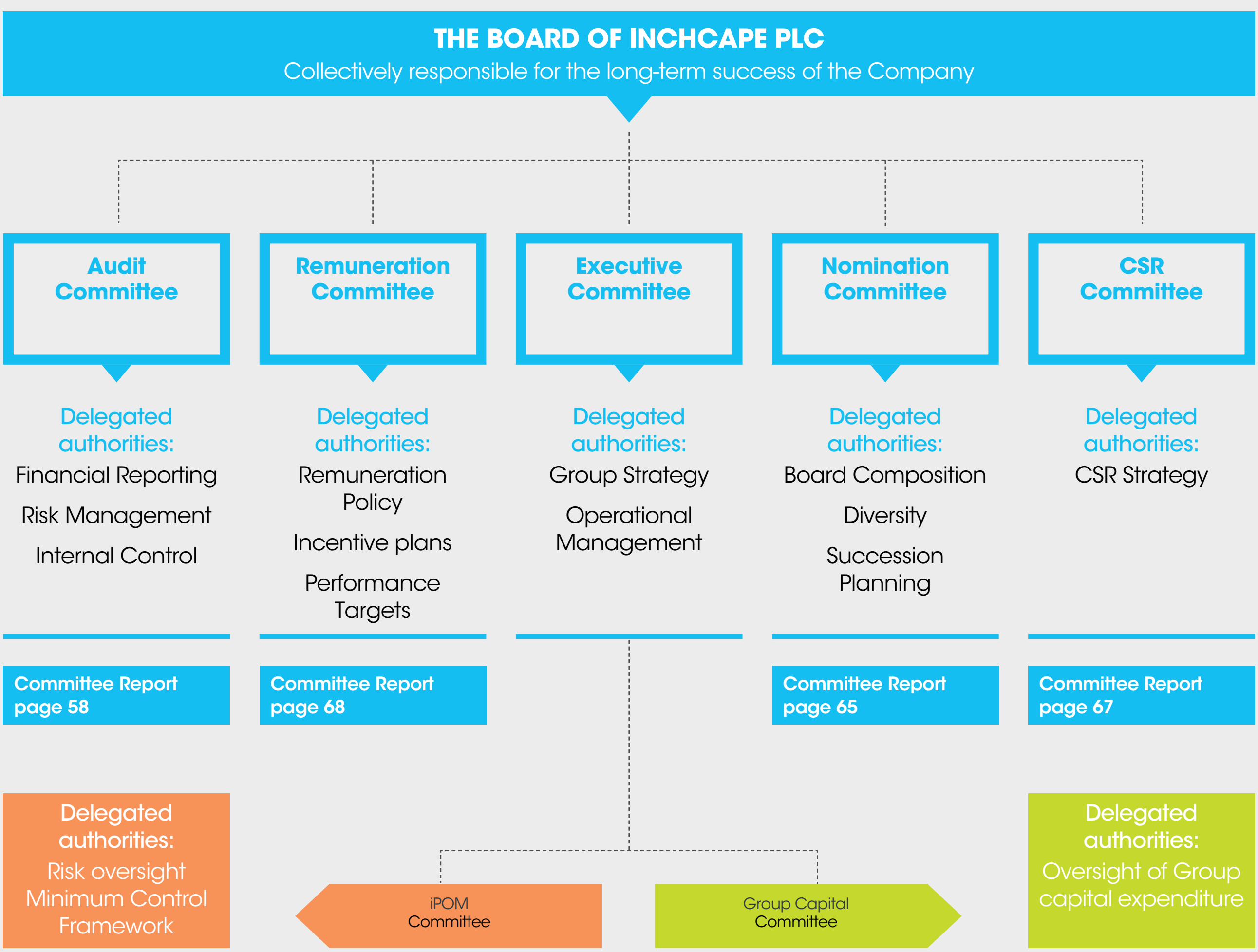
Leadership

STATEMENT OF CODE COMPLIANCE

The Company was compliant with the provisions of the 2016 UK Corporate Governance Code throughout the year. The Code can be found on the FRC's website www.frc.org.uk

The information required under DTR 7 is given on pages 51 to 87 and forms part of this report.

GOVERNANCE STRUCTURE



The Board

The Board is collectively responsible for the long-term success of the Company which it achieves by setting the strategic direction of the Group and ensuring that there are the necessary financial and human resources available to deliver the objectives. The Board also ensures that there are controls, processes and procedures in place to ensure that the right culture exists for the achievement of the strategic goals.

Chairman

Nigel Stein, as Chairman, is responsible for leading an effective Board, ensuring timely, accurate and relevant information is received by Board members, planning the composition of the Board and is Chair of the Nomination Committee.

The Chairman sets the Board's agenda and ensures that appropriate time is allocated to discuss each agenda item. He is also responsible for ensuring there is a culture of openness and debate and that constructive relationships exist between the Non-Executive Directors and Executive Directors.

Senior Independent Director

Nigel Northridge is the Senior Independent Director and is available to shareholders if they do not want to speak to the Chairman or the Group Chief Executive Officer.

His role is to act as a sounding board for the Chairman and to serve as an intermediary to other members of the Board.

Chief Executive Officer

Stefan Bomhard, as Group Chief Executive Officer, is responsible for developing the Group's strategy, running the day-to-day operations, reporting to the Board on performance, implementation of strategy and any significant developments, leading the Group Executive Committee including managing risk and internal control and engaging with shareholders.

The Non-Executive Directors are appointed to offer a wide range of skills and experience which enable them to advise, support and constructively challenge management, to provide independent judgement on the Board's discussions and to help with the development of the Company's strategy.

The Non-Executive Directors met in 2018 without the presence of Stefan Bomhard and Nigel Stein to discuss their performance. If a Director has a concern about the running of the Company which cannot be resolved, it would be recorded in the Board minutes. No such concerns arose in 2018.

Activities of the Board

The table below shows the Board and Committee meetings held during the year. There were additional Board calls and Committee meetings throughout the year to discuss specific issues as they arose.

	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**CSR Committee**
Name	Scheduled/attended	Scheduled/attended	Scheduled/attended	Scheduled/attended	Scheduled/attended
Stefan Bomhard	6/6	–	–	–	2/2
Jerry Buhlmann	6/6	–	2/2	2/2	2/2
Rachel Empey	6/6	4/4	–	1/1	–
Ken Hanna*	2/2	–	1/1	1/1	1/1
Richard Howes	6/6	–	–	–	–
Jane Kingston*	3/3	–	1/1	1/1	–
John Langston	6/6	4/4	–	2/2	–
Coline McConville	6/6	–	2/2	2/2	2/2
Nigel Northridge	6/6	4/4	2/2	2/2	–
Nigel Stein	6/6	–	2/2	2/2	1/1
Till Vestring	6/6	–	2/2	2/2	2/2

* Ken Hanna retired from the Company following the 2018 AGM. Jane Kingston joined the Company in July 2018.

The Board is collectively responsible for the long-term success of the Company and achieves this by setting its strategic aims whilst ensuring that the necessary financial and human resources are available. The Board also ensures that the correct controls are in place to drive the right culture throughout the organisation to achieve its strategic objectives in a sustainable manner. The Chairman ensures that there is a culture of openness and transparency on the Board to facilitate constructive debate on all matters considered during the year.

There is a schedule of formal matters reserved for the Board which can be found at www.inchcape.com/governance.

Focus in 2018	What we achieved	Focus for 2019
Investor engagement	A Capital Markets Day was held in June 2018 which was designed to give investors a clear explanation of the Distribution business model, the drivers of growth for Inchcape and our view of future trends and our positioning against them.	– Engagement with stakeholders other than shareholders – Workforce engagement – Consideration of s172 reporting
Ignite strategy	The Ignite M&A programme had several successes in 2018 with Distribution contract wins in Kenya, Colombia, Lithuania and Guam and the acquisition of Grupo Rudelman in Central America. An important part of the Board's discussions is the capital allocation framework to ensure that cash is being utilised effectively. During the year the Board discussed dividend policy, capital expenditure and share buybacks. Further details can be found on page 16.	– Global industry trends – Disruptive and future industry trends – Strategy development
Risk	The Board undertook a comprehensive risk appetite assessment during the year which included a focus on the impact of Brexit on the business. Further information can be found in the Risk Management Report on pages 35 to 46.	– Annual review of principal risks and mitigating actions – Annual review of risk appetite – Brexit outcomes
Financial reporting	The Board reviews the performance of the business on a regular basis and challenges management on the assumptions made and judgements used, with assurances provided by both internal and external sources to ensure that the information communicated to stakeholders is fair, balanced and understandable.	– Approval of annual operating plan – Review of delegated authorities and capital expenditure processes – Value driver performance – New accounting standards
Leadership	The Board discussed succession, talent development and diversity for the senior management population.	– Group Executive Committee succession planning – Talent pipeline planning – Diversity and inclusion review
Governance and culture	The Board approved the following: – General Data Protection Regulations – Inchcape Code of Conduct	– Implementation of 2018 UK Corporate Governance Code – Review adoption of Code of Conduct across the Group – Anti-bribery and corruption training
Partners	The Board regularly discusses the Group's OEM partners to ensure that the Group is offering the best possible service at every part of the value chain. See pages 8 to 9.	– Management meetings with OEM counterparts – Deep dive of Ignite OEM Partner of Choice objective

Effectiveness

COMPOSITION OF AND APPOINTMENTS TO THE BOARD

The Board is comprised of eight independent Non-Executive Directors and two Executive Directors, whose biographies are given on pages 48 to 49. Nigel Northridge completed nine years' service in July 2018. The Board agreed that Nigel would remain on the Board until May 2019 to assist with the Chairman transition. He will retire from the Board following the AGM.

Nigel Stein was considered independent on his appointment as Chairman. All other Non-Executive Directors are considered independent in accordance with the UK Corporate Governance Code.

Non-Executive Directors are appointed for a period of three years. After each three-year period the performance of the Director is reviewed by the Chairman, and the Nomination Committee approves any further terms. All appointments are subject to annual re-election at the AGM. Details of the Board succession planning process can be found in the Nomination Committee Report on pages 65 to 66.

COMMITMENT

The Directors are required to allocate sufficient time to the Company to discharge their responsibilities and Board dates are agreed two years in advance to ensure that Directors are able to plan accordingly and for other commitments to be taken into account.

Non-Executive Directors are informed of the time commitment expected from them upon appointment and this is reviewed annually to ensure that the time expected is still relevant in light of the Company's strategic agenda.

The Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office and at the AGM.

The Board understands that the Executive Directors can gain valuable business experience as a Non-Executive Director of another company. The Group's policy is to limit Non-Executive Directorships within a FTSE 100 company to one appointment only. Stefan Bomhard is also a Non-Executive Director of Compass Group PLC. Details of the fees paid to him are given on page 87 of the Directors' Report on Remuneration.

Induction process

	The Inchcape framework	Meet key management / advisors	Visit the businesses
	The first step in the Directors', induction is making sure that they have all the information and support to enable them to carry out their duties. This includes Board processes, Group structures, strategy, Code of Conduct, other policies and procedures, risk footprint.	Meeting key management and advisors allows the Directors to gain a broader understanding of the day-to-day operations and head office functions such as legal, compliance, treasury, finance	Visiting the businesses gives the Directors a unique opportunity to see the Ignite strategy in action, meet colleagues and seek their views on the business and to understand the culture of the Group
 Jane Kingston	As Jane is new to the industry, her induction was tailored to ensure that she received in-depth sessions with key employees	In addition to management, Jane also met with Mercer | Kepler, to gain an understanding of the Company's remuneration framework and culture	In addition to the Board's Singapore visit, Jane also met with the UK CEO at VW Chiswick, to learn about the UK automotive industry
 Nigel Stein	Nigel's induction involved several overseas visits to enable him to gain a deeper understanding of the Group's operations, culture, risks and opportunities	Nigel undertook a schedule of shareholder meetings upon appointment as Chairman to listen to their views on the business and its longer-term opportunities	Nigel visited our operations in Russia, Australia and Asia to learn more about the differences, challenges and opportunities for the Distribution and Retail businesses

DEVELOPMENT

All Directors receive a tailored induction programme upon appointment designed to ensure that they have sufficient knowledge of the business and the context in which it operates. The induction consists of one-to-one meetings with the Group Executive Committee members and other key members of the management team and site visits designed to give the Director an in-depth understanding of the Retail and Distribution businesses.

To ensure that the Directors have the appropriate knowledge to support their decision making, regular presentations from management are included in each Board meeting, along with industry updates and insights into trends affecting the industry.

Regional updates, designed to give a deeper view of the markets, are given throughout the year by the relevant market Chief Executive Officers. Details of the Board's activities are given on page 53. The Non-Executive Directors are expected to update their knowledge and skills regularly and training is provided for the Board and individual Directors as required.

INFORMATION AND SUPPORT

The Group Company Secretary is responsible for ensuring the Board has access to relevant and accurate information. The Board agendas are agreed in advance by the Chairman and the Group Chief Executive Officer and include regular items such as reports from the Group Chief Executive Officer, the Chief Financial Officer and Investor Relations.

The information supplied to the Board and its Committees allows the Board to scrutinise the performance of management and to monitor performance against objectives. In addition to regular reports from key management, the Board also receives information on operational matters, financial performance and strategic developments.

The Group Company Secretary also supports the Board by providing advice and services, including access to independent advice, and ensures that an accurate record of the meeting is taken.

BOARD EVALUATION

The 2017 Board evaluation was externally facilitated, and the table below sets out the progress against the actions raised from that process. The 2018 Board evaluation was an internally facilitated evaluation led by the Company Secretary. The results were similar to those of 2017 as many of the action points will be continuous improvement. Areas of focus during 2019 will be the Non-Executive Director appointment process and the remit of the CSR Committee in light of the new Code provision on workforce engagement.

Action from 2017	Progress in 2018
Ensuring that future Board composition always maximises challenge to management as they crystallise the longer-term strategy beyond Ignite, by keeping Board skills and terms under regular review and in line with strategy.	The Nomination Committee considered the future skills requirement for the Board. Please see the Nomination Committee Report on page 66 for further details.
Expanding the work of the Nomination Committee to enable broader discussions amongst Board members about NED and executive succession, development and learning, and maintain the balance between experienced Directors, future Chairs and newer 'PLC' NEDs.	In addition to the annual senior management talent planning session carried out by the Board, it was agreed that an informal session take place each year to allow the Board to discuss with the CEO the performance of the Group Executive Committee.
Expanding the work of the Nomination Committee to cover items of governance to ensure appropriate focus for the Group.	The Nomination Committee is considering how to add value to the Board's deliberations and will review its terms of reference to ensure they are appropriate.
Reviewing the Board pack to broaden the spectrum of information provided to the Board, for example on competitors, or international territories, especially as future strategy discussions develop.	An effective Board report is a strategic extension of day-to-day information-gathering and provides the platform on which boards can work with management to add real value and to gain a critical understanding of the business. The information provided to the Board has been reviewed to ensure that it remains appropriate.

Accountability

FINANCIAL AND BUSINESS REPORTING

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects in the Annual Report and Accounts, the interim financial statements and the trading updates. The Board is satisfied that appropriate processes are in place to provide the necessary information on position and performance, business model and strategy to allow users to make a fair assessment of the business and to enable the Board to make this statement.

The Board considers the information received and discussions and decisions made throughout the year when asking the following questions:

Has equal weight been given to all messages and is any information omitted?

Is the narrative reporting consistent with the financial statements?

Are the principal risks, business model and strategy in line with the Board's understanding of the business?

Are the key performance indicators appropriate?

Are the Strategic Report, governance report and financial statements balanced?

Will stakeholders be able to understand the business, its position and prospects from reading the Annual Report?

Do the significant issues referred to in the Audit Committee Report reflect those considered by the auditor?

The Board also satisfies itself that the statements made are supported by verification documents, monthly performance reports and the annual operating plan.

A statement of the Directors' responsibilities is set out on pages 91 to 92. The going concern statement is set out on page 92 and the strategy and business model are set out on pages 2 to 18.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board carried out a robust assessment of the Group's principal risks including those that would threaten its business model, future performance, solvency or liquidity during the year. Following this review, the Board agreed changes to the articulation of certain risks which had previously been reviewed and approved by the Group Executive Committee.

The Board also considered the impact of Brexit on the business and a statement of its findings in relation to Brexit and the Group's principal risks is given on pages 35 to 46.

The Board also discussed, and agreed, its risk appetite in relation to each of the principal risks. Consideration was given to:

- The description of the risk;
- The current risk footprint showing gross risk, net risk and the target position;
- Background information that underpins the risk;
- Key mitigation actions; and
- The risk appetite statement for each of the risks.

A description of risks, an explanation of how they are being managed and mitigated and the Board's viability statement can be found in the Risk Management Report on pages 35 to 46. The Board also reviewed and approved the viability statement including its assessment of the methodology used by management to reach its conclusion.

The Board has delegated responsibility for reviewing the effectiveness of the system of internal controls to the Audit Committee. Further information can be found in the Audit Committee Report on pages 58 to 64.

The risk management and internal controls processes are designed to manage rather than eliminate the risk of failure to achieve business objectives. In establishing and reviewing the system of internal control, the Directors have regard to the nature and extent of the relevant risks, the likelihood of loss being incurred and the costs of control. The system can only provide a reasonable but not absolute assurance against any material misstatement or loss and cannot eliminate business risk.

The Board has determined that there were no significant failings or weaknesses identified during the review of the risk management and internal control processes during the year and further confirms that these systems were in place during 2018 and up to the date of this report.

The Directors are satisfied that the Group's risk management and internal control systems accord with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Relations with Shareholders

The Head of Investor Relations, Group Chief Executive Officer and Chief Financial Officer met with approx. 270 investors and potential investors during the year at roadshows, investor events and one-to-one meetings. Nigel Stein also met with several major shareholders to discuss various strategic and governance topics as part of the Chairman induction programme.

A dialogue with shareholders ensures that the Company is fully aware of shareholders' views and their expectations of the Group's strategy and performance both in the short and long-term. The views of shareholders are communicated to the Board after each meeting and through regular Investor Relations reports, and analysts and brokers briefings.

Capital Markets Day

A Capital Markets Day was held on 6 June 2018. The aim of the investor day was to give an in-depth view of the business, the drivers of growth and future trends. There were presentations on the Distribution business model, operational excellence, consolidation, future trends and opportunities and multi-layered earnings growth. In addition, Mr Yoshi Inaba, Special Advisor to Toyota Motor Corporation, spoke to investors about the long-standing relationship with Inchcape, Toyota's view on distribution and the strength of Inchcape's business model.

The Capital Markets Day presentations can be found on the Company's website www.inchcape.com/investors/CapitalMarketsDay

CONSTRUCTIVE USE OF GENERAL MEETINGS

The AGM gives shareholders an opportunity to meet the Board and ask any questions they have regarding the Group, its performance and its strategy.

The Board encourages participation of private shareholders at the AGM, however, the Board understands that it is not always possible for shareholders to attend in person. Shareholders are encouraged to contact the Company with any questions they wish to raise with the Board of Directors via the Company Secretary.

The Company complies with the Code as it relates to voting, the proposal of separate resolutions on each substantially separate issue and the attendance of the Committee Chairs at the AGM. Details of the votes received for the resolutions put to shareholders at the AGM are available on the Company's website.

The Company's registrars, Computershare, act as scrutineers at the AGM and ensure that the votes are correctly counted and recorded.

All Directors are required to attend the AGM.

The Group is committed to reducing its impact on the environment and encourages shareholders to receive communications electronically to reduce paper usage. Shareholders can also register for news alerts via email. Please visit the website www.inchcape.com/investors for more information. It is important for shareholders to receive communications in the form most appropriate to their needs and they can change the way they receive information at any time.

ENSURING INTEGRITY AND CONTROLS

JOHN LANGSTON
Chair of the Audit Committee

DEAR SHAREHOLDER
I am pleased to present the report of the Audit Committee for the year ended 31 December 2018. The aim of the report is to provide an overview of the significant issues considered by the Committee during the year, how the Committee has discharged its responsibilities, and to highlight some of the matters presented by management on various aspects of the business. These presentations from management ensure that the Committee can assess the risks and the effectiveness of any mitigating actions and challenge management on the control environment and any failures.

External auditor

Following the successful external audit tender in 2017, I am pleased that shareholders supported the appointment of Deloitte LLP as the Group's auditor.

Deloitte took over the role from PwC in May 2018 however the team had shadowed PwC during the 2017 year-end audit and spent time with management getting to know the business. As part of the transition programme the team visited a number of businesses across various markets to enhance their understanding of the business and assessment of audit risks and focus.

Anna Marks is the lead audit partner.

Non-audit services

There were certain non-permitted non-audit services fees accrued by Deloitte during the year, which relate to tax compliance and computations for 2017 in relation to Guam, Saipan and Macau where Deloitte had already been engaged to perform the work prior to their appointment as Group auditor. The Committee reviewed the provision of these services and concluded that it would not be likely to affect their objectivity and independence. The Committee kept the non-audit services under review during the year and further details are given on page 63.

Accounting standards

Several new accounting standards have been introduced with IFRS 9, Financial Instruments and IFRS 15, Revenue Recognition effective from 1 January 2018, both of which were disclosed in last year's Annual Report and IFRS 16, Leases, effective from 1 January 2019. The Committee spent considerable time with management and the external auditor assessing the accounting impacts, transition options, and relevant disclosures.

The management team are also working with the Group Reward team to assess the impact of IFRS 16 on the key remuneration performance metrics. Further details on IFRS 9, 15 and 16 are given in the notes to the financial statements on pages 107 to 110. The Committee's consideration of IFRS 16 is also given on the significant issues disclosure on page 64.

The key activities of the Committee are given in the table on page 60 and the following pages set out the work carried out by the Committee during the year, the significant issues considered, and the key decisions made by the Committee.

J.Langston.

John Langston
Chair of the Audit Committee

COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

		Feb	May	Jul	Nov
John Langston	Committee Chair	✓	✓	✓	✓
Rachel Empey	Independent Non-Executive Director	✓	✓	✓	✓
Nigel Northridge	Independent Non-Executive Director	✓	✓	✓	✓

The Audit Committee consists of three independent Non-Executive Directors. John Langston and Rachel Empey are qualified chartered accountants and are considered to have recent and relevant financial experience. In addition, the Committee as a whole has competence in Retail which is the sector in which the Company operates.

The Committee met four times during the year to coincide with the financial calendar. Only members of the Committee are entitled to attend Committee meetings. However, the Chairman, Group Chief Executive Officer, Chief Financial Officer, Group Financial Controller and Group Head of Internal Audit attend the Committee meetings along with the external auditor. Other senior executives, such as the Group Tax Director and Group General Counsel, attend during the year to present to the Committee.

The Committee regularly meets with the auditor without the presence of management to discuss any areas of concern they might have. John Langston also meets with the Chief Financial Officer and Head of Internal Audit at one-to-one meetings which enable him to fully understand the key issues ahead of Committee meetings.

It is the role of the Audit Committee to ensure the integrity of the financial reporting and audit processes, to ensure the internal control and risk management systems are effective, to review the Group's whistleblowing procedures and to establish and maintain an appropriate relationship with the external auditor.

The Committee's terms of reference can be found on www.inchcape.com/governance

The Committee is supported by a number of sources of internal assurance from within the Group in order to review the control environment. The Committee also assesses the effectiveness of the system of internal control on an annual basis by considering any material control weaknesses identified by the external auditor as a result of their audit. There have been no significant changes to the control environment and the Audit Committee has concluded that the Group's internal system of controls was effective during the year.

The significant issues considered by the Committee are given on page 64.

Financial reporting

The role of the Committee in relation to financial reporting is to review with both management and the external auditor the appropriateness of the half year and annual financial statements taking into account:

- The quality and acceptability of accounting policies and practices
- Material areas in which significant judgements have been applied or where significant issues have been discussed with the external auditor
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including the Code
- Any correspondence from regulators in relation to the Group's financial reporting
- Reviewing assumptions and providing assurance to support the long-term viability statement

Fair, balanced and understandable

The Board assesses the Annual Report and Accounts to ensure that it is a fair, balanced and understandable assessment of the Group. The Audit Committee, however, also carries out its own assessment of the financial statements, and the Annual Report as a whole, and is satisfied that it provides the necessary information for shareholders to assess the Group's position and performance, business model and strategy.

The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

Our 2018 objectives	What we achieved	Focus for 2019
Annual Report and Accounts including financial statements, accounting judgements, impairment review, going concern, viability statement	The Committee considered all key audit issues, accounting treatment and judgements in relation to the financial statements. This includes challenging management on the assumptions used and the judgements that have been applied, with assurances given from both external and internal sources. The information supplied also allows the Committee to assess key disclosures to ensure adequacy, clarity and completeness. Key disclosures include the viability statement on page 46, going concern, which can be found on page 92, and goodwill, which can be found on pages 139 to 140. Particular attention was given to the application and impact of the new accounting standards which have been or will be adopted by the Group.	– Impacts of new accounting standards – Review of key assumptions used by management on key accounting standards
PwC audit report, PwC independence review	The Committee considered the report from the auditor in relation to the financial statements and the 2017 Annual Report and Accounts.	– Deloitte audit report – Deloitte independence report – Deloitte report on internal controls
Deloitte 2018 Audit Plan	The Committee discussed the audit plan and agreed materiality, scope and fees.	– Review of the effectiveness of the external audit
Internal Audit Report	The Committee reviewed and monitored: – progress against the 2018 plan throughout the year; – the status of open audit issues; – any internal control failings; and – the appropriateness of mitigation actions put in place by management. The Committee also reconfirmed the Internal Audit Strategy and the Internal Audit Charter and approved the 2019 Internal Audit Plan. Further details can be found on pages 61 to 62.	– Monitor progress against 2019 plan – Progress made in resolving open audit issues – Monitor improvement plans in relation to identified internal control gaps
Risk Management Report	The Committee consider the risk management environment, major whistleblowing reports and any mitigating plans implemented by management throughout the year. Progress against plans is monitored closely and management are challenged appropriately on areas where a satisfactory outcome is not evident. Further details can be found on pages 35 to 46.	– Monitoring of whistleblowing cases and actions implemented to resolve issues
Non-Audit Services Policy and review of non-audit services	Due to the change of auditor, the Committee undertook a comprehensive review of the non-audit services supplied by the external auditor. Further details can be found on page 63.	– Review of non-audit services supplied – Application of the Non-Audit Services Policy
Tax update and litigation update	The Committee reviewed the Group's tax costs, tax risks, efficiency and effectiveness of tax policies along with updates on tax audits. It also reviewed any significant litigation issues.	– Monitor the tax strategies within markets and at Group level – Monitor the level, frequency and type of litigation within the Group

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for reviewing and agreeing the Group's principal risks and for considering its risk appetite in relation to those risks. However, the Audit Committee has delegated responsibility for ensuring that:

- There is an appropriate mechanism in place to identify the risks the Group faces;
- Management teams have the correct focus on those risks and the action plans in place to mitigate or respond to those risks;
- A compliance programme is in place in all markets that meets or exceeds external benchmarks and is appropriate in terms of legal requirements, content, sector, cost and resources;
- Internal controls are appropriate, well designed and operating consistently across the Group; and
- The Group's whistleblowing programme is appropriately managed to reduce the risk of fraud or respond quickly and decisively in the event the Group falls victim to fraud.

The Audit Committee considers the risk management framework, any internal control issues which have arisen and all whistleblowing reports, and the mitigating actions, at each meeting. The reports provided to the Committee give an insight into the culture within the organisation and allow the Committee to assess progress against and effectiveness of any mitigation plans implemented by management.

The Group has adopted the three lines of defence model. The first line of defence is the Group's organisational activities, policies and procedures implemented by local management teams. The second line of defence comprises oversight functions and Group or regional management who set direction and define policy. The third line of defence is Internal Audit, supported, if necessary, by external experts. Each function provides independent challenge to the levels of assurance provided by the first two lines of defence.

Further information on risk management and the Group's principal risks can be found in the Risk Management Report on pages 35 to 46 and the Corporate Governance Report on page 56.

WHISTLEBLOWING

SpeakUp, the Group's externally hosted whistleblowing line, is a compliance and ethics reporting solution which allows both hotline and web reporting capabilities in multiple languages, integrated with case management software to support efficient and effective investigation, remediation and reporting.

The Head of Corporate Assurance reports to the Committee at each meeting on fraud and whistleblowing claims that have been received since the last Audit Committee meeting, and significant currently open issues. The new and open cases which are reported to the Committee are those of sufficient significance to warrant attention, however a list of all reports is also provided to the Committee along with a breakdown by market, report type and source.

INTERNAL AUDIT

The aim of the Internal Audit function is to provide independent objective assurance and advisory services designed to add value and improve the Company's operations, by bringing a systematic and disciplined approach to evaluate the effectiveness of the risk management, governance, control and compliance processes and support management in their continuous improvement.

The Committee assesses the effectiveness of the Internal Audit function by reviewing progress against plans and also reviews the experience and expertise of the Internal Audit team to ensure the right people are recruited to carry out the function.

As part of its remit, the Internal Audit team regularly assesses the effectiveness of internal controls over financial reporting as well as the preparation of financial statements based on the framework contained in the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the UK Corporate Governance Code and reports its findings to the Audit Committee on a regular basis. The Group's Minimum Control Framework (MCF) ensures facilitation of this process across its broad range of operations globally.

The Audit Committee agreed that a review of the effectiveness of the Internal Audit function should take place in 2019.

A new Internal Audit strategy was rolled out at the beginning of the year with a focus on internal control governance, implementation of regional internal audit functions and audit process improvements, which are aligned to the Ignite strategy and key risks. The key components of the improved Internal Audit model, and progress made during the year, are detailed on page 62.

Key components of Internal Audit model	Progress during 2018
Regional delivery – Introduction of the regional operating model – Small but focused base for independent assurance located closer to the business – Shifting of the execution from the centre – Building partnership with the business	– New regional Internal Audit employees recruited – One fully resourced regional team in South America integrated and extended to Central America – Shifting ownership of audit and related matters to new regional functions – Good progress facilitated through participation in Group-led projects by business and finance teams
Internal controls custodianship – Focused internal controls team – Alignment with second line of defence – Centrally led team of experts – Alignment, support and collaboration – Transparency of risk mitigations	– A central point of focus for internal controls – Building partnerships with IT and Finance functions – Designing the mandate of internal controls functions in the markets – Creating a reliable self assessment toolset for the Minimum Control Framework
Global Audit Centre of Excellence – Central team re-positioned to provide guidance and expertise – Assurance over Group risks and centrally led project – Focus on disruptive risks and strategy support – Training and upskilling hub	– One central team, under one leadership – Refreshing of the methodology and implementation of the new toolset – Implementation of regional ways of working – Training and upskilling commenced

2019 Internal Audit Plan

The Committee reviewed the 2019 Internal Audit Plan which will continue to deliver assurance for the control environment, based on MCF testing as well as key regulatory risks pertinent to the Group.

The 2019 plan will also incorporate an operational risk universe development with a pilot in Latin America, to prepare the foundations for the risk-based planning process. The Committee approved the planning approach, resourcing, the risk-based reviews (anti-money laundering, risk management and data protection) and IT audit.

The key elements of the 2019 plan are:

Assurance theme	Overview	Proportion of audit time
Compliance	Testing compliance against the Minimum Control Framework and expected controls	40%
Risk-based reviews	Performing global and local reviews to evaluate how the business manages key risks outside MCF	35%
IT audit	Reviewing how the business manages key risks around IT	11%
Management assistance	Internal Audit's input on fraud investigations and direct requests from management for assistance	14%
Advisory activities	Assurance activities in new areas not previously covered by Internal Audit but which represent either key strategic priorities or emerging risks	

EXTERNAL AUDIT

Auditor effectiveness and independence

The Committee assesses the robustness of the external audit process by:

- Monitoring the implementation and fulfilment of the audit plan.
- Reviewing and assessing the auditor reports on the significant accounting judgements and its challenge to management.
- Reviewing the level of support and service provided by the auditor.
- Reviewing the results of the external audit effectiveness survey.

The Committee satisfies itself that the auditor remains independent and objective by:

- Reviewing the safeguards operating within the audit firm.
- Considering the Independence Report presented to the Committee.
- Assessing the level and type of non-audit services provided by the auditor.

Due to the change in auditor, the effectiveness review will take place in 2019 once Deloitte have completed their first audit.

The review is designed to provide the Committee with information on the overall efficiency, integrity and effectiveness of the external audit, with the views of senior finance personnel in each of the Group's principal territories together with Group Finance, Tax and Company Secretariat taken into account.

When assessing the effectiveness of the external audit the Committee considers:

Audit planning and design

- Audit team structure and leadership
- The approach to the audit
- Sources of assurance
- Key risks to the audit quality

Audit policies and procedures

- Independence and quality control procedures
- Review of non-audit services provided

Audit execution

- Professional judgement, mindset and culture of audit firm
- Technical excellence, skills and judgement

Role of management

NON-AUDIT SERVICES

The policy for non-audit services sets out the permitted and non-permitted non-audit services as well as the approval levels required by the Audit Committee. The policy is designed to ensure that the external auditor's objectivity is not compromised by earning a disproportionate level of fees for non-audit services or by performing work that, by its nature, may compromise the auditor's independence. However, using advisors who have an understanding of the Group's business can be a benefit and the Committee will consider non-audit services supplied on an ongoing basis. The provision of permitted non-audit services will only be approved by the Audit Committee if:

- Engagement of the auditor to provide the services does not impair the independence or objectivity of the external auditor;
- The skills and experience of the external auditor make it the most suitable supplier of the non-audit service;
- The auditor does not have a conflict of interest due to a relationship with another entity; and
- The aggregate fees incurred for permitted non-audit services relative to the audit fee do not exceed 70% of the average audit fee over the previous three years.

Permitted non-audit services above a certain level are approved on a case-by-case basis by the Audit Committee. The fee paid to the auditor for audit-related services was £0.1m, and for permitted non-audit services was £0.4m. The ratio for audit/non-audit work is 0.12:1.

Deloitte continually monitor their independence and ensure that appropriate safeguards are in place including but not limited to the rotation of senior partners and staff and the involvement of other partners and staff to carry out reviews of the work performed and to otherwise advise if necessary. The following services were supplied during the year:

Permitted non-audit services

- Assistance with GDPR compliance
- Australia Retail review

Non-permitted non-audit services

- Guam, Saipan and Macau – assistance with tax compliance and computations for 2017.

Deloitte had already been engaged to perform the tax work prior to their appointment as Group auditor and although these services are not permitted under our policy, they are permitted under the Audit regulation as they are non-EU countries. In addition, separate teams were engaged and used to provide all non-audit services and appropriate safeguards were implemented to ensure that there was no threat to Deloitte's independence.

SIGNIFICANT ISSUES

The following issues were identified by the Committee as being significant in the context of the financial statements or as matters of significance to the Group and were debated by the Committee during the year.

Acquisition accounting (see note 28 on page 161)	**The issue and management's view** Management presented details on the acquisition accounting for the Central American business acquired in March 2018, and the judgements applied in preparing the Group's results for the year ended 31 December 2018 and the period ended 30 June 2018. These judgements included the initial purchase price allocation, the alignment of accounting policies and the determination of any associated fair value adjustments.
	Conclusion reached by the Committee The Committee concluded that the business combination had been accounted for appropriately and in line with the principles set out in IFRS 3, Business Combinations.
	Rationale for the Committee's conclusion The Committee received reports from management which covered the acquisition accounting process and which demonstrated how the accounting principles had been applied. The Committee reviewed the judgements made and considered the application of the accounting principles to be appropriate.
Goodwill/Asset impairment (see notes 11 and 12 on pages 139 to 141)	**The issue and management's view** Management presented a detailed overview of impairment testing to the Committee covering goodwill; a number of properties; and the indefinite life intangibles arising as a result of business acquisitions. The Committee reviewed and challenged value-in-use calculations, sensitivity analysis and a review of the draft disclosure in the financial statements.
	Conclusion reached by the Committee The Committee concluded that an impairment of UK goodwill of £175m and of site based assets in the UK and Europe of £23.2m was required. Further details can be found on pages 139 to 141.
	Rationale for the Committee's conclusion The Committee reviewed the outlook for the UK business which had declined during 2018. Management kept the Committee updated throughout the year with regular reports on goodwill and site based asset assumptions being considered. The Committee concluded that the sensitivity analysis prepared by management on the UK goodwill value-in-use model incorporated reasonably possible changes to the key assumptions and that the outcome of the sensitivity analysis indicated that an impairment was required.
Minimum Control Framework ("MCF")	**The issue and management's view** The Committee reviews control issues identified by the MCF on a regular basis with management reporting on any significant issues and the actions taken to resolve the control gaps.
	Conclusion reached by the Committee The Committee satisfied itself that management had taken the appropriate action for any significant issues identified during the year and received regular updates on progress against plan. The Committee concluded that engagement with underlying adherence to the MCF standards was improving across the Group.
	Rationale for the Committee's conclusion The Committee received updates from the Group Head of Internal Audit at each meeting setting out the compliance across the Group, detailed findings from audits and recommended mitigation plans for identified control gaps. The regional Finance Directors report to the Committee on any specific issues throughout the year.
IFRS 16 (see pages 109 and 110)	**The issue and management's view** During the year, management presented to the Committee on the implications of IFRS 16 and the accepted approaches to transition. Management carried out a comprehensive awareness programme globally to ensure that the markets were informed of the new standard.
	Conclusion reached by the Committee The Committee was regularly informed of the Group's position and the transition approaches recommended by the IASB and management provided a detailed analysis of each. After due consideration, the Committee agreed to adopt a fully retrospective transition approach to IFRS 16.
	Rationale for the Committee's conclusion The Committee reviewed the accounting and reporting implications from the perspective of the balance sheet, income statement and cash flow. The Committee also considered other implications including net debt and gearing, net assets, EBITDA and ROCE which contributed to the Committee's decision on the accounting treatment for IFRS16.

NOMINATION COMMITTEE REPORT

CREATING AN EFFECTIVE BOARD

NIGEL STEIN

Chair of the Nomination Committee

DEAR SHAREHOLDER

I am pleased to present the report of the Nomination Committee for the year ended 31 December 2018.

During the year the focus of the Committee was on Non-Executive Director succession planning and Jane Kingston was appointed in July 2018. Jane brings a wealth of remuneration experience and joined the Remuneration Committee upon appointment. Jane will succeed Coline McConville as Chair of the Remuneration Committee when Coline steps down from the Committee and the Board in July 2019 and I am sure that the Committee will be in good hands.

Nigel Northridge, the Senior Independent Director, will retire in 2019 after more than nine years' service. Nigel agreed to stay on the Board to assist me in settling into the chairmanship role and I appreciate his support during that time. Nigel has been a valuable asset to the Board and we wish him success in the future.

The Board approved the appointment of Jerry Buhlmann to succeed Nigel Northridge as Senior Independent Director. Further details are given on page 66.

As a Board we have agreed not to set targets within our Diversity Policy Statement however we aim to achieve the guidelines set out in both the Hampton-Alexander Report and the Parker Review. We will work with the recruitment consultants to ensure that the Board is informed of a wide range of potential candidates.

Nigel Stein
Chairman

COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

		Feb	Nov
Nigel Stein	Chairman	✓	✓
Jerry Buhlmann	Independent Non-Executive Director	✓	✓
Rachel Empey	Independent Non-Executive Director	✓	✓
Jane Kingston*	Independent Non-Executive Director	–	✓
John Langston	Independent Non-Executive Director	✓	✓
Coline McConville	Independent Non-Executive Director	✓	✓
Nigel Northridge	Independent Non-Executive Director	✓	✓
Till Vestring	Independent Non-Executive Director	✓	✓

*Jane Kingston joined in July 2018

Focus for 2018	What we achieved in 2018	Focus for 2019
Board succession planning	Successful integration of Board Chairman Appointment of Jane Kingston in July 2018	– Review of selection process to ensure wide range of candidates is presented to the Board for consideration
Governance	The Committee discussed the new UK Corporate Governance Code and the provisions which impacted the Committee	– Review of policy on multiple board appointments to avoid 'overboarding'
External evaluation actions	There were several actions arising from the 2017 external evaluation	– Focus on Board composition and skills required to support long-term strategy

BOARD SKILLS AND EXPERIENCE

The review of skills and experience is carried out by the Committee annually by way of a skills assessment completed by the Board members.

The Board has a broad range of skills and experience covering automotive, retail, reward and human resources, finance, consultancy, strategy and media. The skills review identified digital / technology as an area which could be further strengthened on the Board as digital is a rapidly evolving area for the automotive industry and as such is a key consideration for succession planning. The future trends affecting the industry are given on page 11.

The experience of the Board members covers a wide range of sectors and industries and in addition we also have several Board members from outside the traditional UK plc background and this diversity of thought adds to our decision making. However, we recognise that this is a constantly evolving environment and ensuring that we have the right mix of individuals to support and challenge management, to avoid group think and to make the right decisions to facilitate the long-term success of the Group remains paramount.

APPOINTMENT PROCESS

The Inzito Partnership was appointed to assist with the search for Non-Executive Directors during the year. The team at Inzito has worked with the Group for several years and is familiar with the current Board's skills set and the potential requirements for the future.

During the recruitment process, I meet with the consultants to review our needs and to draw up a long-list of suitable candidates for consideration. When a short-list has been established, potential candidates will meet with other Board members, after which the Committee will decide on the most suitable candidate and recommend the appointment of the Non-Executive Director to the Board for its approval. The Inzito Partnership is a signatory to the Voluntary Code of Conduct for Executive Search Firms and does not have any other connection to the Company.

The Company continually updates its list of potential candidates, taking into account the Ignite strategy, the business needs of the Group and the Board's diversity policy, and should the situation arise when a Director departs unexpectedly, the recruitment process can begin immediately.

The Chairman led the recruitment process for the new Senior Independent Director and met with a broad range of candidates. The short-list was discussed in detail with the Committee members and ultimately it was agreed that Jerry Buhlmann was the most suitable candidate. The Committee believes that Jerry's recent CEO and international board experience is an asset and he has the skills and capability to perform the role effectively. As Senior Independent Director, he will serve as a sounding board for the Chairman and act as an intermediary for other Directors. He will also be responsible for holding annual meetings with Non-Executives, without the Chairman present, to appraise the Chairman's performance, and will be available as an alternative point of contact for investors.

DIVERSITY POLICY STATEMENT

The Committee recognises the benefits of having a diverse Board and sees this as an essential element in delivering the Group's strategic objectives. We value diversity of skills and industry experience as well as background, race, age, gender, educational and professional background as we believe this adds fresh perspectives which enrich our decision making and the aim of the policy is to reflect this ethos.

The Board's policy on diversity is a verbally agreed principles-based policy. It is clearly understood by our recruitment consultants and is taken into account when considering succession planning and external hires. The Board considers all aspects of diversity to be relevant and all Board appointments are made on merit and in the context of the skills and experience needed for the Board to be effective. The Board has not set specific targets, however aims to achieve the recommendations set out in the Hampton-Alexander and Parker Reviews.

During 2018, Jane Kingston was appointed to the Board, therefore as at the date of this report women represent 30% of the Board membership.

The Board philosophy on diversity is also reflected throughout Inchcape where we employ a diverse workforce across 32 countries. We value the unique contribution that each person brings to Inchcape and we aim to employ people who reflect the diverse nature of society, regardless of age, sex, disability, sexual orientation, race, colour, religion, ethnic origin and political belief.

The Committee's terms of reference can be found at www.inchcape.com/governance.

CR COMMITTEE REPORT

BUILDING SUSTAINABILITY

TILL VESTRING

Chair of the CSR Committee

DEAR SHAREHOLDER

I am pleased to present the report of the CSR Committee for the year ended 31 December 2018.

During the year, the Committee reviewed progress on our three core pillars, our people, health & safety and the environment. I am pleased that progress is being made on the people and health & safety agendas and we also continue to work on minimising our environmental footprint. Further information can be found in the CSR Report on pages 28 to 33.

The Committee also looked at each of our key stakeholders, how we create value for each of them, how we engage with them and the outcome of the engagement processes. Creating dialogue with stakeholders enables us to build on our vision to be the world's most trusted automotive Distributor and Retailer and we will continue to build on this during 2019. Further details are given on page 29.

Another area of consideration for the Committee has been the new UK Corporate Governance Code requirement for engagement with the workforce. I am pleased to report that the Board has agreed to delegate responsibility to the CSR Committee with myself as the designated Non-Executive Director. The Committee will spend the first few months of 2019 agreeing actions, processes and reporting procedures to ensure that we are in a good position to engage with the workforce in a meaningful way. Our employee experience surveys and focus groups will go some way to provide valuable information but we feel this would be enhanced by other mechanisms such as Board members' attendance at town hall meetings and further site visits to meet employees and listen to their views.

I am excited for the opportunities this presents for the Committee and I look forward to reporting on our activities in next year's Annual Report and Accounts.

Till Vestring
Chair of the CR Committee

COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

		Feb	Nov
Till Vestring	Committee Chair	✓	✓
Jerry Buhlmann	Independent Non-Executive Director	✓	✓
Stefan Bomhard	Group Chief Executive Officer	✓	✓
Alison Clarke	Chief Human Resources Officer	✓	✓
Coline McConville	Independent Non-Executive Director	✓	✓
Nigel Stein	Chairman	✓	✓

Focus for 2018	Progress made	Focus for 2019
CSR strategy	A review of the CSR strategy was undertaken during the year by an employee working group to determine whether the strategy was still relevant to the changing business.	– Workforce engagement – Stakeholder engagement
Stakeholder engagement	After receiving feedback from investors and customers we participated in the 2018 CDP climate change project.	– 2019 CDP submission – Review of areas for improvement and subsequent action plans

ALIGNING PERFORMANCE AND REWARD

COLINE McCONVILLE
Chair of the Remuneration Committee

DEAR SHAREHOLDER

I am pleased to present the Directors' Report on Remuneration ("DRR") for the year ended 31 December 2018. The first part of this report gives details of the remuneration policy which was approved by shareholders at the 2017 Annual General Meeting ("AGM") and part two of the report gives details of how the policy was implemented during 2018.

Jane Kingston was appointed to the Board and to the Committee on 25 July 2018. Jane brings a wealth of remuneration experience and her biography is given on page 49. After almost five years on the Board and three years as Chair of the Committee, I have decided to retire from Inchcape and will be stepping down from the Board in July 2019. By that time, Jane will have served on the Committee for 12 months and we will have completed a comprehensive handover prior to the policy review in 2020.

2018 PERFORMANCE OUTCOMES AND AWARDS

The Group delivered sales of £9.3bn, operating profit before exceptional items of £385.1m, EPS of 65.0p (adjusted) and ROCE of 28%. The performance resulted in 62.3% of the 2016 performance share plan ("PSP") and the 2016 co-investment plan ("CIP") vesting and a 2018 annual bonus payment of 57.7% for salary for Stefan Bomhard and 66.7% of salary for Richard Howes.

The various elements of remuneration paid to Directors are set out on the following pages, with a summary on page 70. This includes a 4.0% and 2.5% salary increase for Stefan Bomhard and Richard Howes respectively, which took effect from 1 April 2018. The Committee took into account the average salary increase across the Group when determining the 2018 Executive Directors' salaries, along with performance, delivery of the Ignite strategy and external and internal market practices, and concluded these increases to be appropriate. In 2018, the average salary increase across the Group was 2.5%.

The Committee is satisfied that the total remuneration received by Executive Directors in 2018 appropriately reflects the Company's performance over the year and is consistent with the approach taken for other employees. The Committee is also satisfied that the approach to setting the remuneration underpins the effective and proper management of risk by rewarding fairly for sustainable profit growth and long-term returns for shareholders. The Committee did not exercise any discretion on reward outcomes for 2018.

2018 UK CORPORATE GOVERNANCE CODE

The new Corporate Governance Code was published in July 2018. The Committee has considered its obligations under the new Code which is effective from 1 January 2019. Some of the new provisions have already been adopted by the Company such as holding periods for long-term incentive plans and malus and clawback provisions, however there are certain actions the Committee will undertake during 2019 as part of the remuneration policy review:

- A review of the information provided to the Committee in respect of workforce remuneration and related policies;
- A review of the alignment of pay structures with desired Company culture (as well as performance);
- Consideration of a post-employment shareholding policy;
- Review of cash supplements offered to Executive Directors as part of the pension contributions;
- Consideration of the use of discretion to override formulaic outcomes beyond what is already permitted in the policy and relevant plan rules.

The Committee, in particular, notes the views of remuneration governance bodies and investor guidelines on pensions paid to executive directors. At the last policy review in 2017, the Committee reduced the maximum pension contributions from 40% to 30% of salary for the Executive Directors and will review the maximum contribution again as part of the upcoming policy review.

The Committee also updated its terms of reference to align with the new Code. Its terms of reference can be found at www.inchcape.com/governance and details of the remuneration consultants can be found on page 87.

REGULATORY REPORTING REQUIREMENTS

The Companies (Miscellaneous Reporting) Regulations 2018 (the Regulations) were published in June 2018. The Committee has reviewed the revised reporting requirements which are effective from 1 January 2019. The Committee has decided to implement the following reporting requirements early: the disclosure of any use of discretion by the Committee in the Annual Statement, the additional pay scenario of maximum vesting under the long-term incentives plus a 50% share price appreciation to the performance scenario charts and an additional note in the single figure table detailing how much of the Executive Director's vested long-term incentives for that year are attributable to share price appreciation. The Committee also reviewed the feasibility of disclosing the CEO pay ratio in this report however the Committee concluded that it would be appropriate to disclose in next year's report in line with regulations.

During 2019, the Committee will review relevant processes, procedures and policies to ensure that they are aligned with the new reporting and governance regulations and will report to shareholders on these aspects in next year's DRR.

2019 REMUNERATION

During 2018 and at the beginning of 2019, the Committee reviewed the impact of new accounting standard IFRS 16, which is effective from 1 January 2019, on the performance targets for the 2019 incentives as well as the targets for the outstanding 2017 and 2018 long-term incentive awards. For 2019, the bonus and long-term incentive awards will be set taking into account the new standard to ensure targets and actual performance are measured on a consistent basis. For the outstanding 2017 and 2018 long-term incentive awards, the Committee intends to make adjustments to targets as appropriate and will disclose in the relevant DRR.

The Committee considered salary increases for Stefan Bomhard and Richard Howes and approved an increase of 2.0% each. The salary increases will take effect from 1 April 2019.

2019 REMUNERATION POLICY REVIEW

Jane Kingston will lead the remuneration policy review during 2019 with a view to consulting with shareholders before the end of the year. Along with a comprehensive review of the policy the Committee will also consider how it can engage with the wider workforce on how decisions on executive pay reflect wider pay policies and alignment across the Group.

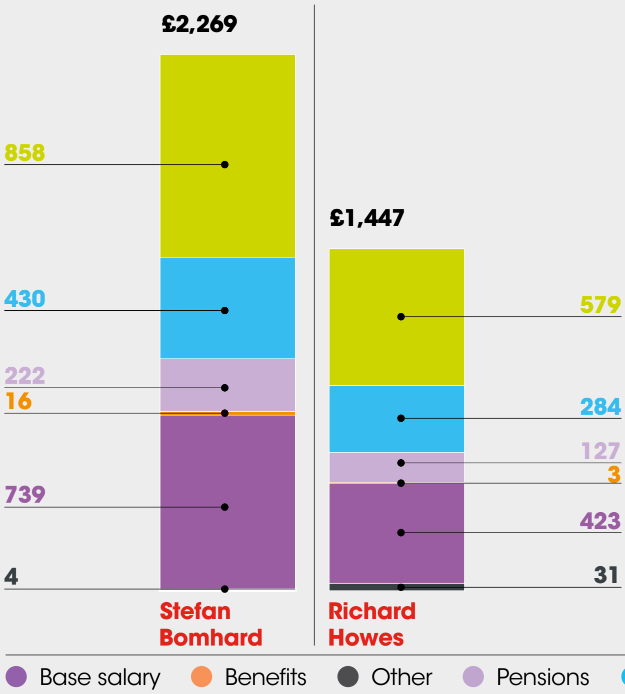
The Committee values the opportunity to engage with stakeholders as it allows the Company to be transparent around its remuneration decisions. Engagement also allows stakeholders to express their views on the clarity, appropriateness and simplicity of its remuneration policy. The remuneration policy will be put to shareholders for approval at the 2020 Annual General Meeting.

We look forward to engaging with shareholders throughout the year and at the Company's Annual General Meeting in May 2019.

Coline McConville
Chair of the Remuneration Committee

REMUNERATION AT A GLANCE

WHAT EXECUTIVE DIRECTORS EARNED DURING 2018 (£'000)



- 4.0% and 2.5% salary increase in 2018 for CEO and CFO respectively
- 30% pension supplement
- Benefits include medical cover, company car and life assurance
- LTIP – the figures are based on the value of awards using the average share price from 1 October 2018 to 31 December 2018 of 563.5p
- 62.3% of the PSP and CIP awards vested

Details of actual performance achieved are given on pages 79 to 82.

ALIGNMENT OF PERFORMANCE AND REMUNERATION FOR 2018

Annual bonus

To motivate and reward the achievement of the Company's strategic and operational objectives

DRIVE GROWTH
KPI: Revenue
£9.3bn

DRIVE PERFORMANCE
KPI: Operating Profit
£385.1m

DELIVER STRATEGY
KPI: annual objectives
Progress of Ignite

REWARD
57.7% of salary – CEO
66.7% of salary – CFO

Long-term incentives

To motivate and reward performance linked to long-term success

INCREASE EARNINGS AND RETURNS
KPI: EPS
65p
KPI: ROCE
28%

LONG-TERM PERFORMANCE
Performance Period
2016 – 2018

REWARD
PSP
62.3%
CIP
1.25:1 match

Further information on annual bonus and long-term incentive plans can be found on pages 80 to 82.

Part 1 —

DIRECTORS' REMUNERATION POLICY

This section of the report sets out the remuneration policy approved by shareholders at the AGM on 25 May 2017. There are three minor changes/clarifications: confirmation that it is current practice for any dividends accrued over the vesting of PSP and CIP awards to be paid in shares, a statement of the Committee's commitment to consult employees on executive remuneration in the future and additional detail on the term of appointment for the Non-Executive Directors. The performance scenario charts also include an additional scenario of maximum vesting under long-term incentives plus a 50% share price appreciation.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

Element	Objective and link to strategy	Operation and performance metrics	Opportunity
Base salary	To pay a competitive salary which attracts, retains and motivates talent to make decisions which drive the Company's strategy and create value for stakeholders.	Salaries are reviewed annually and any increases typically take effect from 1 April of each year. Adjustments to salary will take account of: – Increases awarded across the Group as a whole, and conditions elsewhere in the Group; – Experience and performance of the individual; – Pay levels at organisations of a similar size, complexity and type; and – Changes in responsibilities or scope of the role.	Increases are not expected to exceed average increase for senior management, unless a change in scope or complexity of role applies.
Annual bonus	To motivate and reward for the achievement of the Company's strategic annual objectives.	Based at least 70% on annual financial performance. Financial measures may include (but are not limited to) revenue and operating profit. Non-financial measures may include strategic measures directly linked to the Company's priorities. Any annual bonus earned above 100% of salary is paid in shares which are automatically invested in the CIP. Bonus payouts are subject to malus and clawback provisions.	150% of salary maximum payable for achieving stretch performance against all measures. 60% of salary payable for target performance. 12% of salary payable for entry level performance.
Performance Share Plan (PSP)	To provide a meaningful reward to senior executives linked to the long-term success of the business. The use of performance shares enables the delivery of median pay for median performance and upper quartile pay for upper quartile performance.	Vesting of the PSP awards is based on performance measures linked to the Group's strategic priorities and may vary year-on-year. For awards granted to the Executive Directors from 2017, vested awards will be subject to an additional two-year holding period. Any dividends paid would accrue over the vesting period and would be paid only on those shares that vest. Dividends can be paid in cash or shares. Current practice is for dividends to be paid as shares. PSP awards granted from 2017 are subject to malus and clawback provisions.	PSP opportunities will be 180% of salary. Award levels are subject to an individual limit of 300% of salary. Threshold level performance will result in 25% vesting of the PSP award.
Co-Investment Plan (CIP)	To encourage executive share ownership and reinforce long-term success. A voluntary investment opportunity in return for a performance-based match. Any annual bonus over 100% of salary will be paid in shares which will be automatically invested in the plan. Further voluntary investments may be made up to the investment limit.	Any bonus over 100% of salary will be paid in shares which will be automatically invested in the plan. Further voluntary investments may be made up to the investment limit. Invested shares can be withdrawn at any time but the entitlement to a match would be lost if the invested shares are withdrawn before the end of the relevant three-year vesting period. Vesting of the CIP awards is based on performance measures linked to the Group's strategic priorities and may vary year-on-year. For awards granted to the Executive Directors from 2017, vested awards will be subject to an additional two-year holding period. Any dividends paid would accrue over the vesting period and would be paid only on those shares that vest. Dividends can be paid in cash or shares. Current practice is for dividends to be paid as shares. CIP awards granted from 2017 are subject to malus and clawback provisions.	Executive Directors may invest up to an overall maximum of 50% of salary. Maximum match of 2:1, threshold of 0.5:1. Maximum matching award is therefore 100% of salary in any year, and threshold matching award is 25% of salary.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS CONTINUED

Element	Objective and link to strategy	Operation and performance metrics	Opportunity
Save As You Earn (SAYE)	To encourage share ownership.	UK employees are able to make monthly savings, over a three-year period. At the end of the savings period, the funds are used to purchase shares under option. As this is an all-employee scheme and Executive Directors participate on the same terms as other employees, the acquisition of shares is not subject to the satisfaction of a performance target.	Participation limits are those set by the UK tax authorities from time to time.
Pension	To provide market competitive pension benefits where it is cost-effective and tax-efficient to do so.	The Group's pension scheme, Cash+, is a cash balance retirement scheme which accrues 16% of earnings (capped at £250,000 p.a.) paid as a lump sum at the age of 65. Members are required to contribute 7% of pensionable salary. Executive Directors may also receive a salary supplement in lieu of pension contributions.	Eligibility to join the Cash+ scheme at a minimum level to meet regulatory requirements. Cash supplement up to 30% of base salary for Executive Directors.
Other benefits	To provide market competitive benefits where it is cost-effective and tax-efficient to do so.	Benefits currently include (but are not limited to): – Company cars; – Medical care; and – Life assurance premiums.	It is not anticipated that the costs of benefits provided will materially exceed 5% of salary for existing Executive Directors. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation).

To encourage share ownership and ensure alignment of executive interests with those of shareholders, Executive Directors are required to hold a number of shares equivalent to 200% of base salary. Executive Directors have five years from the date of appointment to reach this shareholding.

NOTES TO THE POLICY

Payments from existing awards

Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the remuneration policy detailed in this report. Such awards include vested but unexercised options.

Selection of performance measures and target setting

The Committee regularly reviews the appropriateness of performance measures used by the Group.

- The annual bonus measures have been selected to incentivise sustainable growth in profits. The matrix structure provides a balanced focus between commercial and cash initiatives. A basket of strategic measures will be selected each year to reinforce the Group's strategic objectives.
- The Committee believes that EPS continues to be the best measure of long-term performance for the Group and is currently therefore the primary long-term incentive measure. It provides strong line of sight for executives who are familiar with the existing basis of EPS performance measurement and is consistent with the Group's long-term strategy focusing on sustainable growth.
- ROCE supports the Group's cash initiatives of controlling working capital and capital expenditure and, when combined with EPS, provides a balance between growth and returns.
- Performance targets are set to be stretching and achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates.
- The Committee has considered the use of other performance measures to reinforce the Company's long-term objectives, including relative TSR and cash flow. However, given the diversity of the Group's operations, it would be difficult to set a relevant and robust comparator group for assessing relative TSR performance and there would be some difficulty in cascading many of the other measures appropriately down the organisation.
- Targets are set taking into account a range of reference points including the Ignite strategy and broker forecasts for the Group. The Committee believes that the performance targets set are appropriately stretching, and that the maximum will only be achievable for truly outstanding performance. Please see pages 80 to 83 for further details on the target ranges.
- The Committee retains discretion to adjust the annual bonus outcome up or down to ensure that it is a fair reflection of the Group's underlying performance.

- The Committee also has the discretion to adjust the performance conditions for long-term incentive plans in exceptional circumstances, provided the new conditions are no tougher or easier than the original conditions.
- Any discretion exercised by the Committee in the adjustment of performance conditions will be fully explained to shareholders in the relevant Annual Report on Remuneration. If the discretion is material and upwards, the Committee will consult with major shareholders in advance.

Malus and clawback

These provisions allow the Committee in certain circumstances (such as gross misconduct or a material misstatement of the Group financial statements) the discretion to:

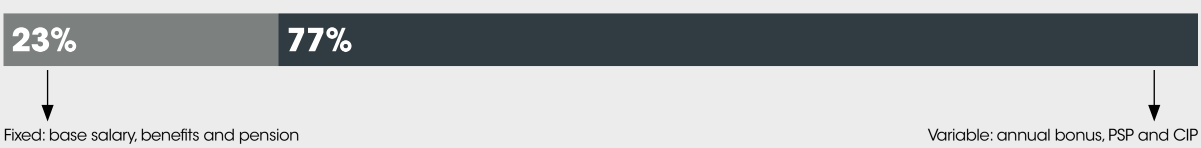
- reduce bonus, PSP and/or CIP;
- cancel entitlement of bonus;
- prevent vesting of the PSP and/or CIP; or
- allow the Company within two years of payment/vesting of award to claim back up to 100% of the award.

Composition of remuneration arrangements

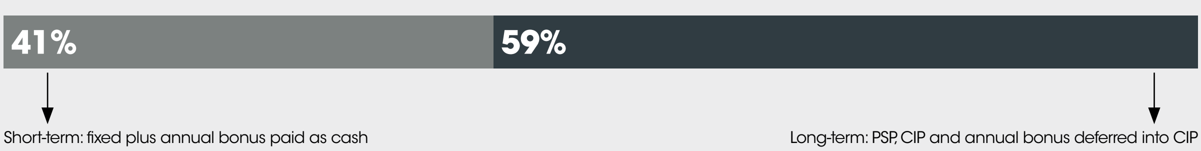
A significant proportion of Executive Directors' pay is variable, long term and remains 'at risk' (i.e. subject to malus and clawback provisions).

Charts are based on maximum payout scenarios for Executive Directors.

Fixed vs. variable (%)



Short-term vs. long-term (%)



REMUNERATION POLICY FOR OTHER EMPLOYEES

Our approach to salary reviews is consistent across the Group with consideration given to the level of responsibility, experience, individual performance, salary levels in comparable companies (using remuneration surveys, where appropriate) and the Company's ability to pay.

Senior managers (c. 400 individuals) participate in an annual bonus scheme which has similar performance targets to those of the Executive Directors. Below this level, local incentive schemes are in place for management and non-management employees. Opportunities and performance conditions vary by country and organisational level, with business unit-specific metrics incorporated where appropriate. Commission-based arrangements are also operated for certain roles.

Senior managers also receive PSP awards while participation in the CIP is limited to Executive Directors, Group Executive Committee members and the next level of executives (c. 20 individuals). Performance conditions are consistent for all participants while award sizes vary by organisational level. Share ownership guidelines apply to Executive Directors and Group Executive Committee members.

All UK employees are eligible to participate in the SAYE scheme on the same terms.

Pension and benefits arrangements are tailored to local market conditions, and so various arrangements are in place for different populations within the Group.

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

Objective and link to strategy	Operation and performance metrics	Opportunity
To provide fair remuneration, reflecting the time commitment and responsibilities of the role.	Non-Executive Directors receive a fixed fee and do not participate in any incentive schemes or receive any other benefits, except the Chairman who receives medical cover. Fee levels are reviewed regularly, with any adjustments effective immediately after the review is approved. Additional fees are payable for acting as Senior Independent Director and as Chairman of any of the Board's Committees (excluding the Nomination Committee). The Chairman's fee is determined by the Remuneration Committee and the fees for other Non-Executive Directors are determined by the Executive Directors. Non-Executive Directors may elect to receive up to 20% of their net fees p.a. as Company shares.	Appropriate adjustments may be made to fee levels, taking account of: – increases awarded across the Group as a whole and conditions elsewhere in the Group; – fee levels within organisations of a similar size, complexity and type; and – changes in complexity, responsibility or time commitment required for the role.

Fees paid to Non-Executive Directors are within the limits set by shareholders from time to time. This limit, currently at an aggregate of £1,000,000, was last approved by shareholders at the 2015 AGM.

Non-Executive Directors' term of appointment

The Non-Executive Directors are appointed for an initial three-year term which can be terminated by either party on one months' notice (six months for the Chairman).

Name	Date of appointment	Notice period
Jerry Buhlmann	01 March 2017	One month
Rachel Empey	26 May 2016	One month
Jane Kingston	25 July 2018	One month
John Langston	01 August 2013	One month
Coline McConville	01 June 2014	One month
Nigel Northridge	01 July 2009	One month
Nigel Stein	08 October 2015	Six months
Till Vestring	01 September 2011	One month

CONSIDERATION OF CONDITIONS ELSEWHERE IN THE GROUP

Prior to the annual salary review, the Committee receives an update from the Chief Human Resources Officer on the average salary increases across the Group. This is considered by the Committee when determining salary increases for the Executive Directors and the Group Executive Committee.

The Company has a diverse international spread of businesses as well as a wide variety of roles from petrol pump attendants and valeters through to Chief Executives of our individual businesses and therefore pay levels and structures vary to reflect local market conditions. Although the Company has not carried out a formal employee consultation regarding executive remuneration, it does comply with local regulations and practices regarding employee consultation more broadly. The Board is reviewing how it consults with its employees on its employment policies including all employee and executive remuneration and will report on this in the relevant sections of next year's Annual Report.

CONSIDERATION OF SHAREHOLDER VIEWS

When determining remuneration, the Committee takes into account the guidelines of representative investor bodies and shareholder views.

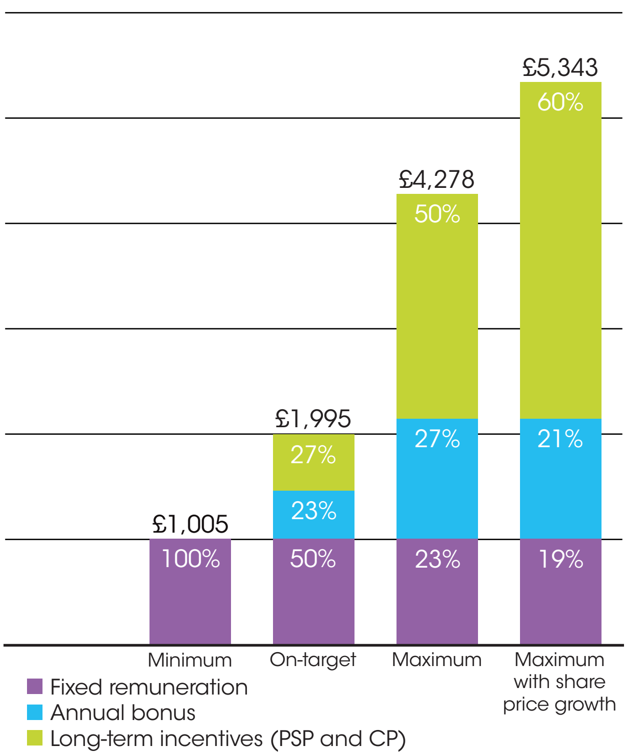
The Committee is always open to feedback from shareholders on remuneration policy and arrangements. We are committed to undertaking shareholder consultation in advance of any proposed changes to remuneration policy, as evidenced by the consultation in 2016/2017 with shareholders representing two-thirds of the Company's issued share capital. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate.

PERFORMANCE SCENARIOS

The charts below show the remuneration that Executive Directors could expect to obtain based on varying performance scenarios. Illustrations are intended to provide further information to shareholders regarding the pay for performance relationship. However, actual pay delivered will be influenced by actual changes in share price and the vesting periods of awards. The charts have been updated for 2019 salaries and also include an additional scenario consistent with the new remuneration reporting regulations which came into effect for accounting periods starting 1 January 2019. The scenario 'Maximum with share price growth' is based on the same assumptions as used in the 'Maximum' scenario but also assuming the share price increases by 50%.

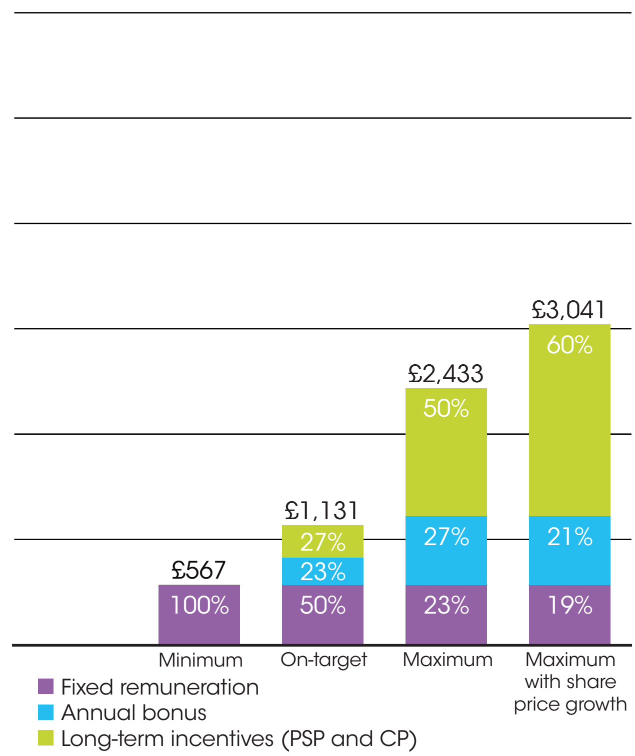
Stefan Bomhard – Group Chief Executive

Total remuneration (£'000s)



Richard Howes – Chief Financial Officer

Total remuneration (£'000s)



Notes on the performance scenarios:

Element	Assumptions
Fixed remuneration	Total remuneration comprises base salary, benefits and pensions
	Base salary – effective from 1 April 2019
	Benefits – as provided in the single figure table on page 79, excluding one-off relocation allowance
	Pension – cash in lieu of pension

		Minimum	On-target	Maximum	Maximum with share price growth
Variable pay	Annual bonus	No payout	Target payout (40% of maximum)	Maximum payout	
	CIP	No vesting	Assumes full voluntary investment		
			Threshold match of 0.5:1	Maximum vesting	Maximum vesting + 50% share price growth
	PSP	No vesting	Threshold vesting (25% of maximum)	Maximum vesting	Maximum vesting + 50% share price growth

APPROACH TO RECRUITMENT REMUNERATION

External appointments

When appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration, as follows:

Component	Approach	Maximum annual grant value	
Base salary	The base salaries of new appointees will be determined by reference to the scope of the role, experience of the individual, pay levels at organisations of a similar size, complexity and type, pay and conditions elsewhere in the Group, implications for total remuneration, internal relativities and the candidate's current base salary.	n/a	
Pension	New appointees will be eligible to participate in the Group's pension plan (or receive a cash supplement in lieu) on similar terms to existing Executive Directors.	n/a	
Benefits	New appointees will be eligible to receive normal benefits available to senior management, including (but not limited to) company cars, medical care and life assurance.	n/a	
Annual bonus	The annual bonus described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year.	150% of salary	
PSP	New appointees will be granted awards on the same terms as other Executive Directors as described in the policy table.	300% of salary	The combined maximum is not intended to exceed 400% of salary
CIP	New appointees will be granted awards on the same terms as other Executive Directors as described in the policy table.	100% of salary	
Other	The Committee will consider on a case-by-case basis if all or some of the incentives forfeited on leaving a previous employer will be 'bought-out'. If the Committee decides to buy-out forfeited awards, the award will be structured on a comparable basis, taking into account any performance conditions attached, time to vesting and share price at the time of buy-out. The Committee retains the discretion to make use of the relevant Listing Rule to facilitate such a buy-out.	n/a	

Notes to recruitment remuneration policy

In determining the appropriate remuneration for a new Executive Director, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of the Group and its shareholders.

Internal appointments

In cases of internal promotions to the Board, the Committee will determine remuneration in line with the policy for external appointees as detailed above. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements. Incentive opportunities for employees below Board level are typically no higher than for Executive Directors.

Non-Executive Directors

In recruiting a new Non-Executive Director, the Committee will use the policy as set out in the table on page 74. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director or as the Chairman of Audit, Remuneration and CSR Committees as appropriate.

EXIT PAYMENT POLICY, SERVICE CONTRACTS AND CHANGE OF CONTROL

The Company's policy is to limit severance payments on termination to pre-established contractual arrangements.

In addition, the Company retains discretion to settle any other amount reasonably due to the Executive Director, for example, to meet legal fees incurred by the Executive Director in connection with the termination of employment, where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice.

In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee as well as the rules of any incentive plans. When considering exit payments, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants.

The table below summarises how the awards under the annual bonus, PSP and CIP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion:

Component	Circumstance	Treatment	Payment/vesting date (if relevant)
Annual bonus	Resignation.	Bonus will lapse unless the date of leaving is after the year end and not serving notice period. The bonus will only be paid to the extent the targets set at the beginning of the year have been achieved.	Either the end of the performance period or at the Committee's discretion.
	Death, ill-health, redundancy, retirement or any other reason which the Committee may, in its absolute discretion, permit.	The bonus will only be paid to the extent the targets set at the beginning of the year have been achieved. Any bonus payment will be pro-rated for time served during the year.	Either the end of the performance period or at the Committee's discretion.
	Change of control.	The bonus will only be paid to the extent the targets set at the beginning of the year have been achieved. Any bonus payment will be pro-rated for time served during the year.	Either the end of the performance period or at the Committee's discretion.
PSP and CIP	Resignation.	Unvested awards will lapse on date of leaving. Any vested awards can be exercised.	Either the end of the performance period or at the Committee's discretion.
	Death, ill-health, redundancy, retirement (CIP only) or any other reason which the Committee may, in its absolute discretion, permit.	Any unvested awards will be pro-rated for time and performance.	Either the end of the performance period or at the Committee's discretion.
	Change of control.	Any unvested awards will be pro-rated for time and performance.	Either the end of the performance period or at the Committee's discretion.

SERVICE CONTRACTS

The Company's policy is for Executive Directors' service contract notice periods to be no longer than 12 months, except in exceptional circumstances. All current contracts contain notice periods of 12 months.

Name	Date of contract	Notice period	Unexpired term
Stefan Bomhard	1 April 2015	12 months	To retirement age
Richard Howes	11 April 2016	12 months	To retirement age

The Company may terminate an Executive Director's contract by paying a sum equal to base salary and, in certain circumstances, benefits including pension and life assurance, company car and entitlement to holiday pay for the 12-month period. Executive Directors' service contracts are available to view at the Company's registered office.

Part 2 —

ANNUAL REPORT ON REMUNERATION

The following section provides details of how the Company's remuneration policy was implemented during the financial year to 31 December 2018 and how it will be implemented in the financial year to 31 December 2019.

COMMITTEE MEMBERSHIP AND ATTENDANCE AT MEETINGS

		Feb	May	Nov
Coline McConville	Committee Chair	✓	✓	✓
Jerry Buhlmann	Independent Non-Executive Director	✓	✓	✓
Jane Kingston*	Independent Non-Executive Director	–	–	✓
Nigel Northridge	Senior Independent Director	✓	✓	✓
Nigel Stein	Chairman	✓	✓	✓
Till Vestring	Independent Non-Executive Director	✓	✓	✓

*Jane Kingston joined the Committee in July 2018.

The Remuneration Committee consists of five independent Non-Executive Directors and the Chairman, who was independent on appointment. The Committee invites other individuals such as the Group Chief Executive, Chief Human Resources Officer and external consultants to attend its meetings. No Director takes any part in any decision affecting his or her own remuneration. The table below details the decisions the Committee made in 2018 and its focus for 2019.

2018 objectives	Progress made	2019 focus
Bonus scheme	The Committee reviewed the outcome of the 2017 bonus scheme and set targets for the 2018 bonus scheme. Details are given on pages 80 to 81	The Committee will review the bonus structure as part of the remuneration policy review
Long-term incentives	The Committee reviewed the outcome of the 2015 PSP and CIP awards and agreed the grants for 2018. Details are on page 83	The Committee will review the appropriateness of the long-term incentive structure as part of the remuneration policy review, taking into account strategy, culture and stakeholder views
Executive Directors' remuneration	The Committee approved the overall 2018 remuneration for the Executive Directors. Further details are given on pages 79 to 83	The Committee will set targets for performance-related remuneration and consider appropriate salary levels and other benefits
Group Executive Committee remuneration	The Committee reviewed the remuneration for senior executives taking into account pay for employees across the Group	The Committee will set targets for performance-related remuneration and consider salary levels and other benefits
Chairman's fee	The Committee considered the Chairman's fee upon the appointment of Nigel Stein. It agreed that the fee remained appropriate and no changes were made	The Chairman's fee will be reviewed in November 2019
Share plan rule change	The Committee approved amendments to share plan rules on leaver provisions and to incorporate GDPR requirements. These changes did not benefit participants therefore did not require shareholder approval	The Committee will review the share plan rules to ensure they comply with best practice, regulation and governance practices
Committee evaluation	The Committee reviewed the results of the 2017 external evaluation and agreed actions for 2018	An internal evaluation of the Committee's performance in 2018 will take place in early 2019
Remuneration trends update	The external advisors updated the Committee on governance and remuneration trends	The Committee will review and approve the disclosures for the CEO pay ratio, pay scenarios and impact of share price appreciation
Gender pay gap report	The Committee reviewed the gender pay gap results and the initiatives being introduced to close the gap. The report can be found on www.inchcape.co.uk	The Committee will review the impact of the initiatives and the results of the 2019 gender pay analysis
Terms of reference	The terms of reference were updated to reflect the provisions of the new UK Corporate Governance Code	The terms of reference are effective from 1 January 2019

SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED)

The table below sets out the total remuneration received by the Directors for the year ended 31 December 2018:

	Base salary/fees £'000		Taxable benefits (a) £'000		Single-year variable (b) £'000		Multiple-year variable (c) £'000		Pension (d) £'000		Other (e) £'000		Total £'000	
Name	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Current Executive Directors														
Stefan Bomhard	**739**	713	**16**	19	**430**	728	**858**	1,332	**222**	214	**4**	0	**2,269**	3,006
Richard Howes	**423**	412	**3**	2	**284**	421	**579**	–	**127**	124	**31**	391	**1,447**	1,350
Current Non-Executive Directors (f)														
Nigel Stein	**217**	60	**1**	–	**-**	–	**-**	–	**-**	–	**-**	–	**218**	60
Jerry Buhlmann	**60**	50	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**60**	50
Rachel Empey	**60**	60	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**60**	60
Jane Kingston*	**26**	–	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**26**	–
John Langston	**75**	75	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**75**	75
Coline McConville	**75**	75	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**75**	75
Nigel Northridge	**81**	81	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**81**	81
Till Vestring	**70**	70	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**70**	70
Previous Non-Executive Directors														
Ken Hanna*	**128**	320	**1**	3	**-**	–	**-**	–	**-**	–	**-**	–	**129**	323
Total	**1,954**	1,916	**21**	24	**714**	1,149	**1,437**	1,332	**349**	338	**35**	391	**4,510**	5,150

* Ken Hanna left during the year and Jane Kingston was appointed during the year.

a. Taxable benefits comprise car allowance, medical cover and mileage allowance.

b. Payment for performance during the year under the annual bonus, including amounts paid in shares.

c. The 2018 figures include the 2016 PSP and CIP which will vest in April 2019 based on performance over the three-year period ended 31 December 2018. These figures have been valued using the average share price from 1 October 2018 to 31 December 2018 of 563.5p. Actual performance against targets is given on page 82. For Stefan Bomhard the 2018 value includes a movement of -£213,156 which is due to a reduction in the share price over the vesting period. For Richard Howes, the 2018 value is -£145,782. The 2017 figure for Stefan Bomhard has been revised from last year's report to reflect the share price on the date of vesting (valued using the market price at the date of vesting of 705.0p) and includes dividend equivalent of £91,100. Full details of the awards exercised in 2018 are given on page 84.

d. During the year the Executive Directors received a cash supplement of 30% of base salary in lieu of pension contributions.

e. The 2017 figure for Richard Howes has been revised from last year's report to reflect the share price on vesting of the RH award which was granted to him as a buyout on joining the Company. The share price used is 702.0p and includes dividend equivalent of £23,517. In 2018 he received a one off payment of £28,288 in lieu of a cancelled holiday. The 2018 figure for both Stefan Bomhard and Richard Howes includes the value of the 2018 SAYE and is based on the embedded value at date of grant.

f. The fees of the Chairman, Non-Executive Directors and the Senior Independent Director are given on page 79.

BASE SALARY

Salaries are reviewed annually and typically take effect from 1 April each year. The quantum of total executive remuneration was reviewed against four comparator groups: retailers, distributors, companies of a similar market cap, and companies with similar revenues.

Salaries for 2019 were determined taking into account this benchmarking data, as well as the other factors detailed in the policy table.

The salaries for 2017, 2018 and 2019 are set out below, together with the average increases across the Group.

Name	1 April 2017	1 April 2018	1 April 2019
Stefan Bomhard	£717,500	£746,200	£761,124 – 2.0% increase
Richard Howes	£415,125	£425,503	£434,013 – 2.0% increase
Average increase across Group	2.18%	2.5%	2.43%

CHAIRMAN'S AND NON-EXECUTIVE DIRECTORS' FEES

The Chairman receives a fee of £320,000 p.a. The Senior Independent Director receives a fee of £81,000 p.a. The Non-Executive Directors receive a fee of £60,000 p.a. with an additional £15,000 p.a. for the chair of the Audit and Remuneration Committees and an additional £10,000 p.a. for the chair of the CSR Committee.

The Board agreed a £2,000 increase p.a. with effect from 1 January 2019 for all Non-Executive Directors. The CSR chair also received an increase of £2,000 p.a. for performing this role. The fee for the Chairman, Senior Independent Director and fees for the Audit and Remuneration chair remained the same.

ANNUAL BONUS

The annual bonus is based on annual financial performance measures and non-financial measures. The non-financial measures may include personal objectives linked to the delivery of the Ignite strategy. The measures are selected to incentivise sustainable growth and the financial matrix is designed to provide a balanced focus between commercial and cash initiatives. The non-financial measures are selected each year to reinforce the Group's strategic objectives.

The principles for setting the new framework are such that it:

- Drives the desired behaviours underpinned by our performance drivers
- May be easily cascaded through the organisation to reinforce alignment of our collective goals
- Has clear measures and targets

2018 BONUS

For 2018, 80% of the bonus is based on financial performance via a matrix of revenue and operating profit with the remaining 20% of the bonus based on strategic objectives, therefore linking an individual's bonus outcome to their contribution to the Ignite strategy.

The maximum opportunity was 150% of salary which is payable for achieving stretch performance against all measures.

In line with the Committee's commitment to disclose bonus targets, the table on page 81 illustrates targets, performance and resulting bonus outcomes for the Executive Directors for the 2018 bonuses.

THE STRUCTURE OF THE 2018 BONUS

Up to 80% of total bonus or 120% of salary is earned according to the following matrix:

Revenue

STRETCH	24%	72%	120%
TARGET	16%	48%	96%
THRESHOLD	12%	36%	72%
	THRESHOLD	**TARGET**	**STRETCH**

Operating profit

+

Up to 20% of total bonus or 30% of salary is earned for the achievement of strategic measures linked to the Ignite strategy which are as follows:

Lead in customer experience
Customer service innovation, including progress on the digital customer journey

Become the OEM partner of choice
Improving strategic business partnerships with our OEM brand partners

Deliver full potential on all our revenue streams
Developing business opportunities and improving focus on all our revenue streams

Leverage our global scale
Improvement in business processes

ACTUAL PERFORMANCE AGAINST BONUS TARGETS

Achievement of financial targets (80% of total bonus or 120% of salary)

In 2018, the level of performance for revenue was between target and stretch and for operating profit was between threshold and target on the matrix, which resulted in 36.7% of salary paying out for both the CEO and CFO under this element of the bonus. The table below provides further detail on the revenue and operating profit targets. Actual performance for determining bonus outcomes has been calculated using the same currency rates as used to set the bonus target. This ensures that bonus outcomes are linked to, and reward for, underlying financial performance.

	Targets				
Measure	Threshold	Target	Stretch	Actual performance	Outcome for element of bonus % of salary
Revenue	£8,810.7m	£9,274.4m	£9,738.1m	£9,476.7m	36.7%
Operating profit	£377.6m	£419.5m	£461.4m	£396.1m	

Achievement of strategic targets (20% of total bonus or 30% of salary)

Below we provide as much detail as commercially appropriate on the objectives linked to the strategic part of the 2018 bonus arrangements and the resulting outcomes. For 2018, Stefan Bomhard had three bonus objectives linked to the Ignite strategy and Richard Howes had two bonus objectives linked to the Ignite strategy.

Lead in customer experience

For Stefan Bomhard, this objective was focused on stretching targets linked to the improvement of the Inchcape customer experience, which included the development of a new customer-centric omni-channel (which we have started to successfully pilot in Australia) and improvement of the 360 degree view of the customer journey across the Group (for which the Group developed and rolled out Salesforce CRM, Brightedge SEO and review aggregator reputation.com). The Committee concluded that Stefan Bomhard fully achieved the targets set for the year and as a result received a bonus equating to 15% of base salary for this element.

Deliver full potential on all our revenue streams

For Stefan Bomhard, this objective was focused on maximising our performance against all of our value drivers, with particular focus on improving our Aftersales position. Over the period we reduced the span of performance across the Group, increased capacity in Singapore and leveraged processes in South America. As a result the Group delivered growth in Aftersales gross profit. The Committee concluded that this objective had been partly achieved therefore a bonus equating to 3% of base salary was awarded.

For Richard Howes, this objective was focused on improvement in our F&I activities in key markets. We have continued the rollout of proprietary products, improvements in selling processes and the re-tendering of contracts. The Committee concluded that this objective had been fully achieved, with £15m of incremental profit delivered from this value driver. Therefore 15% of base salary was awarded.

Leverage our global scale

For Richard Howes, this objective was focused on a savings goal in procurement to leverage our scale. During the year the Group set up a global team to drive savings in a number of key categories, which has delivered a cumulative £32m of savings to date. The Committee concluded that this objective had been fully achieved and therefore an award of 15% of base salary was awarded.

OEM Partner of Choice

For Stefan Bomhard, this objective was focused on strengthening our relationships with our OEMs, entering into new partnerships and integrating new businesses into our portfolio. Key achievements included the successful integration of Grupo Rudelman and the award of Distribution contracts for JLR in Kenya and Colombia and for BMW in Lithuania and Guam. The Committee concluded that Stefan had partially met this objective leading to a payout of 3% of base salary.

OVERALL 2018 BONUS OUTCOME

Therefore, as a result, the overall 2018 bonus outcomes are as follows:

	Payment for financial targets (% of salary)	Payout for strategic targets (% of salary)	Total payment % of salary	Total payment £
Stefan Bomhard	36.7%	21.0%	57.7%	£430,492
Richard Howes	36.7%	30.0%	66.7%	£283,773

The Committee concluded that the overall bonus outcome was reflective of the Company's financial and operational performance and therefore did not make any discretionary adjustments.

ANNUAL BONUS FOR 2019

The maximum annual bonus opportunity in 2019 will remain unchanged from previous years and will be 150% of salary. For the Executive Directors, 80% of the bonus will be based on the same financial performance matrix as 2018 which is linked to revenue and operating profit, and 20% of the bonus will be based on a basket of specific, measurable objectives that relate to the Ignite strategy.

Given the close link between performance targets, the longer-term strategy, and the advantage this may give competitors, the 2019 targets are not disclosed in this report because of their commercial sensitivity. The Committee intends to publish the financial targets and provide more details of the strategic measures in next year's DRR.

PSP AND CIP AWARDS VESTING IN RESPECT OF THE YEAR

In 2016, Inchcape granted awards under the PSP and CIP schemes which vested dependent on certain performance targets over three years to 31 December 2018.

2016 Normal PSP/CIP

Three-year EPS growth p.a. (75% weighting)	Vesting %
Less than 5%	0%
5%	25%
13%	100%
Between 5% and 13%	Straight line basis

Three-year average ROCE (25% weighting)	Vesting %
Less than 21%	0%
21%	25%
25%	100%
Between 21% and 25%	Straight line basis

2016 Enhanced PSP

Three-year EPS growth p.a.	Vesting %
Less than 13%	0%
18%	100%
Between 13% and 18%	Straight line basis

2016 vesting of PSP/CIP

Over the performance period an EPS growth of 7.6% and three-year average ROCE of 29.2% was achieved, which resulted in the following vesting outcomes:

Award	Performance measure	Wtg.	Vesting outcome (% of element)
Normal PSP	EPS	75%	49.7%
	ROCE	25%	100%
Enhanced PSP	EPS	100%	0%
Total (overall vesting outcome of normal PSP)			62.3%

	Performance measure	Wtg.	Vesting outcome (% of element)
CIP	EPS	75%	49.7%
	ROCE	25%	100%
Total (overall vesting outcome of CIP)			62.3% = 1.25:1 match

Stefan Bomhard and Richard Howes were granted PSP and CIP awards in 2016 and are therefore entitled to the following shares on vesting:

	Interest held	Vesting %	Interest vesting	Vesting date	Assumed market price (p)[1]	Estimated value
Stefan Bomhard						
Normal PSP	143,734	62.3%	89,546	13 April 2019	563.5p	£504,593
Enhanced PSP	15,971	0.0%	0	13 April 2019	563.5p	£0
CIP	100,603	62.3%	62,676	22 April 2019	563.5p	£353,177

	Interest held	Vesting %	Interest vesting	Vesting date	Assumed market price (p)[1]	Estimated value
Richard Howes						
Normal PSP	106,719	62.3%	66,486	13 April 2019	563.5p	£374,648
Enhanced PSP	11,858	0.0%	0	13 April 2019	563.5p	£0
CIP	58,206	62.3%	36,262	22 April 2019	563.5p	£204,338

1. As the market price on the date of vesting is unknown at the time of reporting, the value is estimated using the average market share price of the last three months of 2018.

PREVIOUSLY GRANTED RECRUITMENT AWARDS VESTING IN RESPECT OF THE YEAR

SB award

Stefan Bomhard received an award of 205,125 nil-cost options when he joined the Group on 1 April 2015. These options were in lieu of forfeited incentives from his previous employer and have an exercise price of 10.0p. Vesting is dependent on continued employment. On 1 April 2018, the final tranche (68,375 options) vested at a share price of 691.0p.

RH award

Richard Howes received an award in lieu of forfeited incentives from his previous employer when he joined the Group on 11 April 2016. This award consists of 124,909 nil-cost options with an exercise price of 10.0p and has the following conditions:

- 51,759 nil-cost options: half of this award vested on each of the first and second anniversaries of the grant date (i.e. 11 April 2017 and 2018). This award is in lieu of forfeited incentives from his previous employer which did not have any performance conditions attached to the awards. On 11 April 2018, the final tranche (25,880 options) vested at a share price of 702.0p. During the year he exercised the final tranche of the award. Further details are given on page 84.
- 73,150 nil-cost options: the option was structured as the PSP with 90% as 'normal' awards and 10% as 'enhanced' awards and 52,404 options vested on 11 April 2018 in accordance with the 2015 PSP performance outcomes which were disclosed last year. This award is in lieu of forfeited incentives from his previous employer which had performance conditions attached to the award.

PSP AND CIP AWARDS MADE DURING THE YEAR

Awards were made to the Executive Directors and other senior executives under the PSP and CIP. The PSP awards were granted as a percentage of salary and both Stefan Bomhard and Richard Howes were granted PSP awards at 180% of salary.

Under the CIP, Stefan Bomhard and Richard Howes invested 50% of salary and received an award of 100% of salary. Performance conditions for awards made in 2018 are as follows:

2018 PSP/CIP

Three-year EPS growth p.a. (60% weighting)	Vesting %
Less than 4%	0%
4%	25%
12%	100%
Between 4% and 12%	Straight line basis

Three-year average ROCE (40% weighting)	Vesting %
Less than 22%	0%
22%	25%
26%	100%
Between 22% and 26%	Straight line basis

Threshold level performance will result in 25% of the 2018 PSP and CIP awards vesting. As referenced on page 69, the Committee is reviewing how these targets may need to be revised to take into account the new accounting standard IFRS16, and the outcome will be disclosed in the relevant DRR.

Awards made during the year are:

	Date of grant	Share price (p)[1]	Number of shares/options awarded	Face value at grant[2]	Performance period	Exercise period
Stefan Bomhard						
PSP	10 April 2018	708.0p	189,819	£1,343,919	Jan 2018 – Dec 2020	Apr 2021 – Apr 2022
CIP	10 April 2018	708.0p	102,499	£725,693	Jan 2018 – Dec 2020	Apr 2021 – Oct 2021
SAYE	24 Sept 2018	688.5p	3,249	£22,369	N/A	Nov 2021 – Apr 2022
Richard Howes						
PSP	10 April 2018	708.0p	108,239	£766,332	Jan 2018 – Dec 2020	Apr 2021 – Apr 2022
CIP	10 April 2018	708.0p	58,419	£413,607	Jan 2018 – Dec 2020	Apr 2021 – Oct 2021
SAYE	24 Sept 2018	688.5p	1,624	£11,181	N/A	Nov 2021 – Apr 2022

1. Mid-market share price on date of grant.
2. Face value has been calculated using the share price at date of grant.

LONG-TERM INCENTIVES FOR 2019

In line with policy, Stefan Bomhard and Richard Howes will both be granted PSP to the value of 180% of salary and will be invited to participate in the CIP. As per the 2018 awards, 60% will be based on EPS growth and 40% will be based on three-year average ROCE. The targets will take into account the new IFRS 16 accounting standard and will be disclosed as appropriate at the time of award and in next year's DRR.

PENSION

During 2018 the Executive Directors received a cash supplement of 30% of base salary and were eligible to join the Cash+ pension scheme. Neither Stefan Bomhard nor Richard Howes participated in the pension scheme. For 2019, this arrangement remains unchanged.

EXECUTIVE SHARE OWNERSHIP AND DIRECTORS' INTERESTS (AUDITED)

The table below shows the total number of shares, options and awards held by each Director at 31 December 2018.

		Share awards held		Options held			
	Shares held at 31 December 2018	Subject to performance conditions	Subject to deferral	Not subject to performance targets	Subject to deferral	Vested but not yet exercised	Guideline met
Stefan Bomhard	288,548	795,855	0	68,735	3,249	1,557	Yes
Jerry Buhlmann	15,000	n/a	n/a	n/a	n/a	n/a	n/a
Rachel Empey	6,760	n/a	n/a	n/a	n/a	n/a	n/a
Richard Howes	103,131	484,166	0	0	3,222	0	No
Jane Kingston	-	n/a	n/a	n/a	n/a	n/a	n/a
John Langston	5,463	n/a	n/a	n/a	n/a	n/a	n/a
Coline McConville	4,267	n/a	n/a	n/a	n/a	n/a	n/a
Nigel Northridge	28,391	n/a	n/a	n/a	n/a	n/a	n/a
Nigel Stein	36,834	n/a	n/a	n/a	n/a	n/a	n/a
Till Vestring	42,417	n/a	n/a	n/a	n/a	n/a	n/a

There have been no changes to the number of shares held by the Directors between 31 December 2018 and 27 February 2019.

SHARE OWNERSHIP POLICY

The Executive Directors are required to hold a fixed number of shares equivalent to 200% of base salary. They have five years from the date of appointment to reach this shareholding. Stefan Bomhard and Richard Howes held 214% and 134% of salary respectively as at 31 December 2018, using the share price as at 31 December 2018 of 551.5p.

AWARDS EXERCISED DURING THE YEAR

Richard Howes exercised his RH award on 4 May 2018. He sold enough shares to cover costs and tax and retained the remaining shares.

Plan	Shares exercised	Dividend shares	Share price	Shares sold	Shares retained
RH award	25,879	-	£7.413	12,373	13,506
RH award	25,880	1,654	£7.413	13,165	14,369
RH award	52,404	3,350	£7.413	26,657	29,097

Stefan Bomhard exercised the award granted to him under the 2015 Performance Share Plan and Share Matching Plan on 21 August 2018. He sold enough shares to cover costs and tax and retained the remaining shares.

Plan	Shares exercised	Dividend shares	Share price	Shares sold	Shares retained
PSP	114,412	8,400	£6.99	57,838	64,974
CIP	61,616	4,522	£6.99	31,148	34,990

PERCENTAGE CHANGE IN GROUP CHIEF EXECUTIVE REMUNERATION

The table shows the percentage change in Group Chief Executive remuneration from 2017 to 2018 compared with the average percentage change in remuneration for senior management. For the purposes of this disclosure, remuneration comprises salary, benefits (excluding pension) and annual bonus only.

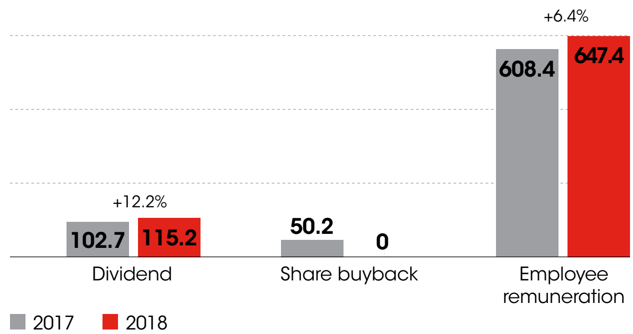
	Change in remuneration from 2017 to 2018	
	Group Chief Executive	Senior management
Salary	3.6%	3.6%
Taxable benefits	-15.8%	0.00%
Single-year variable	-40.9%	-17.1%
Total	**-18.8%**	**-4.1%**

Employees representing the most senior executives (c.90) have been selected as this group is large enough to provide a robust comparison, whilst also providing data that is readily available on a matched sample basis. These employees also participate in bonus schemes of a similar nature to Executive Directors and therefore remuneration will be similarly influenced by Company performance.

RELATIVE IMPORTANCE OF SPEND ON PAY

The chart shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and share buybacks) from 2017 to 2018.

Relative importance of spend on pay (£M)



The Directors are proposing a final dividend for 2018 of 17.9p per share (2017: 18.9p).

DILUTION LIMITS

During the year, options and awards granted under the Group's incentive plans were satisfied on exercise by market purchase shares. Dilution limits are monitored throughout the year by the Committee and the Company complies with the limits set by the Investment Association.

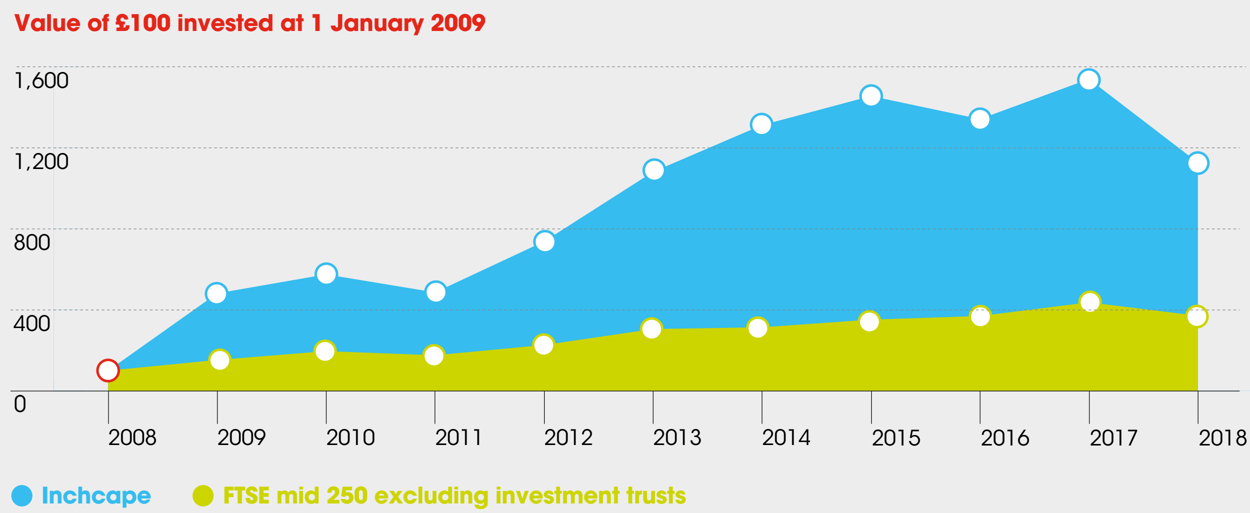
Issued share capital as at 31 December 2018	415m
All schemes – 10% over 10-year rolling period	41m
Remaining headroom for all schemes	28m
Executive schemes – 5% over a 10-year rolling period	20m
Remaining headroom for executive schemes	11m

PAY FOR PERFORMANCE

The graph below shows the Total Shareholder Return (TSR) of the Company over the 10-year period to 31 December 2018. The FTSE mid 250 excluding investment trusts has been chosen as the most suitable comparator group as it is the general market index in which the Company appears. The table below details the Group Chief Executive's single figure remuneration and actual variable pay outcomes over the same period.

HISTORICAL TSR PERFORMANCE

Growth in the value of a hypothetical £100 holding over the 10 years to 31 December 2018



	Group Chief Executive	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CEO single figure of remuneration (£'000)	André Lacroix	1,984	1,984	2,993	2,165	4,400	5,265	294[1]	n/a	n/a	n/a
	Stefan Bomhard	n/a	n/a	n/a	n/a	n/a	n/a	2,906[2]	1,403	3,006	2,269
Annual bonus outcome (% of maximum)		100%	100%	52%	68%	48%	100%	56.8%	40.3%	67.6%	38.5%
LTI vesting[3] outcome (% of maximum)		0%	0%	100%	100%	66%	68%	n/a[4]	n/a[5]	79.6%	62.3%

1. The amount for André Lacroix reflects remuneration received until he left the Group in March 2015.
2. The amount for Stefan Bomhard is pro-rated for time in role and includes relocation allowance and the share award made in lieu of his forfeited awards.
3. LTI includes CIP, 'normal' PSP, 'enhanced' PSP and options prior to 2013.
4. Neither André Lacroix nor Stefan Bomhard received a vested award under the 2013 PSP or CIP. However, for those participants who did receive an award, 65.5% of the 2013 normal PSP vested and there was a 1.31 match for each share invested into the 2013 CIP.
5. Stefan Bomhard did not receive an award under the 2014 PSP or CIP. However, for those participants who did receive an award, 86.5% of the normal PSP vested and there was a 1.73:1 match for each share invested into the CIP.

SHAREHOLDER CONTEXT

The table below shows the advisory vote on the Remuneration Report at the 2018 AGM.

	Total number of votes	% of votes cast
For (including discretionary)	286,366,463	93.63%
Against	19,466,498	6.37%
Total votes cast (excluding votes withheld)	305,832,961	100%
Votes withheld[1]	5,365,570	
Total votes cast (including votes withheld)	311,198,531	

The table below shows the binding vote on the Remuneration Policy at the 2017 AGM

	Total number of votes	% of votes cast
For (including discretionary)	337,335,918	96.79%
Against	11,173,431	3.21%
Total votes cast (excluding votes withheld)	348,509,349	100%
Votes withheld[1]	408,954	
Total votes cast (including votes withheld)	348,918,303	

1. Withheld votes are not included in the final proxy figures as they are not recognised as a vote in law.

EXIT PAYMENTS DURING THE YEAR

None.

PAYMENTS TO PAST DIRECTORS

No payments were made to past Directors in 2018.

OTHER DIRECTORSHIPS

The Executive Directors are generally permitted to take one non-executive directorship as long as it does not lead to conflicts of interest or undue time commitment and is approved in advance by the Nomination Committee.

Stefan Bomhard is a Non-Executive Director of Compass Group PLC, for which he received a fee of £84,500 during 2018.

ADVISORS TO THE COMMITTEE

Mercer|Kepler, a brand of Mercer (and part of the MMC group), acted as the independent remuneration advisor to the Committee during the year. Mercer|Kepler attends Committee meetings and provides advice on remuneration for executives, analysis of the remuneration policy and regular market and best practice updates. Mercer|Kepler reports directly to the Committee Chair and is a signatory and adheres to the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Mercer|Kepler was appointed by the Committee in 2010 after a comprehensive tendering process carried out by the Committee.

Mercer also supplies unrelated services to the Group in relation to IAS 19. The Committee is satisfied that the advice it receives from Mercer|Kepler is objective and independent and that Mercer|Kepler does not have any connection with the Company that may impair its independence. Mercer|Kepler's fees are charged at an hourly rate in accordance with the terms and conditions set out in the engagement letter. Mercer|Kepler was paid fees of £49,615 for its services during the year, excluding expenses and VAT.

The Directors' Report on Remuneration was approved by the Board and has been signed by Coline McConville on its behalf.

Coline McConville
Chair of the Remuneration Committee

DIRECTORS' REPORT

The Directors' Report for the year ended 31 December 2018 comprises pages 88 to 92 of this report (together with sections incorporated by reference). Information required in the Management Report under DTR4.1.8R can be found in the following sections:

- A review of the business and future developments – pages 1 to 33
- Principal risks and uncertainties – pages 35 to 46.

CORPORATE GOVERNANCE STATEMENT

The statement of compliance with the 2016 UK Corporate Governance Code is given on page 51. The Code is published on the Financial Reporting Council's website www.frc.org.uk. Information required under DTR7 is given in the Corporate Governance Report on pages 50 to 87.

BOARD OF DIRECTORS

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Nigel Stein	John Langston
Stefan Bomhard	Coline McConville
Jerry Buhlmann	Nigel Northridge
Rachel Empey	Till Vestring
Richard Howes	Jane Kingston – appointed 25 July 2018
	Ken Hanna – retired 25 May 2018

In accordance with the 2016 UK Corporate Governance Code, all the Directors will stand for election or re-election at the Annual General Meeting (AGM) on 23 May 2019, apart from Nigel Northridge who will retire from the Board following the AGM. Jane Kingston, who was appointed during 2018, will stand for election for the first time.

The Chairman has reviewed the performance of each Director and is satisfied that each continues to be effective and demonstrates commitment to the role.

The appointment and replacement of Directors is governed by the Company's Articles of Association (the Articles), the UK Corporate Governance Code, the Companies Act 2006 and related legislation.

Subject to the Articles, the UK Corporate Governance Code and relevant legislation, the business of the Company is managed by the Board which may exercise all the powers of the Company.

CONFLICTS OF INTEREST

The Articles of Association permit the Board to authorise any matter which would otherwise involve a Director breaching his duty under the Companies Act 2006 to avoid conflicts of interest. When authorising a conflict of interest, the Board must do so without the conflicted Director counting as part of the quorum. In the event that the Board considers it appropriate, the conflicted Director may be permitted to participate in the debate but will be permitted neither to vote nor count in the quorum when the decision is being agreed. The Directors are aware that it is their responsibility to inform the Board of any potential conflicts as soon as possible and procedures are in place to facilitate disclosure.

DIRECTORS' INDEMNITY

A qualifying third party indemnity (QTPI), as permitted by the Company's Articles of Association and sections 232 and 234 of the Companies Act 2006, has been granted by the Company to each of the Directors of the Company. Under the provisions of the QTPI the Company undertakes to indemnify each Director against liability to third parties (excluding criminal and regulatory penalties) and to pay Directors' costs as incurred, provided that they are reimbursed to the Company if the Director is found guilty or, in an action brought by the Company, judgment is given against the Director. The indemnity has been in force for the financial year ended 31 December 2018 and until the date of approval of this report.

RESULTS AND DIVIDENDS

The Group's audited consolidated financial statements for the year ended 31 December 2018 are shown on pages 94 to 183. The level of distributable reserves is sufficient to pay a dividend. The Board recommends a final ordinary dividend of 17.9p per ordinary share. If approved at the 2019 AGM, the final ordinary dividend will be paid on 21 June 2019 to shareholders registered in the books of the Company at the close of business on 17 May 2019. Together with the interim dividend of 8.9p per ordinary share paid on 5 September 2018, this makes a total ordinary dividend for the year of 26.8p per ordinary share (2017: 26.8p).

The Company may, by ordinary resolution, declare a dividend not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends when the financial position of the Company, in the opinion of the Board, justifies its payment. See page 16 for more information on the dividend policy.

SHARE CAPITAL

As at 31 December 2018, the Company's issued share capital of £41,512,745.30 comprised 415,127,453 ordinary shares of 10.0p. Holders of ordinary shares are entitled to receive the Company's Report and Accounts, to attend and speak at General Meetings and to appoint proxies and exercise voting rights. The shares do not carry any special rights with regard to control of the Company. The rights are set out in the Articles of Association of the Company.

RESTRICTIONS ON TRANSFER OF SECURITIES

There are no restrictions or limitations on the holding of ordinary shares and no requirements for prior approval of any transfers. There are no known arrangements under which financial rights are held by a person other than the holder of the shares. Shares acquired through the Company share schemes rank pari passu with the shares in issue and have no special rights.

AUTHORITY TO PURCHASE SHARES

At the Company's AGM on 24 May 2018, the Company was authorised to make market purchases of up to 41,501,828 ordinary shares (representing approximately 10.0% of its issued share capital).

The Directors have authority to issue and allot ordinary shares pursuant to article 9 of the Articles of Association and shareholder authority is requested at each AGM. The Directors have authority to make market purchases for ordinary shares and this authority is also renewed annually at the AGM.

INTERESTS IN VOTING RIGHTS

During the year, the Company had been notified of the following interests pursuant to the Financial Conduct Authority's Disclosure and Transparency Rules. The information below was correct at the date of notification. It should be noted that these holdings are likely to have changed since notified to the Company. However, further notification of any change is not required until the next threshold is crossed.

Shareholder	Number of shares	Date notified	Percentage notified
BlackRock Inc	20,711,753	11/12/2018	4.98%
Norges Bank	12,682,169	27/11/2018	3.06%
Standard Life Aberdeen plc	48,736,361	22/11/2018	11.74%

Source TR-1 notifications. These are updated on the Company's website.

RESTRICTIONS ON VOTING RIGHTS

There are no restrictions on voting rights.

EMPLOYEE BENEFIT TRUST

The Executive Directors of the Company, together with other employees of the Group, are potential beneficiaries of the Inchcape Employee Trust (the "Trust") and, as such, are deemed to be interested in any ordinary shares held by the Trust. At 31 December 2018, the Trust's shareholding totalled 777,211 ordinary shares.

In respect of LR 9.8.4R(12) and (13), the trustee of the Trust agrees to waive dividends payable on the shares it holds for satisfying awards under the various share plans.

DIRECTORS' INTERESTS

The table showing the beneficial interests, other than share options, including family interests, in the ordinary shares of the Company of the persons who were Directors at 31 December 2018 is shown in the Directors' Report on Remuneration on page 84.

There have been no changes to the number of shares held by Directors between 31 December 2018 and 27 February 2019.

CHANGE OF CONTROL

The Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control of the Company following a takeover bid. However, certain of the Group's third party funding arrangements would terminate upon a change of control of the Company.

The Group's relationships with its OEM brand partners are managed at Group level, but the relevant contracts are entered into at a local level with day-to-day management being led by each operating business. Certain of the contracts may terminate on a change of control of the local contracting company.

The Company does not have agreements with any Director or employee providing compensation for loss of office or employment that occurs because of a takeover bid, except for provisions in the rules of the Company's share schemes which may result in options or awards granted to employees to vest on a takeover.

TRANSACTIONS WITH DIRECTORS

No transaction, arrangement or agreement, other than remuneration, required to be disclosed in terms of the Companies Act 2006 and IAS 24, 'Related Parties' was outstanding at 31 December 2018, or was entered into during the year for any Director and/or connected person (2017: none).

OTHER INFORMATION – LISTING RULES

For the purposes of LR 9.8.4 R, the information required to be disclosed by LR 9.8.4 R can be found on the pages set out below:

Section	Information	Page
1	Interest capitalised	Not material to the Group
2	Publication of unaudited financial information	86 (TSR Graph)
4	Details of long-term incentive schemes	82-83
5	Waiver of emoluments by a director	Not applicable
6	Waiver of future emoluments by a director	Not applicable
7	Non pre-emptive issues of equity for cash	Not applicable
8	Non pre-emptive issue by a major subsidiary undertaking	Not applicable
9	Parent participation in a placing by a listed subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Provision of services by a controlling shareholder	Not applicable
12	Shareholder waiver of dividends	89
13	Shareholder waiver of future dividends	89
14	Agreements with controlling shareholders	Not applicable

GREENHOUSE GAS EMISSIONS

As a Distributor and Retailer Inchcape has no manufacturing footprint to minimise, however we collect data for all material emissions for which we deem ourselves to be responsible and look for ways in which to minimise our footprint. Data is collected for three key performance indicators:

- Energy – our global gas and electricity usage.
- Transport – the movement of cars and parts from the point of ownership (which means legal and contractual ownership) to the point we cease to have legal ownership.
- Travel – the movement of our people.

Methodology

The methodology used the calculate the Group's greenhouse gas emissions is based on the GHG Protocol Corporate Accounting and Reporting Standard, and Mandatory Greenhouse Gas Reporting in line with HM Government guidance. The methodology uses conversion factors as published by the Department for Business, Energy and Industrial Strategy in 2018 and international electricity emission factors as published in the International Energy Agency's 'CO2 Emissions from Fuel Combustion (2018 edition)'.

Data collection and reporting period

Data has been collected for all markets from 1 January 2018 to 31 December 2018. The level at which we report is by business unit for each market. This covers our Retail operations, Distribution operations and business service operations, which fall within our operational control boundary.

Intensity ratio

The Group's intensity ratio is revenue per tonne of CO_2e. This allows for a fair comparison over time of CO_2e emissions given the growth trajectory envisaged for the Group and cyclical variations in business activity.

EMPLOYEES AND EMPLOYEE INVOLVEMENT

The Company is committed to a policy of treating all its colleagues and job applicants equally. We are committed to the employment of people with disabilities and will interview those candidates who meet the minimum selection criteria.

We provide training and career development for our employees, tailored where appropriate to their specific needs, to ensure they achieve their potential. If an individual becomes disabled while in our employment, we will do our best to ensure continued development in their role, including consulting them about their requirements, making appropriate adjustments and providing suitable alternative positions.

Our performance and talent framework, DRIVE5, sets performance expectations, behaviours and values for our people. It was developed using inputs from colleague and customer focus groups and incorporates our OEM brand partners' existing frameworks of skills and behaviours to ensure that we can deliver against our stakeholders' expectations in support of our ambition to be the world's most trusted Distributor and Retailer.

The Company has various employee policies in place covering a wide range of issues such as family friendly policies, employment rights and equal opportunities. Policies are implemented at a local level and comply with any relevant legislation in that market. All policies are available on the Group's intranet and compliance is monitored at local level.

Town Hall meetings are held in each market on a regular basis and also following the release of any financial updates by the Company. The Town Hall meetings provide employees with information on the Group's performance, and provide an opportunity for consulting employees on new initiatives or other matters that concern them.

Total greenhouse gas emissions in 2018

GHG emissions

Scope 1 and 2 emissions	Total emissions (tonnes CO_2e) Year ended 31 Dec 2018	Total emissions (tonnes CO_2e) Year ended 31 Dec 2017	Change in emissions
Scope 1 (Direct emissions from combustion of fuels and operation of facilities)	**10,815**	12,083	-10.0%
Scope 2 (Electricity, heat, steam and cooling purchased for own use)	**46,073**	48,562	-5.0%
Total Scope 1 and 2 emission	**56,888**	60,645	-6.0%

Operational emissions intensity			
Intensity metric – total revenue (£m)	**9,277**	7,838	+18.0%
Total scope 1 and 2 emissions (tonnes CO_2e)	**56,888**	60,645	-6.0%
Scope 1 and 2 emissions per £m (tCO_2e/£m)	**6.1**	7.7	-21.0%

In 2018, an online 'employee experience' survey was rolled out and in smaller businesses, focus groups were established as an opportunity to learn more about how employees feel about working for Inchcape and to gain an understanding of how the employee experience can be enhanced so that employees feel challenged, excited, engaged and supported in their roles.

The Group's bonus and long-term incentive schemes are designed to encourage involvement in the Company's performance. UK employees are eligible to join the SAYE scheme, which is offered annually. Further details can be found in the Directors' Report on Remuneration on pages 68 to 87.

DIVERSITY

The breakdown of the number of female and male employees who were (i) Directors of the Company (ii) senior managers and (iii) employees of the Company as at 31 December 2018 is as follows:

		Male		Female	Total
Board	7	70.0%	3	30.0%	**10**
Senior management	77	82.8%	16	17.2%	**93**
All employees	13,687	73.1%	5,047	26.9%	**18,734**

The Nomination Committee is responsible for succession planning on the Board and as such considers the recommendations of the Hampton-Alexander Review and Parker Review as part of the recruitment process. The Board has decided not to set targets but aims to achieve the recommendation of 33% female representation by 2020.

To help achieve these goals, the Nomination Committee is reviewing its selection processes to ensure that a broad mix of suitable candidates is being put forward for consideration. Management are also focusing on diversity as part of the talent planning process to strengthen diversity within the talent pipeline.

The Diversity Policy Statement is given on page 66.

PRINCIPAL FINANCIAL RISK FACTORS

These risks are shown on pages 35 to 46.

FINANCIAL INSTRUMENTS

The information required under Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of financial instruments is given in note 23 to the financial statements on pages 151 to 157.

BRANCHES OUTSIDE THE UK

The Company does not have any branches outside the UK.

EVENTS AFTER THE REPORTING PERIOD

None.

POLITICAL DONATIONS

The Company did not make any political donations in 2018 and does not intend to make any political donations in 2019.

DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

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

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

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

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Board of Directors, confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the principal risks and uncertainties that it faces.

The Directors considered the key messages contained in the Strategic Report along with the disclosures made throughout to ensure that they are consistent, transparent and a true reflection of the business. The Directors also reviewed supporting documentation which addresses specific statements made in the report and the evidence to support those statements.

Following this review, the Directors consider, when taken as a whole, that the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

GOING CONCERN

Having assessed the principal risks and the other matters discussed in connection with the viability statement on page 46, the Directors consider it appropriate to adopt the going concern basis of accounting in the financial statements for the next 12 months.

AUDITOR AND DISCLOSURE OF INFORMATION TO THE AUDITOR

The auditors, Deloitte LLP, have indicated their willingness to continue in office. A resolution to reappoint them as auditors will be proposed at the AGM.

So far as the Directors are aware there is no relevant audit information of which the Company's auditor is unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

ANNUAL GENERAL MEETING

The AGM will be held at 11.00 a.m. on Thursday, 23 May 2019 at Deutsche Bank AG, Winchester House, 1 Great Winchester Street, London EC2N 2DB. The notice convening the meeting and the resolutions to be put to the meeting, together with the explanatory notes, are given in the Circular to all shareholders.

The Directors' Report was approved by the Board and has been signed by the secretary of the Company.

Tamsin Waterhouse
Group Company Secretary

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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements of Inchcape plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- accounting policies; and
- the related notes 1 to 34 of the consolidated financial statements and notes 1 to 15 of the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Goodwill impairment assessment • Acquisition accounting • Inventory valuation Acquisition accounting is a new key audit matter this year following the acquisition of Grupo Rudelman in March 2018. The previous auditor's report included a key audit matter related to manufacturers' bonuses and rebates. We concluded this was not a key audit matter given low levels of management judgement and estimation, and the formulaic nature of the majority of the rebate and bonus calculations.
Materiality	The materiality that we used for the Group financial statements was £18.0 million which was determined on the basis of 5% of profit before taxation and exceptional impairment, pension and finance costs.
Scoping	We conducted our work in 17 countries, with 26 reporting units subject to full-scope audit procedures. The reporting units where we conducted our audit work accounted for 89% of the Group's revenue, 93% of the Group's profit before taxation and exceptional costs and 88% of the Group's net assets.

First year audit transition

We developed a detailed audit transition plan, designed to deliver an effective transition from the Group's predecessor auditor, PWC. Our transition activities were performed across the Group and focused on obtaining an understanding of the Group's system of internal control, evaluating the Group's accounting policies and areas of accounting judgement and meeting with Group and business unit management.

The key transition activities included (but were not limited to) the following:

1. In November 2017 we developed an initial audit transition plan as part of the tender process. The transition plan was finalised in January 2018 in conjunction with Group management, including setting key milestone dates to monitor transition progress;
2. We ensured we were independent during the tender process and reconfirmed independence to the Audit Committee on 12 May 2018;
3. Senior members of the audit team visited key markets as part of onboarding and transition;
4. We reviewed PWC's 2017 audit work papers and met with relevant partners and senior staff from PWC to further our understanding of the predecessor auditor's approach and assess audit procedures performed on opening balances; and
5. We shadowed PWC throughout the 2017 year-end audit and attended key audit meetings. This included, but was not limited to, attendance at significant market year-end audit close meetings in January 2018 and the Audit Committee meeting in February 2018 where the final report on the audit was presented.

This transition process helped us build an understanding of the Group, which, in turn, informed our risk assessment process and identification of the risks of material misstatement to the Group's financial statements.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

Going concern

We have reviewed the Directors' statement in the accounting policies on page 107 of the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the parent company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 39-46 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 56 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 46 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill impairment assessment

Key audit matter description	The Group has goodwill across seven cash generating units ("CGUs") at 31 December 2018: £259.8 million (2017: £391.8 million). The largest balance relates to the UK Retail CGU: £90.3 million after an impairment charge of £175 million was recognised (2017: £265.7 million). Management identified an impairment indicator related to the carrying value of goodwill in the UK Retail business due to recent performance combined with a challenging trading environment. The Group's assessment of impairment in accordance with IAS 36 Impairment of Assets is a judgemental process which requires estimating future cash flows based on management's view of future business prospects. Our key audit matter focuses on the robustness of the revenue and profit forecasts of the UK Retail business. Given the significant level of judgement involved, we identified this key audit matter as a potential fraud risk. Refer to page 62 (Audit Committee report) and note 11 to the consolidated financial statements.
How the scope of our audit responded to the key audit matter	We performed the following procedures in response to the key audit matter identified: • Completed a walkthrough of the impairment process and assessed the design and implementation of the key controls addressing the risk; • Met with UK Retail and Group management to understand and critically challenge the key underlying assumptions used in the forecasts that form the basis of the Group's impairment review; • Performed an assessment of the accuracy of previously prepared forecasts; this included reviewing trading performance in 2018 to determine management's ability to forecast accurately and understand the reasons for any material variances; • Performed additional sensitivities, including running weighted-probability analyses, to assess the robustness of the model; this involved running combined sensitivities, using industry growth trends, and modelling the potential impacts of Brexit; • Performed a model integrity check, including reviewing the model for mathematical and clerical accuracy; • Performed an assessment of contradictory information, including a review of external industry growth forecasts; and • Reviewed the disclosures in the financial statements, including the disclosure of the events and circumstances that led to the recognition of the impairment charge and sensitivities.
Key observations	Based on the audit procedures performed we are satisfied that the impairment charge recognised and the valuation of goodwill at year end is appropriate.

Acquisition accounting

Key audit matter description	The Group acquired 100% of the share capital of Grupo Rudelman on 26 March 2018 for £155.5 million resulting in goodwill of £42.1 million. This transaction falls under the scope of IFRS 3 Business Combinations which requires significant management judgement in determining the fair value of assets acquired, including intangible assets which are inherently judgemental. Our key audit matter focuses on the valuation of assets acquired (including intangibles) and the completeness of liabilities associated with the Grupo Rudelman acquisition, including the valuation of the distribution agreement. Given the significant level of judgement involved, we identified this key audit matter as a potential fraud risk. The Group elected to continue recording the acquisition related entries as provisional as at 31 December 2018 as permitted under IFRS 3. The final entries will be presented in the 30 June 2019 half yearly report. Refer to page 64 (Audit Committee report) and note 28 to the consolidated financial statements.
How the scope of our audit responded to the key audit matter	We performed the following procedures in response to the key audit matter identified: • Completed a walkthrough of the acquisition process and assessed the design and implementation of the key controls addressing the risk; • Evaluated management's assessment of the due diligence findings and the actions taken; • Risk assessed, appropriately scoped and tested the opening balance sheet for the acquired business; • Engaged our valuation specialists to review the intangible valuation report, including attending a series of calls with the Group's advisors to critically challenge the valuation methodology, key underlying assumptions and understand subsequent adjustments made to the model; • Tested and challenged the inputs used in the valuation model; and • Reviewed the disclosures in the financial statements.

Key observations	Based on the audit procedures performed we are satisfied the carrying value of assets recorded is appropriate.

Inventory valuation

Key audit matter description	The Group recorded inventory of £1,851.9 million at 31 December 2018 (2017: £1,768.6 million), which is held across multiple locations. IAS 2 Inventories states inventories should be recognised at the lower of cost and net realisable value ("NRV"), being selling price less estimated selling costs. A provision of £49.9 million (2017: £56.5 million) is held at year end. The overall provision percentage as a proportion of the gross value of inventory fell from 3.1% at 31 December 2017 to 2.6% at 31 December 2018. Management has a formal provisioning policy based on historical performance, future trading forecasts and market data. As gross margins on sales of vehicle inventory can be low and inventory is sometimes sold at a loss, provisions are recorded against inventory to write it down to the Group's best estimate of its recoverable amount. Given the significant level of judgement involved, we identified this key audit matter as a potential fraud risk. Refer to note 17 to the consolidated financial statements.
How the scope of our audit responded to the key audit matter	We performed the following procedures in response to the key audit matter identified: • Completed a walkthrough of the inventory valuation process and assessed the design and implementation of the key controls addressing the risk; • Challenged the provisioning policy set by the Group with reference to past data and industry knowledge; • Benchmarked inventory valuations to third party external valuation data; • Tested the underlying data used to calculate the provision; • Recalculated the provision in local markets using location specific industry knowledge; and • Evaluated how the Group has adequately assessed whether the carrying value exceeds the NRV and, if not, whether appropriate provisions have been recorded.
Key observations	Based on the audit procedures performed we are satisfied that the valuation of inventory is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£18.0 million (2017: £19.1 million)	£17.7 million (2017: £20.6 million)
Basis for determining materiality	We determined materiality to be £18.0 million based on 5% of profit before taxation and exceptional impairment, pension and finance costs. See note 2. The predecessor auditor determined materiality using 5% of profit before taxation and exceptional items.	Parent company materiality equates to 1% of net assets.
Rationale for the benchmark applied	Profit before taxation is considered to be the most relevant benchmark. We have excluded exceptional impairment, pension and finance costs as this provides the most stable and comparable profit metric.	As the parent company of the Group it does not generate significant revenues but instead holds investments and incurs costs such that net assets are an appropriate base to use to determine materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.9 million (2017: £1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The parent company is audited directly by the Group audit team.

We conducted our work in 17 countries, engaging 18 component audit teams with 26 reporting units subject to full-scope audit procedures. The previous auditor conducted work in 20 countries covering 28 reporting units.

The reporting units where we conducted our audit work accounted for 89% of the Group's revenue, 93% of the Group's profit before taxation and exceptional costs and 88% of the Group's total assets.

We engaged component auditors from Deloitte member firms to perform procedures at these components under our direction and supervision. This approach also allows us to engage local auditors who have appropriate knowledge of local regulations to perform the audit work, under a common Deloitte audit approach. The range of component materialities applied, excluding the parent company, is £7.6 million to £12.6 million.

We issued detailed instructions to the component auditors, and directed and supervised their work. Senior members of the audit team visited 13 countries during the transition, planning and performance stages of our audit. In addition we attended the planning and close meeting calls for all full-scope components, engaged in frequent remote communication and reviewed significant component working papers.

In addition to the work performed at a component level, at Group level we have audited the consolidation process and carried out analytical procedures over the countries not subject to full-scope audits. At a Group level we also performed audit procedures on centrally held balances including goodwill, retirement benefit obligations, tax, treasury, head office costs and litigation.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the parent company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, the Group General Counsel and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including component audit teams and involving relevant internal specialists, including tax, valuations, pensions, IT, and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in relation to the level of judgement involved in assessing goodwill impairment, acquisition accounting and inventory valuation; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pension legislation and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified goodwill impairment, acquisition accounting and inventory valuation as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and the Group General Counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Report on Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Report on Remuneration to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

OTHER MATTERS

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the members on 25 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is therefore one year.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Anna Marks FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London

27 February 2019

Consolidated income statement
For the year ended 31 December 2018

	Notes	Before exceptional items 2018 £m	Exceptional items (note 2) 2018 £m	Total 2018 £m	Before exceptional items 2017 (Restated)[1] £m	Exceptional items (note 2) 2017 £m	Total 2017 (Restated)[1] £m
Revenue	1, 3	**9,277.0**	**–**	**9,277.0**	8,953.3	–	8,953.3
Cost of sales		**(7,975.7)**	**–**	**(7,975.7)**	(7,702.1)	–	(7,702.1)
Gross profit		**1,301.3**	**–**	**1,301.3**	1,251.2	–	1,251.2
Net operating expenses	3	**(916.2)**	**(210.8)**	**(1,127.0)**	(844.6)	(12.6)	(857.2)
Operating profit		**385.1**	**(210.8)**	**174.3**	406.6	(12.6)	394.0
Share of profit after tax of joint ventures and associates	13	**0.1**	**–**	**0.1**	–	–	–
Profit before finance and tax		**385.2**	**(210.8)**	**174.4**	406.6	(12.6)	394.0
Finance income	6	**19.3**	**–**	**19.3**	14.6	–	14.6
Finance costs	7	**(47.7)**	**(13.9)**	**(61.6)**	(39.6)	–	(39.6)
Profit before tax		**356.8**	**(224.7)**	**132.1**	381.6	(12.6)	369.0
Tax	8	**(80.2)**	**3.3**	**(76.9)**	(96.1)	2.7	(93.4)
Profit for the year		**276.6**	**(221.4)**	**55.2**	285.5	(9.9)	275.6
Profit attributable to:							
– Owners of the parent				**48.2**			267.7
– Non-controlling interests				**7.0**			7.9
				55.2			275.6
Basic earnings per share (pence)	9			**11.6p**			64.3p
Diluted earnings per share (pence)	9			**11.5p**			63.6p

1. See note 32.

The notes on pages 118 to 164 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2018

	Notes	2018 £m	2017 (Restated)[1] £m
Profit for the year		**55.2**	275.6
Other comprehensive income / (loss):			
Items that will not be reclassified to the consolidated income statement			
Defined benefit pension scheme remeasurements	5	**36.4**	37.9
Current tax recognised in consolidated statement of comprehensive income		**(6.1)**	–
Deferred tax recognised in consolidated statement of comprehensive income	16	**(0.1)**	(5.5)
		30.2	32.4
Items that may be or have been reclassified subsequently to the consolidated income statement			
Cash flow hedges		**25.4**	15.5
Effect of foreign exchange rate changes		**(10.1)**	(68.0)
Current tax recognised in consolidated statement of comprehensive income		**(0.6)**	–
Deferred tax recognised in consolidated statement of comprehensive income	16	**(5.8)**	(5.0)
		8.9	(57.5)
Other comprehensive income / (loss) for the year, net of tax		**39.1**	(25.1)
Total comprehensive income for the year		**94.3**	250.5
Total comprehensive income attributable to:			
– Owners of the parent		**85.6**	242.2
– Non-controlling interests		**8.7**	8.3
		94.3	250.5

1. See note 32.

The notes on pages 118 to 164 are an integral part of these consolidated financial statements.

Consolidated statement of financial position
As at 31 December 2018

	Notes	2018 £m	2017 (Restated)[1] £m
Non-current assets			
Intangible assets	11	**606.0**	639.5
Property, plant and equipment	12	**822.9**	788.4
Investments in joint ventures and associates	13	**4.3**	4.2
Available for sale financial assets	14	**6.6**	7.3
Trade and other receivables	15	**70.9**	59.0
Deferred tax assets	16	**30.8**	36.7
Retirement benefit asset	5	**116.5**	105.9
		1,658.0	1,641.0
Current assets			
Inventories	17	**1,851.9**	1,768.6
Trade and other receivables	15	**512.8**	465.0
Available for sale financial assets	14	**0.8**	0.2
Derivative financial instruments	23	**92.1**	52.4
Current tax assets		**22.6**	10.1
Cash and cash equivalents	18	**589.3**	926.9
		3,069.5	3,223.2
Assets held for sale	19	**8.9**	13.8
		3,078.4	3,237.0
Total assets		**4,736.4**	4,878.0
Current liabilities			
Trade and other payables	20	**(2,356.5)**	(2,234.6)
Derivative financial instruments	23	**(13.3)**	(21.6)
Current tax liabilities		**(86.4)**	(73.7)
Provisions	21	**(18.5)**	(21.2)
Borrowings	22	**(417.1)**	(534.5)
		(2,891.8)	(2,885.6)
Non-current liabilities			
Trade and other payables	20	**(67.3)**	(58.9)
Provisions	21	**(14.5)**	(11.5)
Deferred tax liabilities	16	**(100.7)**	(78.6)
Borrowings	22	**(211.7)**	(361.9)
Retirement benefit liability	5	**(34.6)**	(33.6)
		(428.8)	(544.5)
Total liabilities		**(3,320.6)**	(3,430.1)
Net assets		**1,415.8**	1,447.9
Equity			
Share capital	24	**41.6**	41.6
Share premium		**146.7**	146.7
Capital redemption reserve		**139.0**	139.0
Other reserves	25	**(76.3)**	(83.5)
Retained earnings	26	**1,141.3**	1,183.5
Equity attributable to owners of the parent		**1,392.3**	1,427.3
Non-controlling interests		**23.5**	20.6
Total equity		**1,415.8**	1,447.9

1. See note 32.

The notes on pages 118 to 164 are an integral part of these consolidated financial statements. The consolidated financial statements on pages 102 to 164 were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:

Stefan Bomhard,
Group Chief Executive

Richard Howes,
Chief Financial Officer

Consolidated statement of changes in equity
For the year ended 31 December 2018

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves (note 25) £m	Retained earnings (note 26) £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total shareholders' equity £m
At 1 January 2017		42.2	146.7	138.4	(25.6)	1,042.2	1,343.9	18.6	1,362.5
Adjustment for IFRS 15	32	–	–	–	–	(5.8)	(5.8)	–	(5.8)
At 1 January 2017 (restated)		42.2	146.7	138.4	(25.6)	1,036.4	1,338.1	18.6	1,356.7
Profit for the year		–	–	–	–	267.7	267.7	7.9	275.6
Other comprehensive (loss) / income for the year		–	–	–	(57.9)	32.4	(25.5)	0.4	(25.1)
Total comprehensive income / (loss) for the year		–	–	–	(57.9)	300.1	242.2	8.3	250.5
Share-based payments, net of tax	4,16	–	–	–	–	11.0	11.0	–	11.0
Share buyback programme	24	(0.6)	–	0.6	–	(50.2)	(50.2)	–	(50.2)
Net purchase of own shares by the Inchcape Employee Trust		–	–	–	–	(11.1)	(11.1)	–	(11.1)
Dividends:									
– Owners of the parent	10	–	–	–	–	(102.7)	(102.7)	–	(102.7)
– Non-controlling interests		–	–	–	–	–	–	(6.3)	(6.3)
At 1 January 2018 (restated)		**41.6**	**146.7**	**139.0**	**(83.5)**	**1,183.5**	**1,427.3**	**20.6**	**1,447.9**
Profit for the year		–	–	–	–	**48.2**	**48.2**	**7.0**	**55.2**
Other comprehensive income for the year		–	–	–	**7.2**	**30.2**	**37.4**	**1.7**	**39.1**
Total comprehensive income for the year		–	–	–	**7.2**	**78.4**	**85.6**	**8.7**	**94.3**
Share-based payments, net of tax	4,16	–	–	–	–	**7.2**	**7.2**	–	**7.2**
Net purchase of own shares by the Inchcape Employee Trust		–	–	–	–	**(12.6)**	**(12.6)**	–	**(12.6)**
Dividends:									
– Owners of the parent	10	–	–	–	–	**(115.2)**	**(115.2)**	–	**(115.2)**
– Non-controlling interests		–	–	–	–	–	–	**(5.8)**	**(5.8)**
At 31 December 2018		**41.6**	**146.7**	**139.0**	**(76.3)**	**1,141.3**	**1,392.3**	**23.5**	**1,415.8**

The notes on pages 118 to 164 are an integral part of these consolidated financial statements.

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

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

Consolidated statement of cash flows
For the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	27a	**501.5**	500.4
Tax paid		**(98.7)**	(85.9)
Interest received		**17.1**	14.6
Interest paid		**(44.2)**	(39.6)
Net cash generated from operating activities		**375.7**	389.5
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired	28	**(152.7)**	(23.7)
Net cash inflow from sale of businesses	28	**13.4**	5.6
Purchase of property, plant and equipment		**(90.8)**	(103.2)
Purchase of intangible assets		**(34.4)**	(24.0)
Proceeds from disposal of property, plant and equipment		**25.9**	25.8
Purchase of available for sale financial assets		**(0.6)**	–
Proceeds from disposal of available for sale financial assets		**0.5**	–
Net cash used in investing activities		**(238.7)**	(119.5)
Cash flows from financing activities			
Share buyback programme		**–**	(50.2)
Net purchase of own shares by the Inchcape Employee Trust		**(12.6)**	(11.1)
Cash inflow from Private Placement loan notes		**–**	210.0
Repayment of Private Placement loan notes		**–**	(138.5)
Net cash inflow / (outflow) from other borrowings		**35.6**	(119.3)
Payment of capital element of finance leases		**(1.8)**	(1.4)
Equity dividends paid	10	**(115.2)**	(102.7)
Dividends paid to non-controlling interests		**(5.8)**	(6.3)
Net cash used in financing activities		**(99.8)**	(219.5)
Net increase in cash and cash equivalents	27b	**37.2**	50.5
Cash and cash equivalents at the beginning of the year		**416.6**	416.0
Effect of foreign exchange rate changes		**9.6**	(49.9)
Cash and cash equivalents at the end of the year		**463.4**	416.6

	Notes	2018 £m	2017 £m
Cash and cash equivalents consist of:			
– Cash at bank and cash equivalents	18	**370.3**	820.0
– Short-term deposits	18	**219.0**	106.9
– Bank overdrafts	22	**(125.9)**	(510.3)
		463.4	416.6

The notes on pages 118 to 164 are an integral part of these consolidated financial statements.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRS Interpretations Committee (IFRS IC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Inchcape Plc is a public company limited by shares, registered in England and Wales.

ACCOUNTING CONVENTION

The consolidated financial statements have been prepared under the historical cost convention, except for available for sale financial assets, and those financial assets and financial liabilities (including derivative instruments) held at fair value through profit or loss, which are measured at fair value.

GOING CONCERN

Having assessed the principal risks and the other matters discussed in connection with the viability statement, the Directors have considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies have been applied consistently throughout the reporting period, other than in respect of the following standards which have been newly adopted with effect from 1 January 2018:

IFRS 9 Financial instruments

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

Classification and measurement
IFRS 9 amends the classification and measurement of financial assets:

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

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

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

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

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

IFRS 9 Financial instruments continued

The Group currently applies hedge accounting to:

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

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

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

IFRS 15 Revenue from contracts with customers

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

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

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

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

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

Area	Previous treatment	New treatment under IFRS 15
Vehicle registration and similar fees which are charged to the customer on the sale of a vehicle and which are collected by the Group on behalf of an authority.	In most, but not all, cases these are excluded from revenue.	The new standard sets out more comprehensive guidance on principal and agent relationships. As a consequence of the new guidance, where it is concluded that the Group is acting as an agent of a government in the collection of such fees, the amount of the vehicle registration fee should be excluded from revenue.

The Group has elected to apply the new standard retrospectively to each prior reporting period, and has accordingly restated the comparative information for the immediately preceding periods in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Further details of the restatement can be seen in note 32.

Standards not effective at the balance sheet date

The following standards were in issue but were not yet effective at the balance sheet date. These standards have not yet been early adopted by the Group, and will be applied for the Group's financial years commencing on or after 1 January 2019:

- IFRS 16, *Leases*
- Amendments to IFRS 3 – Definition of a Business
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 issued in the Annual Improvement Cycle 2015-2017
- Amendments to IAS 1 and IAS 8 – Definition of Material
- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRIC 23 – Uncertainty over Income Tax Treatments

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

IFRS 16 *Leases*

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

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

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

Leases in which the Group is a lessee

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

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

Lease incentives will be recognised as part of the measurement of the right-of-use assets and lease liabilities, whereas under IAS 17 they resulted in the recognition of a lease liability incentive; this was amortised as a reduction of rental expense on a straight-line basis. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16. The Group has previously classified certain vehicles and buildings as finance leases. The adoption of IFRS 16 is not expected to have a material impact on these leases.

IFRS 16 Leases continued

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

	As at 31 December 2018	As at 1 January 2018
Recognition of right-of-use asset	£410m to £430m	£380m to £400m
Recognition of lease liability	£450m to £470m	£420m to £440m

Leases in which the Group is a lessor

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

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

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

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

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent company (Inchcape plc) and all of its subsidiary undertakings (defined as those where the Group has control), together with the Group's share of the results of its joint ventures (defined as those where the Group has joint control) and associates (defined as those where the Group has significant influence but not control). The results of subsidiaries are consolidated and the Group's share of results of its joint ventures and associates is equity accounted for as of the same reporting date as the parent company, using consistent accounting policies.

The results of newly acquired subsidiaries are consolidated using the acquisition method of accounting from the date on which control of the net assets and operations of the acquired company are effectively transferred to the Group. Similarly, the results of subsidiaries disposed of cease to be consolidated from the date on which control of the net assets and operations are transferred out of the Group.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Investments in joint ventures and associates are accounted for using the equity method, whereby the Group's share of post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in shareholders' equity is recognised in shareholders' equity. If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has contractual obligations or made payments on behalf of the joint venture or associate.

Intercompany balances and transactions and any unrealised profits arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

FOREIGN CURRENCY TRANSLATION

Transactions included in the results of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the functional currency of the parent company, Inchcape plc, and the presentation currency of the Group.

In the individual entities, transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the individual transactions. Monetary assets and liabilities denominated in foreign currencies are subsequently retranslated at the rate of exchange ruling at the end of the reporting period. All differences are taken to the consolidated income statement, except those arising on long-term foreign currency borrowings used to finance or hedge foreign currency investments which on consolidation are taken directly to other comprehensive income.

The assets and liabilities of foreign operations are translated into Sterling at the rate of exchange ruling at the end of the reporting period. The income statements of foreign operations are translated into Sterling at the average rates of exchange for the period. Exchange differences arising from 1 January 2004 are recognised as a separate component of shareholders' equity. On disposal of a foreign operation, any cumulative exchange differences held in shareholders' equity are transferred to the consolidated income statement.

REVENUE, OTHER INCOME AND COST OF SALES

Revenue is measured at the fair value of consideration receivable, net of any discounts, rebates, trade allowances, incentives, or amounts collected on behalf of third parties. It is recognised to the extent that the transfer of promised goods or services to a customer has been satisfied and the revenue can be reliably measured. Revenue excludes sales-related taxes and intra-group transactions. In practice this means that:

Revenue from the sale of goods is recognised when the obligation to transfer the goods to the customer has been satisfied and the revenue can reliably be measured. The obligation to transfer goods to the customer is considered to have been satisfied when the vehicles or parts are invoiced and physically dispatched or collected.

Revenue from the rendering of services to the customer is considered to have been satisfied when the service has been undertaken.

Where the Group acts as an agent on behalf of a principal in relation to finance, insurance and similar products, the associated commission income is recognised within revenue in the period in which the related finance or insurance product is sold and receipt of payment can be assured.

Where a vehicle is sold to a leasing company and the Group undertakes to repurchase the vehicle for a specified value at a predetermined date, the sale is not recognised on the basis that the possibility of the buyback being exercised is highly likely. Consequently, such vehicles are retained within 'property, plant and equipment' in the consolidated statement of financial position at cost and are depreciated to their residual value over the life of the lease. The difference between the initial amounts received from the leasing company and the repurchase commitment is recognised as deferred income in the consolidated statement of financial position and is released to the consolidated income statement on a straight line basis over the life of the lease. The repurchase commitment, which reflects the price at which the vehicle will be bought back, is held within 'trade and other payables', according to the date of the commitment.

Where a vehicle is sold subject to a buyback commitment and the possibility of the buyback being exercised by the customer is not highly likely as the buyback price set is below the expected market value, revenue is recognised in full when the vehicle is sold. However, an estimate of the value of the buyback payments is deducted from revenue and deferred to the balance sheet. Similarly, an estimate of the value of the vehicles to be returned is deducted from cost of sales and also deferred to the balance sheet. These balances are considered to be contract liabilities.

Where additional services are included in the sale of a vehicle to a customer as part of the total vehicle package (e.g. extended warranty, free servicing, roadside assistance, fuel coupons etc) and the Group is acting as a principal in the fulfilment of the service, the value of the additional services should be separately identified, deducted from revenue, recognised as deferred revenue on the balance sheet and subsequently recognised as revenue when the service is provided, or over the period to which the service relates. These balances are considered to be contract liabilities.

Finance income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. It is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income is recognised when the right to receive payment is established.

Cost of sales includes the expense relating to the estimated cost of self-insured product warranties offered to customers. These warranties form part of the package of goods and services provided to the customer when purchasing a vehicle and are not a separable product.

SHARE-BASED PAYMENTS

The Group operates various share-based award schemes. The fair value at the date at which the share-based awards are granted is recognised in the consolidated income statement (together with a corresponding credit in shareholders' equity) on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At the end of each reporting period, the Group revises its estimates of the number of awards that are expected to vest. The impact of any revision is recognised in the consolidated income statement with a corresponding adjustment to equity.

For equity-settled share-based awards, the services received from employees are measured by reference to the fair value of the awards granted. With the exception of the Group Save As You Earn scheme, the vesting of all share-based awards under all schemes is solely reliant upon non-market conditions, therefore no expense is recognised for awards that do not ultimately vest. Where an employee or the Company cancels an award, the charge for that award is recognised as an expense immediately, even though the award does not vest.

FINANCE COSTS

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset from the first date on which the expenditure is incurred for the asset and until such time as the asset is ready for its intended use. A Group capitalisation rate is used to determine the magnitude of borrowing costs capitalised on each qualifying asset. This rate is the weighted average of Group borrowing costs, excluding those borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

INCOME TAX

The charge for current income tax is based on the results for the period as adjusted for items which are not taxed or are disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is accounted for using the liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference is due to goodwill arising on a business combination, or to an asset or liability, the initial recognition of which does not affect either taxable or accounting income.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled using rates enacted or substantively enacted at the end of the reporting period. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items credited or charged directly to shareholders' equity, in which case the deferred tax is also dealt with in shareholders' equity.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle balances net.

EXCEPTIONAL ITEMS

In order to facilitate comparability with other companies, certain items which are material are presented as exceptional items within their relevant consolidated income statement category. 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. Examples of events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, acquisition costs, restructuring of businesses, litigation, asset impairments and exceptional tax-related matters.

GOODWILL

Goodwill represents the excess of the cost of acquisition of a business combination over the Group's share of the fair value of identifiable net assets of the business acquired at the date of acquisition. Goodwill is initially recognised at cost and is held in the functional currency of the acquired entity and revalued at the closing exchange rate at the end of each reporting period.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At the date of acquisition, the goodwill is allocated to cash generating units for the purpose of impairment testing and is tested at least annually for impairment.

Gains and losses on disposal of a business include the carrying amount of goodwill relating to the business sold except for goodwill arising on business combinations on or before 31 December 1997 which has been deducted from shareholders' equity and remains indefinitely in shareholders' equity.

OTHER INTANGIBLE ASSETS

Intangible assets, when acquired separately from a business (including computer software), are carried at cost less accumulated amortisation and impairment losses. Cost comprises the purchase price from third parties as well as internally generated development costs where relevant. Amortisation is provided on a straight line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer software is three to eight years. Amortisation is recognised in the consolidated income statement within 'net operating expenses'.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the benefit of the intangible asset is obtained through contractual or other legal rights and the fair value can be measured reliably on initial recognition. The principal intangible assets are agreements with manufacturers for the distribution of New vehicles and parts, which represent the estimated value of distribution rights acquired in business combinations. Such agreements have varying terms and periods of renewal and have historically been renewed indefinitely without substantial cost. The Group therefore expects these agreements to be renewed indefinitely and accordingly no amortisation is charged on these assets. The Group assesses these distribution rights for impairment on an annual basis.

Other intangible assets acquired in a business combination may include order books and customer contracts. These intangible assets are amortised on a straight line basis over their estimated useful life, which is generally less than a year.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and directly attributable costs of the asset and includes, where relevant, capitalised borrowing costs. Depreciation is based on cost less estimated residual value and is included within 'net operating expenses' in the consolidated income statement, with the exception of depreciation on 'interest in leased vehicles' which is charged to 'cost of sales'. It is provided on a straight line basis over the estimated useful life of the asset, except for freehold land which is not depreciated. For the following categories, the annual rates used are:

Freehold buildings and long leasehold buildings	2.0%
Short leasehold buildings	shorter of lease term or useful life
Plant, machinery and equipment	5.0% – 33.3%
Interest in leased vehicles	over the lease term

The residual values and useful lives of all assets are reviewed at least at the end of each reporting period and adjusted if necessary.

IMPAIRMENT

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment losses are included within 'net operating expenses' in the consolidated income statement.

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

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'net operating expenses'. When a trade receivable is not collectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'net operating expenses' in the consolidated income statement.

Non-financial assets, other than goodwill, which have previously been impaired, are reviewed for possible reversal of the impairment at each reporting date.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure incurred in bringing inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Used vehicles are carried at the lower of cost or fair value less costs to sell, generally based on external market data available for Used vehicles.

Vehicles held on consignment are included within inventories as the Group is considered to have the risks and rewards of ownership. The corresponding liability is included within 'trade and other payables'.

Inventory can be held on deferred payment terms. All costs associated with this deferral are expensed in the period in which they are incurred.

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

TRADE RECEIVABLES

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. These are recognised as current assets if collection is due in one year or less. If collection is due in over a year, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when based on an expected loss model. The amount of the provision is the difference between the asset's carrying amount and the expected value of the amounts to be received.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. These are classified as current liabilities if payment is due in one year or less. If payment is due at a later date, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade payables include the liability for vehicles held on consignment, with the corresponding asset included within inventories.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings, using the effective interest method.

PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Group operates a number of retirement benefit schemes.

The major schemes are defined benefit pension funds with assets held separately from the Group. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in 'cost of sales' or 'net operating expenses' in the consolidated income statement. Past service costs are similarly recognised in the consolidated income statement. Administrative scheme expenses associated with the plans are recorded within 'net operating expenses' when incurred, in line with IAS 19 (revised). Net interest income or interest cost relating to the funded defined benefit pension plans is included within 'finance income' or 'finance costs', as relevant, in the consolidated income statement.

Changes in the retirement benefit obligation or asset due to experience and changes in actuarial assumptions are included in the consolidated statement of comprehensive income, as actuarial gains and losses, in full in the period in which they arise.

Where scheme assets exceed the defined benefit obligation, a net asset is only recognised to the extent that an economic benefit is available to the Group, in accordance with the terms of the scheme and, where relevant, statutory requirements.

The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which the contributions relate.

The Group also has a liability in respect of past employees under post-retirement healthcare schemes which have been closed to new entrants. These schemes are accounted for on a similar basis to that for defined benefit pension plans in accordance with the advice of independent qualified actuaries.

PROVISIONS

Provisions are recognised when the Group has a present obligation in respect of a past event, when it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered to be material, using an appropriate risk-free rate on government bonds.

PRODUCT WARRANTY PROVISION

A product warranty provision corresponds to warranties provided as part of the sale of a vehicle and provide assurance to the customer that the product will work as sold. Provision is made for the expected cost of labour and parts based on historical claims experience and expected future trends.

VACANT LEASEHOLD PROVISION

A vacant leasehold provision is recognised when the Group is committed to certain leasehold premises for which it no longer has a commercial use. It is made to the extent of the estimated future net cost, including existing subtenant arrangements if any.

LITIGATION PROVISION

A litigation provision is recognised when a litigation case is outstanding at the end of the reporting period and there is a likelihood that the legal claim will be settled.

DISPOSAL GROUP AND ASSETS HELD FOR SALE

Where the Group is actively marketing a business and disposal is expected within one year of the end of the reporting period, the assets and liabilities of the associated businesses are separately disclosed in the consolidated statement of financial position as a disposal group. Assets are classified as assets held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Both disposal groups and assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

SEGMENTAL REPORTING

Segment information is reported in accordance with IFRS 8 *Operating segments*, which requires segmental reporting to be presented on the same basis as the internal management reporting. The Group's operating segments are countries or groups of countries and the market channels, Distribution and Retail. These operating segments are then aggregated into reporting segments to combine those with similar characteristics.

FINANCIAL INSTRUMENTS

The Group classifies its financial instruments in the following categories: measured at amortised cost; measured at fair value through profit and loss; and measured at fair value through other comprehensive income. The classification is determined at initial recognition and depends on the purpose for which the financial instruments are required.

Measured at amortised cost includes non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. Financial assets are included in current assets, except where the maturity date is more than 12 months after the end of the reporting period. They are initially recorded at fair value and subsequently recorded at amortised cost. Financial liabilities are included in current liabilities, except where the maturity date is more than 12 months after the end of the reporting period. They are initially measured at original cost, less amortisation or provisions raised.

Measured at fair value through profit and loss includes derivative financial assets and liabilities, which are further explained below. They are classified according to maturity date, within current and non-current assets and liabilities respectively.

Measured at fair value through other comprehensive income includes derivative financial assets and liabilities, which are further explained below, and available for sale financial assets such as bonds and equity investments. Derivative financial assets and liabilities are included in current assets and liabilities, except where the maturity date is more than 12 months after the end of the reporting period. Available for sale financial assets are classified as non-current assets unless management intends to dispose of them within 12 months of the end of the reporting period and are held at fair value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand, short-term bank deposits and money market funds.

In the consolidated statement of cash flows, cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

LEASES

Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated income statement. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the Group does not hold substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rental payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

OFFSETTING

Netting in the consolidated statement of financial position only occurs to the extent that there is the legal ability and intention to settle net. As such, bank overdrafts are presented in current liabilities to the extent that there is no intention to offset with the cash balance.

DERIVATIVE FINANCIAL INSTRUMENTS

An outline of the objectives, policies and strategies pursued by the Group in relation to its financial instruments is set out in note 23 to the consolidated financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

FAIR VALUE HEDGE

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings and future fixed amount currency liabilities (on its cross currency interest rate swaps). The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings and changes in the fair value of those borrowings are recognised in the consolidated income statement within 'finance costs'. The gain or loss relating to the ineffective portion is also recognised in the consolidated income statement within 'finance costs'.

CASH FLOW HEDGE
For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion is recognised within 'net operating expenses' in the consolidated income statement. When the hedged forecast transaction results in the recognition of a non-financial asset or liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in other comprehensive income are transferred to the consolidated income statement in the same period in which the hedged forecast transaction affects the consolidated income statement.

AVAILABLE FOR SALE FINANCIAL ASSETS
Gains and losses on available for sale financial assets are recognised in other comprehensive income, until the investment is sold or is considered to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated income statement. Cumulative gains and losses on investments held for operational reasons are included within 'net operating expenses'. Cumulative gains and losses on investments held for financing purposes are included within 'finance income' and 'finance costs' respectively.

SHARE CAPITAL
Ordinary shares are classified as equity. Where the Group purchases the Group's equity share capital (treasury shares), the consideration paid is deducted from shareholders' equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

DIVIDENDS
Final dividends proposed by the Board of Directors and unpaid at the year-end are not recognised in the consolidated financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

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

SOURCES OF ESTIMATION UNCERTAINTY

IMPAIRMENT OF GOODWILL AND OTHER INDEFINITE LIFE INTANGIBLE ASSETS
Goodwill and other indefinite life intangible assets are tested at least annually for impairment in accordance with the accounting policy set out above. The recoverable amount of cash generating units is determined based on value in use calculations. These impairment calculations require the use of estimates including projected future cash flows (see note 11).

INCENTIVES AND OTHER REBATES FROM BRAND PARTNERS
The Group receives income in the form of various incentives which are determined by our brand partners. The amount we receive is generally based on achieving specific objectives, such as a specified sales volume, as well as other objectives including maintaining brand partner standards which may include, but are not limited to, retail centre image and design requirements, customer satisfaction survey results and training standards. Objectives are generally set and measured on either a quarterly or annual basis.

Where incentives are based on a specific sales volume or number of registrations, the related income is recognised as a reduction in cost of sales when it is reasonably certain that the income has been earned. This is generally the later of the date the related vehicles are sold or registered or when it is reasonably certain that the related target will be met. Where incentives are linked to retail centre image and design requirements, customer satisfaction survey results or training standards, they are recognised as a reduction in cost of sales when it is reasonably certain that the incentive will be received for the relevant period.

The Group may also receive contributions towards advertising and promotional expenditure. Where such contributions are received, they are recognised as a reduction in the related expenditure in the period to which they relate.

PENSIONS AND OTHER POST-RETIREMENT BENEFITS – ASSUMPTIONS

Pension and other post-retirement benefit liabilities are determined based on the actuarial assumptions detailed in note 5. A number of these assumptions require estimates to be made, including the rate of inflation and expected mortality rates. These assumptions are subject to a review on an annual basis and are determined in conjunction with an external actuary. The use of different assumptions could have a material effect on the value of the relevant liabilities and could result in a material change to amounts recognised in the income statement over time.

In November 2015, the TKM Group Pension Scheme completed a buy-in transaction whereby the assets of the scheme were invested in a bulk purchase annuity contract that matches the benefits payable to the members of the scheme. The contract has been structured to enable the scheme, in time, to move to a full buy-out, following which the insurance company will become directly responsible for the pension payments under the scheme. The scheme has now been fully bought out and it was formally wound up on 3 August 2018.

TAX

The Group is subject to income taxes in a number of jurisdictions. Some degree of estimation is required in determining the worldwide provision for income taxes (see note 8). There are a number of transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on best estimates of whether additional taxes will be due without taking into account whether tax authorities would detect any particular issue. The estimate is made separately for each jurisdiction and takes into account management's view of the relevant tax laws and environment applicable to the operations of the Group in those jurisdictions. No single item is expected to give rise to a material adjustment in the following or subsequent years.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

In addition, 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 notes 8 and 16). In the event that actual taxable profits are different, such differences may impact the carrying value of such deferred tax assets in future periods.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible 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 value in use calculations which require estimates to be made of future cash flows (see notes 11 and 12).

REPURCHASE COMMITMENTS

The Group has entered into commitments in relation to certain leased vehicles to repurchase the vehicle for a specified value at a predetermined date. These commitments are an estimate of future market value at a specified point in time. The actual market value of vehicles bought back may vary from the committed purchase value. To the extent that the actual market value of such vehicles is expected to be less than the repurchase commitment, a provision is recognised and is included with Other Provisions in note 21. Where the repurchase commitment is in respect of a vehicle sold by the Group to a leasing company, the repurchase commitment is held within 'trade and other payables'. Where the Group has entered into a repurchase commitment in respect of vehicles that have not been sourced from within the Group, then the repurchase commitment is included as a purchase commitment (see note 30).

CRITICAL ACCOUNTING JUDGEMENTS

PENSIONS – DISCOUNT RATE

The Group's defined benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

1 SEGMENTAL ANALYSIS

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

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

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

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

1 SEGMENTAL ANALYSIS CONTINUED

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

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

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

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

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

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

1 SEGMENTAL ANALYSIS CONTINUED

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

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

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

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

1 SEGMENTAL ANALYSIS CONTINUED

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

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

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

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

1 SEGMENTAL ANALYSIS CONTINUED

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

1 SEGMENTAL ANALYSIS CONTINUED

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

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

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

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

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

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

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1 SEGMENTAL ANALYSIS CONTINUED

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

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

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

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

1 SEGMENTAL ANALYSIS CONTINUED

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

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

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

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

2 EXCEPTIONAL ITEMS

	2018 £m	2017 £m
Goodwill impairment (see note 11)	**(175.0)**	–
Other asset impairment (see note 12)	**(23.2)**	–
Acquisition of businesses	**(7.2)**	(2.1)
Restructuring costs	**–**	(10.5)
Other operating exceptional items	**(5.4)**	–
Total exceptional operating items	**(210.8)**	(12.6)
Exceptional finance costs (see note 7)	**(13.9)**	–
Total exceptional items before tax	**(224.7)**	(12.6)
Exceptional tax (see note 8)	**3.3**	2.7
Total exceptional items	**(221.4)**	(9.9)

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

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

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

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

3 REVENUE AND EXPENSES

a. Revenue

An analysis of the Group's revenue for the year is as follows:

	2018 £m	2017 £m
Sale of goods	**8,500.3**	8,231.8
Provision of services	**776.7**	721.5
	9,277.0	8,953.3

b. Analysis of net operating expenses

	Net operating expenses before exceptional items 2018 £m	Exceptional items 2018 £m	Net operating expenses 2018 £m	Net operating expenses before exceptional items 2017 £m	Exceptional items 2017 £m	Net operating expenses 2017 £m
Distribution costs	**507.5**	**–**	**507.5**	483.3	–	483.3
Administrative expenses	**415.8**	**210.8**	**626.6**	375.2	12.6	387.8
Other operating (income) / expense	**(7.1)**	**–**	**(7.1)**	(13.9)	–	(13.9)
	916.2	**210.8**	**1,127.0**	844.6	12.6	857.2

c. Profit before tax is stated after the following charges / (credits):

	2018 £m	2017 £m
Depreciation of tangible fixed assets:		
– Property, plant and equipment	**43.9**	43.8
– Interest in leased vehicles	**7.2**	8.9
Amortisation of intangible assets	**14.2**	13.8
Impairment of goodwill	**175.0**	–
Impairment of property, plant and equipment	**23.2**	–
Impairment of trade receivables	**1.3**	1.6
Profit on sale of property, plant and equipment	**(2.1)**	(10.6)
Operating lease rentals	**81.0**	71.3

Profit on the sale of property, plant and equipment in 2018 relates to the sale of surplus assets in Latvia, the UK and Russia. In 2017, the Group disposed of surplus assets in Australia and Russia.

3 REVENUE AND EXPENSES CONTINUED

d. Auditor's remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	2018 £m	2017 £m
Audit services:		
Fees payable to the Company's auditor and its associates for the audit of the parent company and the consolidated financial statements	**0.4**	0.5
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries	**2.5**	2.1
– Audit related assurance services	**0.1**	0.1
– All other services	**0.4**	0.1
Total fees payable to the Company's auditor	**3.4**	2.8
Audit fees – firms other than the Company's auditor	**0.2**	0.4

e. Staff costs

	2018 £m	2017 £m
Wages and salaries	**558.6**	524.2
Social security costs	**53.8**	50.5
Other pension costs	**27.4**	23.5
Share-based payment charge	**7.6**	10.2
	647.4	608.4

Other pension costs correspond to the current service charge and contributions to the defined contribution schemes (see note 5).

Information on Directors' emoluments and interests which forms part of these audited consolidated financial statements is given in the Directors' Report on Remuneration which can be found on pages 68 to 87 of this document. Information on compensation of key management personnel is set out in note 31b.

f. Average monthly number of employees

	Distribution		Retail		Total	
	2018 Number	2017 Number	2018 Number	2017 Number	2018 Number	2017 Number
Australasia	**1,182**	1,128	**567**	574	**1,749**	1,702
UK and Europe	**1,434**	1,298	**5,938**	6,277	**7,372**	7,575
Asia	**2,645**	2,742	**–**	–	**2,645**	2,742
Emerging Markets	**3,828**	2,903	**2,401**	1,718	**6,229**	4,621
Total operational	**9,089**	8,071	**8,906**	8,569	**17,995**	16,640
Central					**155**	149
					18,150	16,789

4 SHARE-BASED PAYMENTS

The terms and conditions of the Group's share-based payment plans are detailed in the Directors' Report on Remuneration.

The charge arising from awards granted under share-based payment plans was £7.5m (2017 – £10.2m), all of which was equity-settled.

The Other Share Plan's disclosures below include other share-based incentive plans for senior executives and employees.

The following table sets out the movements in the number of share options and awards during the year:

2018	Weighted average exercise price*	Performance Share Plan	Executive Share Option Plan	Save As You Earn Plan	Other Share Plans
Outstanding at 1 January	**£5.36**	**4,345,679**	**69,066**	**1,898,273**	**1,385,836**
Granted	**£5.54**	**1,939,671**	**–**	**1,338,942**	**408,323**
Exercised	**£2.30**	**(1,081,742)**	**(63,225)**	**(78,916)**	**(455,255)**
Lapsed	**£5.89**	**(495,199)**	**–**	**(582,070)**	**(84,975)**
Outstanding at 31 December	**£5.61**	**4,708,409**	**5,841**	**2,576,229**	**1,253,929**
Exercisable at 31 December	**£4.96**	**237,158**	**5,841**	**453,464**	**74,504**

2017	Weighted average exercise price*	Performance Share Plan	Executive Share Option Plan	Save As You Earn Plan	Other Share Plans
Outstanding at 1 January	£4.48	4,630,496	355,159	2,051,995	1,286,746
Granted	£6.66	1,457,828	–	675,726	637,223
Exercised	£3.41	(1,082,419)	(284,480)	(441,502)	(423,530)
Lapsed	£5.74	(660,226)	(1,613)	(387,946)	(114,603)
Outstanding at 31 December	£5.36	4,345,679	69,066	1,898,273	1,385,836
Exercisable at 31 December	£3.33	410,145	69,066	77,365	34,346

* The weighted average exercise price excludes nil cost awards made under the Performance Share Plan and Other Share Plans.

The weighted average remaining contractual life for the awards outstanding at 31 December 2018 is 2.4 years (2017 – 2.7 years).

The range of exercise prices for options outstanding at the end of the year was £0.10 to £6.66 (2017 – £0.10 to £6.66). See note 24 for further details.

The fair value of options granted under the Save As You Earn Plan and Other Share Plans is estimated as at the date of grant using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of nil cost awards granted under the Performance Share Plan and Other Share Plans is the market value of the related shares at the time of grant. The following table lists the main inputs to the model for awards granted during the years ended 31 December 2018 and 31 December 2017:

	Performance Share Plan		Save As You Earn Plan		Other Share Plans	
	2018	2017	**2018**	2017	**2018**	2017
Weighted average share price at grant date	**£7.08**	£8.46	**£6.89**	£8.44	**£7.07**	£7.82
Weighted average share price at date of exercise	**£7.15**	£8.15	**£7.25**	£7.74	**£7.11**	£8.16
Weighted average exercise price*	**n/a**	n/a	**£5.54**	£6.66	**n/a**	n/a
Vesting period	**3.0 years**	3.0 years	**3.0 years**	3.0 years	**2.8 years**	2.5 years
Expected volatility	**n/a**	n/a	**22.2%**	23.0%	**n/a**	n/a
Expected life of award	**3.0 years**	3.0 years	**3.2 years**	3.2 years	**2.8 years**	2.5 years
Weighted average risk free rate	**n/a**	n/a	**1.0%**	0.5%	**n/a**	n/a
Expected dividend yield	**n/a**	n/a	**4.0%**	2.9%	**n/a**	n/a
Weighted average fair value per option	**£7.08**	£8.46	**£1.28**	£1.81	**£7.07**	£7.82

* The weighted average exercise price excludes nil cost awards made under the Performance Share Plan and Other Share Plans.

No options were granted under the Executive Share Option Plan in 2018 or 2017.

The expected life and volatility of the options are based upon historical data.

5 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Group operates a number of pension and post-retirement benefit schemes for its employees in a number of its businesses, primarily in the UK.

a. UK schemes: benefits, governance, cash flow obligations and investments

The Inchcape Motors Pension Scheme (comprising the Group, Motors, Normand and Cash+ sections) in the UK is the main defined benefit final salary pension scheme. The Group, Motors and Normand sections are closed to new employees and largely closed to future benefit accrual. The Cash+ section is a defined benefit cash balance scheme, open to accrual for current and new employees, which is designed to meet regulatory requirements for auto-enrolment legislation. The Group also operates the Inchcape Overseas Pension Scheme which is non-UK registered.

Benefit structure

Final salary schemes provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on final salary at retirement (or leaving date, if earlier) and length of service. The Group underwrites investment, mortality and inflation risks necessary to meet the obligations under the schemes. In the event of poor returns, increased life expectancy or higher than expected inflation, the Group is required to address any shortfall through a combination of an increase in contributions or by making appropriate adjustments to the schemes.

Cash balance schemes like Cash+ allow members to accrue a percentage of their earnings each year, which then grows to provide a lump sum payment on retirement. Members have accrued benefits under this scheme with effect from 1 January 2013. The Group underwrites the investment risk to normal retirement age (65), but all inflation and mortality risks associated with benefits are borne solely by the members. Across the schemes a number of exercises have been undertaken to significantly mitigate these key funding risks.

Governance

Our UK schemes are registered with HMRC and comply fully with the regulatory framework published by the UK Pensions Regulator.

Benefits under the Inchcape Motors Pension Scheme are paid to members from separate funds administered by a trustee board comprised of two independent trustee companies (the Trustees) appointed by the Group. The Trustees are required to act in the best interest of the members, and are responsible for making funding and investment decisions in conjunction with the Group.

The Group also has some minor unfunded arrangements relating to post-retirement health and medical plans in respect of past employees. There are no material defined contribution schemes in the UK.

Scheme specific cash obligation / investment detail

Inchcape Motors Pension Scheme

Group, Motors and Normand sections (closed sections)

The latest actuarial valuations for these sections were carried out at 5 April 2016 on a market-related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the defined accrued benefit method. The actuarial valuation determined that the duration of the liabilities was approximately 18 years and that a small surplus existed. The Group contributes £0.6m p.a. towards the administrative costs of running these sections and no further review is scheduled until April 2019. For the Normand section, the Group also currently pays deficit reduction contributions of £1.1m p.a., rising by 3.05% p.a. up until 5 April 2026 (at which point the funding shortfall is expected to be eliminated).

Each section's investment strategy sees it holding a proportion of its assets in matching assets (75% for the Group section, 45% for the Motors section and 46% for the Normand section) with the remainder in growth assets. The matching assets are invested in a liability-driven investment solution complemented with absolute return bonds. They are designed to hedge inflation and interest rate risk in a capitally efficient manner. The growth assets are invested in assets that are expected to grow at rates significantly faster than each section's liabilities and include equities, diversified growth funds and property.

Cash+ section

This scheme is a defined benefit scheme under which members accrue benefits with effect from 1 January 2013, or date of joining if later. The latest actuarial valuation was carried out at 5 April 2016 on a market-related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit credit method. The valuation showed the funding level to be 98%, with the Trustee expecting the small shortfall to be removed by the ongoing pension contributions and returns on the assets held. The Group contributes £0.2m p.a. towards the administrative costs of running the scheme and the next review is in April 2019.

The investment strategy is to be 60% invested in diversified growth funds which are designed to grow at a rate significantly faster than the liabilities, whilst spreading investment risk across a broad spectrum of asset classes. The remaining 40% is to be split equally between multi-factor equities and emerging market multi-asset funds.

The next actuarial valuations for the four sections of the Inchcape Motors Pensions Scheme will be carried out as at 5 April 2019.

5 PENSIONS AND OTHER POST-RETIREMENT BENEFITS CONTINUED

Inchcape Overseas Pension Scheme

This scheme is managed from Guernsey and is subject to regulations similar to the UK. It is therefore reported under the United Kingdom in this note. The latest triennial actuarial valuation for this scheme was carried out at 31 March 2015 and determined in accordance with the advice of independent professionally qualified actuaries based on the attained age method. The actuarial valuation determined that the duration of the liabilities was approximately 11 years and that the scheme was approximately 86% funded on a prudent funding basis. The Group contributes £0.8m p.a. towards scheme administrative costs and improving the funding ratio. The investments are managed under a Fiduciary Management arrangement with the level of investment risk inherent in the investment arrangements reducing as and when the funding level improves. The scheme's actuarial valuation as at 31 March 2018 is currently in progress.

TKM Group Pension Scheme (closed scheme)

In November 2015, the trustees of the TKM Group Pension Scheme completed a buy-in transaction whereby the assets of the scheme were used to acquire a bulk purchase annuity policy with Aviva under which the benefits payable to the members of the scheme are now fully insured. The insurance policy was purchased using the existing assets of the scheme with no additional funding required from the Group. The insurance policy was structured to enable the scheme, in time, to move to full buy-out, following which Aviva would become directly responsible for the pension payments under the scheme. The scheme has now been fully bought out and it was formally wound up on 3 August 2018. All liability for member benefits now lie with Aviva and the duties of the Group and the trustee have been discharged.

b. Overseas schemes

There are a number of smaller defined benefit schemes overseas, the most significant being the Inchcape Motors Limited Retirement Scheme in Hong Kong. In general these schemes offer a lump sum on retirement with no further obligation to the employee and assets are held in trust in separately administered funds. These schemes are typically subject to triennial valuations. The overseas defined contribution schemes are principally linked to local statutory arrangements.

c. Defined contribution plans

The total expense recognised in the consolidated income statement is £7.0m (2017 – £6.2m). There are no outstanding contributions at 31 December 2018 (2017 – £0.2m).

d. Defined benefit plans

As the Group's principal defined benefit schemes are in the UK, these have been reported separately from the overseas schemes. For the purposes of reporting, actuarial updates have been obtained for the Group's material schemes and these updates are reflected in the amounts reported in the following tables.

5 PENSIONS AND OTHER POST-RETIREMENT BENEFITS CONTINUED

The principal weighted average assumptions used by the actuaries were:

	United Kingdom		Overseas	
	2018 %	2017 %	**2018 %**	2017 %
Rate of increase in salaries	**3.1**	3.1	**4.0**	3.8
Rate of increase in pensions	**3.0**	3.0	**1.8**	2.3
Discount rate	**2.9**	2.5	**1.9**	1.9
Rate of inflation:				
– Retail price index	**3.2**	3.2	**1.8**	2.1
– Consumer price index	**2.1**	2.1	**n/a**	n/a

The rate of increase in healthcare costs is 5.4% (2017 – 5.4%) per annum.

Assumptions regarding future mortality experience are set based on published statistics and experience. For the UK schemes, the average life expectancy of a pensioner retiring at age 65 is 23.8 years (2017 – 23.9 years) for current pensioners and 25.3 years (2017 – 25.8 years) for current non pensioners. Most of the overseas schemes only offer a lump sum on retirement and therefore mortality assumptions are not applicable.

The asset / (liability) recognised in the consolidated statement of financial position is determined as follows:

	United Kingdom		Overseas		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Present value of funded obligations	**(727.0)**	(1,007.2)	**(50.9)**	(47.6)	**(777.9)**	(1,054.8)
Fair value of plan assets	**816.0**	1,083.0	**45.0**	46.2	**861.0**	1,129.2
Net surplus / (deficit) in funded obligations	**89.0**	75.8	**(5.9)**	(1.4)	**83.1**	74.4
Present value of unfunded obligations	**(0.6)**	(0.7)	**(0.6)**	(1.4)	**(1.2)**	(2.1)
	88.4	75.1	**(6.5)**	(2.8)	**81.9**	72.3
The net pension asset is analysed as follows:						
Schemes in surplus	**116.2**	105.5	**0.3**	0.4	**116.5**	105.9
Schemes in deficit	**(27.8)**	(30.4)	**(6.8)**	(3.2)	**(34.6)**	(33.6)
	88.4	75.1	**(6.5)**	(2.8)	**81.9**	72.3

The amounts recognised in the consolidated income statement are as follows:

	United Kingdom		Overseas		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Current service cost	**(17.5)**	(14.2)	**(2.9)**	(3.1)	**(20.4)**	(17.3)
Past service cost	**(5.4)**	–	**–**	–	**(5.4)**	–
Scheme expenses	**(1.5)**	(1.6)	**(0.1)**	(0.1)	**(1.6)**	(1.7)
Interest expense on plan liabilities	**(22.3)**	(27.7)	**(0.8)**	(0.9)	**(23.1)**	(28.6)
Interest income on plan assets	**24.1**	29.2	**0.7**	0.8	**24.8**	30.0
	(22.6)	(14.3)	**(3.1)**	(3.3)	**(25.7)**	(17.6)

5 PENSIONS AND OTHER POST-RETIREMENT BENEFITS CONTINUED

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	United Kingdom		Overseas		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Actuarial gains / (losses) on liabilities:						
– Experience (losses) / gains	**(0.2)**	4.2	**(0.3)**	1.4	**(0.5)**	5.6
– Changes in demographic assumptions	**29.4**	12.3	**–**	–	**29.4**	12.3
– Changes in financial assumptions	**63.6**	(0.6)	**0.5**	(0.1)	**64.1**	(0.7)
Actuarial gains on assets:						
– Experience (losses) / gains	**(54.5)**	13.7	**(2.1)**	7.0	**(56.6)**	20.7
	38.3	29.6	**(1.9)**	8.3	**36.4**	37.9

Analysis of the movement in the net asset / (liability):

	United Kingdom		Overseas		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
At 1 January	**75.1**	47.3	**(2.8)**	(10.0)	**72.3**	37.3
Amount recognised in the consolidated income statement	**(22.6)**	(14.3)	**(3.1)**	(3.3)	**(25.7)**	(17.6)
Contributions by employer	**3.5**	12.5	**1.4**	1.7	**4.9**	14.2
Taxes paid from plan assets	**(5.9)**	–	**–**	–	**(5.9)**	–
Actuarial gains / (losses) recognised in the year	**38.3**	29.6	**(1.9)**	8.3	**36.4**	37.9
Effect of foreign exchange rates	**–**	–	**(0.1)**	0.5	**(0.1)**	0.5
At 31 December	**88.4**	75.1	**(6.5)**	(2.8)	**81.9**	72.3

Changes in the present value of the defined benefit obligation are as follows:

	United Kingdom		Overseas		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
At 1 January	**(1,007.9)**	(1,082.0)	**(49.0)**	(56.6)	**(1,056.9)**	(1,138.6)
Current service cost	**(17.5)**	(14.2)	**(2.9)**	(3.1)	**(20.4)**	(17.3)
Past service cost	**(5.4)**	–	**–**	–	**(5.4)**	–
Interest expense on plan liabilities	**(22.3)**	(27.7)	**(0.8)**	(0.9)	**(23.1)**	(28.6)
Actuarial gains / (losses):						
– Experience (losses) / gains	**(0.2)**	4.2	**(0.3)**	1.4	**(0.5)**	5.6
– Changes in demographic assumptions	**29.4**	12.3	**–**	–	**29.4**	12.3
– Changes in financial assumptions	**63.6**	(0.6)	**0.5**	(0.1)	**64.1**	(0.7)
Contributions by employees	**(0.2)**	(0.1)	**–**	–	**(0.2)**	(0.1)
Benefits paid	**33.0**	49.0	**3.3**	5.6	**36.3**	54.6
Plan settlements	**199.9**	51.2	**–**	–	**199.9**	51.2
Effect of foreign exchange rate changes	**–**	–	**(2.3)**	4.7	**(2.3)**	4.7
At 31 December	**(727.6)**	(1,007.9)	**(51.5)**	(49.0)	**(779.1)**	(1,056.9)

5 PENSIONS AND OTHER POST-RETIREMENT BENEFITS CONTINUED

Changes in the fair value of the defined benefit asset are as follows:

	United Kingdom		Overseas		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
At 1 January	**1,083.0**	1,129.3	**46.2**	46.6	**1,129.2**	1,175.9
Interest income on plan assets	**24.1**	29.2	**0.7**	0.8	**24.8**	30.0
Scheme expenses	**(1.5)**	(1.6)	**(0.1)**	(0.1)	**(1.6)**	(1.7)
Actuarial (losses) / gains:						
– Experience (losses) / gains	**(54.5)**	13.7	**(2.1)**	7.0	**(56.6)**	20.7
Contributions by employer	**3.5**	12.5	**1.4**	1.7	**4.9**	14.2
Contributions by employees	**0.2**	0.1	**–**	–	**0.2**	0.1
Benefits paid	**(33.0)**	(49.0)	**(3.3)**	(5.6)	**(36.3)**	(54.6)
Plan settlements	**(199.9)**	(51.2)	**–**	–	**(199.9)**	(51.2)
Taxes paid from plan assets	**(5.9)**	–	**–**	–	**(5.9)**	–
Effect of foreign exchange rate changes	**–**	–	**2.2**	(4.2)	**2.2**	(4.2)
At 31 December	**816.0**	1,083.0	**45.0**	46.2	**861.0**	1,129.2

At the end of the reporting period, the percentage of the plan assets by category were as follows:

	United Kingdom		Overseas		Total	
	2018	2017	**2018**	2017	**2018**	2017
Equities (quoted)	**5.2%**	4.2%	**73.3%**	75.9%	**8.8%**	7.1%
Equities (unquoted)	**–**	–	**2.7%**	–	**0.1%**	–
Corporate bonds (quoted)	**–**	–	**13.3%**	18.2%	**0.7%**	0.7%
Government bonds (quoted)	**–**	–	**–**	0.5%	**–**	–
Investment funds (quoted)	**–**	–	**0.2%**	–	**–**	–
Investment funds (unquoted)	**66.3%**	53.6%	**–**	–	**62.8%**	51.4%
Bulk purchase annuity	**–**	18.9%	**–**	–	**–**	18.2%
Other (quoted)	**–**	–	**3.8%**	–	**0.2%**	–
Other (unquoted)	**28.5%**	23.3%	**6.7%**	5.4%	**27.4%**	22.6%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

The investments shown as quoted equities and bonds are held through funds where the underlying investments of the fund are quoted. Investment funds and other assets include equities, bonds, property, derivatives and liability driven investments. Virtually all the equities and bonds held within the investment funds have prices in active markets. Derivatives and liability driven investments can be classified as Level 2 instruments and property as Level 3 instruments.

The schemes had no directly held employer related investment during the reporting period. The schemes' investment managers may potentially hold a small investment in Inchcape plc either through index weightings or stock selection (less than 0.5% of their respective fund values).

5 PENSIONS AND OTHER POST-RETIREMENT BENEFITS CONTINUED

The following disclosures relate to the Group's defined benefit plans only.

e. Risk management

Asset volatility

Scheme liabilities are calculated on a discounted basis using a discount rate which is set with reference to corporate bond yields. If scheme assets underperform this yield, then this will create a deficit. The combined schemes hold assets as defensive assets (liability driven investment solutions, absolute return bonds and annuity policies) which mitigate significant changes in yields, and active monitoring plans are in place to identify opportunities to increase the proportion of such assets further when economically possible.

As the schemes mature, the Trustees reduce investment risk by increasing the allocation to defensive assets, which are designed to better match scheme liabilities. However, the Trustees believe that due to the long-term nature of the scheme liabilities, a level of continuing equity investment is an appropriate element of the long-term investment strategy.

Inflation risk

The majority of the Group's defined benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities, although in the majority of cases there are caps on the level of inflationary increases to be applied to pension obligations. The Group's investment strategy across the schemes is to mitigate inflation risk through holding inflation-linked assets.

Life expectancy

Where relevant, the plans' obligations are to provide a pension for the life of the member, so realised increases in life expectancy will result in an increase in the plans' benefit payments. Future mortality rates cannot be predicted with certainty. All of the schemes conduct scheme-specific mortality investigations annually, to ensure the Group has a clear understanding of any potential increase in liability due to pensioners living for longer than assumed. The Trustees of the schemes hedge this risk by adopting a prudent approach in their assumption for future improvements.

f. Sensitivity analysis

The disclosures above are dependent on the assumptions used. The table below demonstrates the sensitivity of the defined benefit obligation to changes in the assumptions used for the UK schemes. Changes in assumptions have an immaterial effect on the overseas schemes.

Impact on the defined benefit obligation

	United Kingdom	
	2018 £m	2017 £m
Discount rate -0.25%	**+31.2**	+44.8
Discount rate +0.25%	**-29.3**	-42.1
Inflation -0.25%	**-17.8**	-28.8
Inflation +0.25%	**+19.8**	+29.6
Life expectancy + 1 year	**+29.4**	+39.3

The above analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The above variances have been used as they are believed to be reasonably possible fluctuations.

g. Expected future cash flows

The Group has agreed to pay approximately £2.8m to its UK defined benefit plans in 2019 on top of the ongoing employer contributions for the open Cash+ section. The Group does not expect any material changes to the annual cash contributions over the next three years given the funding position of the largest schemes, which account for 90% of the Group's total pension liabilities.

The defined benefit obligations are based on the current value of expected benefit payment cash flows to members over the next several decades. The average duration of the liabilities is approximately 18 years for the UK schemes.

6 FINANCE INCOME

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

7 FINANCE COSTS

	2018 £m	2017 £m
Interest payable on bank borrowings	**11.5**	7.7
Interest payable on Private Placement	**7.1**	6.0
Interest payable on other borrowings	**0.2**	0.2
Fair value adjustment on Private Placement	**17.1**	(34.3)
Fair value (gain) / loss on cross currency interest rate swaps	**(2.6)**	33.1
Stock holding interest (see note 20)	**25.2**	24.3
Other finance costs	**3.6**	2.7
Capitalised borrowing costs	**(0.5)**	(0.1)
Total finance costs	**61.6**	39.6

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

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

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

8 TAX

	2018 £m	2017 £m
Current tax:		
– UK corporation tax	**0.1**	3.9
– Overseas tax	**80.5**	98.3
	80.6	102.2
Adjustments to prior year liabilities:		
– UK	**0.2**	2.2
– Overseas	**(1.4)**	(0.5)
Current tax	**79.4**	103.9
Deferred tax (note 16)	**(2.5)**	(10.5)
Total tax charge	**76.9**	93.4

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

Details of the exceptional items for the year can be found in note 2. Not all of the exceptional items will be allowable for tax purposes. Therefore the tax credit on exceptional items represents the total of the current and deferred tax on only those elements that are assessed as allowable.

Factors affecting the tax expense for the year

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

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

	2018 £m	2017 £m
Profit before tax	**132.1**	369.0
Profit before tax multiplied by the weighted average tax rate of 29.7% (2017 – 24.0%)	**39.2**	88.6
Non-exceptional items		
– Permanent differences	**8.4**	3.4
– Non-taxable income	**(4.7)**	(3.5)
– Prior year items	**(1.5)**	(0.8)
– (Recognition) / Derecognition of deferred tax assets	**(3.1)**	2.1
– Overseas tax audits and settlements	**(3.6)**	1.3
– Taxes on undistributed earnings	**2.5**	5.1
– Other items (including tax rate differentials and changes)	**0.5**	(3.2)
Exceptional items		
– Goodwill impairment (see note 11)	**33.3**	–
– Restructuring costs	**–**	0.2
– Acquisition of businesses	**1.1**	0.2
– Exceptional finance costs (see note 7)	**2.1**	–
– Other asset impairment (see note 12)	**2.7**	–
Total tax charge	**76.9**	93.4

8 TAX CONTINUED

Factors affecting the tax expense of future years

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

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

The utilisation of brought forward tax losses or the recognition of deferred tax assets associated with such losses may also give rise to tax charges or credits. The recognition of deferred tax assets, particularly in respect of tax losses, is based upon an assessment of whether it is probable that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group against which to utilise the assets in the future. Judgement is required when determining probable future taxable profits. More detail of the Group's tax losses and deferred tax assets can be found in note 16.

9 EARNINGS PER SHARE

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

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

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

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

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

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

10 DIVIDENDS

The following dividends were paid by the Group:

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

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

11 INTANGIBLE ASSETS

	Goodwill £m	Distribution agreements £m	Computer software £m	Other intangible assets £m	Total £m
Cost					
At 1 January 2017	599.0	162.4	163.1	0.9	925.4
Businesses acquired (see note 28)	8.0	9.2	(0.4)	(0.9)	15.9
Businesses sold	–	–	(0.3)	–	(0.3)
Additions	–	–	26.1	0.1	26.2
Disposals	–	–	(0.2)	–	(0.2)
Retirement of fully amortised assets not in use	–	–	(4.3)	–	(4.3)
Effect of foreign exchange rate changes	(2.0)	(0.9)	(1.8)	–	(4.7)
At 1 January 2018	**605.0**	**170.7**	**182.2**	**0.1**	**958.0**
Businesses acquired (see note 28)	**43.7**	**80.1**	**0.2**	**–**	**124.0**
Businesses sold	**(0.7)**	**–**	**(0.1)**	**–**	**(0.8)**
Additions	**–**	**–**	**33.7**	**–**	**33.7**
Disposals	**–**	**–**	**(0.3)**	**–**	**(0.3)**
Retirement of fully amortised assets not in use	**–**	**–**	**(0.3)**	**–**	**(0.3)**
Effect of foreign exchange rate changes	**(13.8)**	**(1.0)**	**(1.3)**	**–**	**(16.1)**
At 1 December 2018	**634.2**	**249.8**	**214.1**	**0.1**	**1,098.2**
Accumulated amortisation and impairment					
At 1 January 2017	(214.0)	–	(96.9)	–	(310.9)
Amortisation charge for the year	–	–	(13.8)	–	(13.8)
Businesses sold	–	–	0.2	–	0.2
Disposals	–	–	0.1	–	0.1
Retirement of fully amortised assets not in use	–	–	4.3	–	4.3
Effect of foreign exchange rate changes	0.8	–	0.8	–	1.6
At 1 January 2018	**(213.2)**	**–**	**(105.3)**	**–**	**(318.5)**
Amortisation charge for the year	**–**	**–**	**(14.1)**	**(0.1)**	**(14.2)**
Impairment charge for the year	**(175.0)**	**–**	**–**	**–**	**(175.0)**
Disposals	**–**	**–**	**0.1**	**–**	**0.1**
Retirement of fully amortised assets not in use	**–**	**–**	**0.3**	**–**	**0.3**
Effect of foreign exchange rate changes	**13.8**	**–**	**1.3**	**–**	**15.1**
At 31 December 2018	**(374.4)**	**–**	**(117.7)**	**(0.1)**	**(492.2)**
Net book value at 31 December 2018	**259.8**	**249.8**	**96.4**	**–**	**606.0**
Net book value at 31 December 2017	391.8	170.7	76.9	0.1	639.5

As at 31 December 2018, capitalised borrowing costs of £nil (2017 – £nil) were included within 'computer software'. No borrowing costs were capitalised during the year (2017 – £nil).

11 INTANGIBLE ASSETS CONTINUED

Goodwill

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. These CGU groups represent the lowest level within the Group at which the associated goodwill is monitored for management purposes.

The carrying amount of goodwill has been allocated to CGU groups within the following reporting segments:

Reporting segment	Discount rate	Long-term growth rate	CGU group	**2018 £m**	2017 £m
UK and Europe Retail	9.8%	2.0%	UK Retail	**90.3**	265.7
Emerging Markets Distribution	12.9% to 14.8%	2.5%	South America	**51.4**	54.7
			Central America	**46.6**	–
			Kenya	**1.1**	–
Asia	9.5%	2.0%	Singapore	**23.3**	22.4
Australasia Retail	10.5%	2.0%	Australia Retail	**45.2**	47.0
Australasia Distribution			Peugeot Citroën Australia	**1.9**	2.0
				259.8	391.8

Goodwill is subject to impairment testing annually, or more frequently where there are indications that the goodwill may be impaired. Impairment tests were performed for all CGU groups during the year ended 31 December 2018.

The recoverable amounts of all CGU groups were determined based on the higher of the fair value less costs to sell and value in use calculations. These calculations use cash flow projections based on five-year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to revenue growth, operating margins, the level of working capital required to support trading and capital expenditure, and have been based on past experience, recent trading and expectations of future changes in the operation of the business and changes in the relevant markets. They also reflect expectations about continuing relationships with key brand partners.

For CGU groups in Emerging Markets, cash flows after the five-year period are extrapolated for a further five years using declining growth rates which reduces the year five growth rate down to the long-term growth rate of 2.5%, to better reflect the medium-term growth expectations for those markets. A terminal value calculation is used to estimate the cash flows after year ten using these long-term growth rates. For all other markets, a terminal value calculation is used to estimate the cash flows after year five.

Cash flows are discounted back to present value using a risk adjusted discount rate. The discount rates used are calculated as the Group's weighted average cost of capital adjusted for a risk premium attributable to the relevant country.

Impairment

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

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

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

11 INTANGIBLE ASSETS CONTINUED

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

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

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

Sensitivities

The Group's value in use calculations for the remaining CGU groups are sensitive to a change in the key assumptions used. However, with the exception of UK Retail, a reasonably possible change in a key assumption will not cause a material impairment of goodwill in any of the CGU groups.

Distribution agreements

Distribution agreements with indefinite useful lives are also subject to impairment testing annually, or more frequently where there are indications that they may be impaired.

The recoverable amounts of the Distribution agreements were determined based on value in use calculations. These calculations use cash flow projections based on five-year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to revenue growth, operating margins and the level of working capital required to support trading and have been based on past experience, recent trading and expectations of future changes in the relevant markets. They also reflect expectations about continuing relationships with key brand partners.

Cash flows after the five-year period are extrapolated for each market using declining growth rates which reduces the year five growth rate down to the long-term growth rate for each market of between 2.5% and 2.0%. A terminal value calculation is used to estimate the cash flows after year ten using these long-term growth rates.

Cash flows are discounted back to present value using a risk adjusted discount rate. The discount rates used are calculated as the Group's weighted average cost of capital adjusted for a risk premium attributable to the relevant country. The pre-tax discount rates used vary between 10% and 15% and reflect long-term country risk.

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant, machinery and equipment £m	Subtotal £m	Interest in leased vehicles £m	Total £m
Cost					
At 1 January 2017	799.3	236.7	1,036.0	76.4	1,112.4
Adjustment for IFRS 15	–	–	–	(7.1)	(7.1)
At 1 January 2017 (restated)	799.3	236.7	1,036.0	69.3	1,105.3
Businesses acquired	0.8	(0.4)	0.4	–	0.4
Businesses sold	(3.4)	(0.8)	(4.2)	–	(4.2)
Additions	68.0	36.4	104.4	18.6	123.0
Disposals	(12.9)	(15.0)	(27.9)	–	(27.9)
Transferred to inventory	–	(1.4)	(1.4)	(21.8)	(23.2)
Retirement of fully depreciated assets not in use	–	0.4	0.4	–	0.4
Reclassified to assets held for sale (note 19)	(16.1)	–	(16.1)	–	(16.1)
Effect of foreign exchange rate changes	(12.6)	(8.8)	(21.4)	(1.7)	(23.1)
At 1 January 2018 (restated)	**823.1**	**247.1**	**1,070.2**	**64.4**	**1,134.6**
Businesses acquired	**40.5**	**2.7**	**43.2**	**3.7**	**46.9**
Businesses sold	**(5.7)**	**(1.2)**	**(6.9)**	**–**	**(6.9)**
Additions	**54.0**	**36.1**	**90.1**	**18.7**	**108.8**
Disposals	**(16.7)**	**(17.9)**	**(34.6)**	**–**	**(34.6)**
Reclassifications	**7.2**	**(6.5)**	**0.7**	**(0.7)**	**–**
Transferred to inventory	**–**	**(1.4)**	**(1.4)**	**(23.4)**	**(24.8)**
Retirement of fully depreciated assets not in use	**(0.3)**	**(1.8)**	**(2.1)**	**–**	**(2.1)**
Reclassified to assets held for sale (note 19)	**(4.9)**	**–**	**(4.9)**	**–**	**(4.9)**
Effect of foreign exchange rate changes	**(7.9)**	**1.0**	**(6.9)**	**1.4**	**(5.5)**
At 31 December 2018	**889.3**	**258.1**	**1,147.4**	**64.1**	**1,211.5**
Accumulated depreciation and impairment					
At 1 January 2017	(160.9)	(151.4)	(312.3)	(21.5)	(333.8)
Adjustment for IFRS 15	–	–	–	0.8	0.8
At 1 January 2017 (restated)	(160.9)	(151.4)	(312.3)	(20.7)	(333.0)
Businesses sold	1.3	0.6	1.9	–	1.9
Depreciation charge for the year	(19.3)	(24.5)	(43.8)	(8.9)	(52.7)
Disposals	3.3	10.5	13.8	–	13.8
Transferred to inventory	–	0.7	0.7	11.1	11.8
Retirement of fully depreciated assets not in use	–	(0.4)	(0.4)	–	(0.4)
Reclassified to assets held for sale (note 19)	4.4	–	4.4	–	4.4
Effect of foreign exchange rate changes	2.1	5.2	7.3	0.7	8.0
At 1 January 2018 (restated)	**(169.1)**	**(159.3)**	**(328.4)**	**(17.8)**	**(346.2)**
Businesses sold	**0.8**	**0.6**	**1.4**	**–**	**1.4**
Depreciation charge for the year	**(19.9)**	**(24.0)**	**(43.9)**	**(7.2)**	**(51.1)**
Impairment charge for the year	**(23.2)**	**–**	**(23.2)**	**–**	**(23.2)**
Disposals	**6.7**	**13.3**	**20.0**	**–**	**20.0**
Reclassifications	**–**	**(0.4)**	**(0.4)**	**0.4**	**–**
Transferred to inventory	**–**	**0.7**	**0.7**	**7.9**	**8.6**
Retirement of fully depreciated assets not in use	**0.3**	**1.8**	**2.1**	**–**	**2.1**
Effect of foreign exchange rate changes	**0.8**	**(0.5)**	**0.3**	**(0.5)**	**(0.2)**
At 31 December 2018	**(203.6)**	**(167.8)**	**(371.4)**	**(17.2)**	**(388.6)**
Net book value at 31 December 2018	**685.7**	**90.3**	**776.0**	**46.9**	**822.9**
Net book value at 31 December 2017	654.0	87.8	741.8	46.6	788.4

The asset impairments of £23.2m, which arose following an impairment review of certain site-based assets in the UK and Europe, are included within exceptional items (refer note 2).

Certain subsidiaries have an obligation to repurchase, at a guaranteed residual value, vehicles which have been legally sold for leasing contracts. These assets are included in 'interest in leased vehicles' in the table above.

12 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Assets held under finance leases have the following net book values:

	2018 £m	2017 £m
Leasehold buildings	**0.8**	0.9
Plant, machinery and equipment	**0.4**	–
	1.2	0.9

The book value of land and buildings is analysed between:

	2018 £m	2017 £m
Freehold	**484.9**	445.8
Leasehold with over 50 years unexpired	**47.4**	43.8
Short leasehold	**153.4**	164.4
	685.7	654.0

Land and buildings includes properties with a net book value of £12.3m (2017 – £10.8m) that are let to third parties on a short-term basis.

As at 31 December 2018, £5.6m (2017 – £5.1m) of capitalised borrowing costs were included within 'land and buildings', £0.5m of which was capitalised in 2018 (2017 – £0.1m).

13 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

Details of the interests held by the Group in joint ventures and associates can be found in note 15 to the Inchcape Plc Company financial statements on pages 175 to 183. Amounts recognised in the statement of financial position in respect of joint ventures and associates are as follows:

	2018 £m	2017 £m
At 1 January	**4.2**	4.1
Share of profit after tax of joint ventures and associates	**0.1**	–
Effect of foreign exchange rate changes	**–**	0.1
At 31 December	**4.3**	4.2

Net assets of joint ventures and associates

	2018 £m	2017 £m
Non-current assets	**–**	–
Current assets	**10.1**	9.9
Total assets	**10.1**	9.9
Current liabilities	**(1.5)**	(1.5)
Non-current liabilities	**–**	–
Total liabilities	**(1.5)**	(1.5)
Net assets	**8.6**	8.4

Results of joint ventures and associates

	2018 £m	2017 £m
Revenue	**0.2**	–
Expenses	**–**	–
Profit before tax	**0.2**	–
Tax	**–**	–
Profit after tax of joint ventures and associates	**0.2**	–

13 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

Summarised financial information of joint ventures and associates

	2018 £m	2017 £m
Opening net assets at 1 January	**8.4**	8.2
Profit for the year	**0.2**	–
Other comprehensive income for the year	**–**	0.2
Closing net assets at 31 December	**8.6**	8.4
Carrying value of interest in joint ventures and associates	**4.3**	4.2

As at 31 December 2018, no guarantees were provided in respect of joint ventures and associates' borrowings (2017 – £nil).

14 AVAILABLE FOR SALE FINANCIAL ASSETS

	2018 £m	2017 £m
At 1 January	**7.5**	3.8
Businesses acquired	**–**	4.4
Additions	**0.6**	–
Disposals	**(0.5)**	(0.1)
Effect of foreign exchange rate changes	**(0.2)**	(0.6)
At 31 December	**7.4**	7.5

Analysed as:

	2018 £m	2017 £m
Current	**0.8**	0.2
Non-current	**6.6**	7.3
	7.4	7.5

Assets held are analysed as follows:

	2018 £m	2017 £m
Equity securities	**7.2**	6.3
Bonds	**–**	0.5
Other	**0.2**	0.7
	7.4	7.5

'Equity securities' includes a 15% equity interest in Hino Motors Manufacturing Company SAS.

'Other' includes debentures that are not subject to interest rates and do not have fixed maturity dates. They are valued by reference to traded market values.

15 TRADE AND OTHER RECEIVABLES

	Current		Non-current	
	2018 £m	2017 (Restated) £m	**2018 £m**	2017 (Restated) £m
Trade receivables	**337.4**	309.4	**10.0**	–
Less: provision for impairment of trade receivables	**(11.4)**	(10.2)	**–**	–
Net trade receivables	**326.0**	299.2	**10.0**	–
Prepayments and accrued income	**127.5**	123.2	**49.8**	51.1
Other receivables	**59.3**	42.6	**11.1**	7.9
	512.8	465.0	**70.9**	59.0

Movements in the provision for impairment of receivables were as follows:

	2018 £m	2017 £m
At 1 January	**(10.2)**	(8.6)
Businesses acquired	**(1.7)**	(1.9)
Charge for the year	**(1.3)**	(1.6)
Amounts written off	**1.2**	0.3
Unused amounts reversed	**0.7**	1.2
Effect of foreign exchange rate changes	**(0.1)**	0.4
At 31 December	**(11.4)**	(10.2)

At 31 December, the analysis of trade receivables is as follows:

			Past due but not impaired			
	Total £m	Neither past due nor impaired £m	0 – 30 days £m	30 – 90 days £m	> 90 days £m	Impaired £m
2018	**347.4**	**252.4**	**47.0**	**21.9**	**14.7**	**11.4**
2017	309.4	195.1	54.0	29.0	21.1	10.2

Trade receivables are non-interest bearing and are generally on credit terms of 30 to 60 days.

Management considers the carrying amount of trade and other receivables to approximate to their fair value. Long-term receivables have been discounted where the time value of money is considered to be material.

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.

16 DEFERRED TAX

Net deferred tax (liability) / asset	Pension and other post-retirement benefits £m	Cash flow hedges £m	Share-based payments £m	Tax losses £m	Accelerated tax depreciation £m	Provisions and other timing differences £m	Distribution agreements £m	Total £m
At 1 January 2018	**(16.6)**	**2.7**	**3.2**	**8.2**	**(2.8)**	**13.7**	**(49.9)**	**(41.5)**
Adjustment for IFRS 15						**(0.4)**		**(0.4)**
At 1 January 2018 (restated)	**(16.6)**	**2.7**	**3.2**	**8.2**	**(2.8)**	**13.3**	**(49.9)**	**(41.9)**
Credited / (Charged) to the consolidated income statement	**2.3**	**(0.2)**	**(1.0)**	**3.7**	**0.7**	**(3.0)**	**–**	**2.5**
(Charged) / credited to equity and other comprehensive income	**(0.1)**	**(5.8)**	**(0.2)**	**–**	**–**	**–**	**–**	**(6.1)**
Businesses acquired / disposed	**–**	**–**	**–**	**(0.5)**	**(2.7)**	**2.6**	**(23.6)**	**(24.2)**
Effect of foreign exchange rate changes	**–**	**(0.1)**	**–**	**(0.3)**	**–**	**(0.2)**	**0.4**	**(0.2)**
At 31 December 2018	**(14.4)**	**(3.4)**	**2.0**	**11.1**	**(4.8)**	**12.7**	**(73.1)**	**(69.9)**

Analysed as:

	2018 £m	2017 (Restated) £m
Deferred tax assets	**30.8**	36.7
Deferred tax liabilities	**(100.7)**	(78.6)
	(69.9)	(41.9)

Measured at relevant local statutory rates, the Group has an unrecognised deferred tax asset of £29m (2017 – £36m) relating to tax relief on trading losses. The unrecognised asset represents £140m (2017 – £174m) of losses which exist within legal entities where forecast taxable profits are not probable in the foreseeable future.

The Group has unrecognised deferred tax assets of £23m (2017 – £23m) relating to capital losses. The asset represents £136m (2017 – £136m) of losses at the UK standard rate of 17.0% (2017 – 17.0%). The key territory holding the losses is the UK.

No deferred tax is recognised on unremitted earnings of overseas subsidiaries on the basis that the Group can control the timing of dividends. In addition, the majority of overseas reserves can now be repatriated to the UK with no tax cost. There are a small number of territories that do not qualify for this treatment. This principally relates to Ethiopia where dividend tax of £2.5m (2017 – £3.3m) is accrued based on current year after tax earnings.

The net deferred tax asset on provisions and other timing differences is principally made up of a deferred tax liability on non-qualifying property £12.5m (2017 – £13.8m) offset by deferred tax assets on trade related accounting provisions in the Group's operating companies £25.2m (2017 – £27.1m restated).

The deferred tax liability on distribution agreements of £73.1m (2017 – £49.9m) has been recorded as a result of the business acquisitions during 2016 & 2018.

The deferred tax asset on tax trading losses of £11.1m (2017 – £8.2m) relates to territories and entities where future taxable profits are considered probable.

17 INVENTORIES

	2018 £m	2017 £m
Raw materials and work in progress	**31.0**	20.3
Finished goods and merchandise	**1,820.9**	1,748.3
	1,851.9	1,768.6

Vehicles held on consignment which are in substance assets of the Group amount to £205.6m (2017 – £189.5m). These have been included in 'finished goods and merchandise' with the corresponding liability included within 'trade and other payables'. Payment becomes due when title passes to the Group, which is generally the earlier of six months from delivery or the date of sale.

An amount of £49.9m (2017 – £56.5m) has been provided against the gross cost of inventory at the year end. The cost of inventories recognised as an expense in the year is £7,466.7m (2017 – £7,173.0m). The write-down of inventory to net realisable value recognised as an expense during the year was £57.9m (2017 – £47.7m). All of these items have been included within 'cost of sales' in the consolidated income statement.

18 CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents are generally subject to floating interest rates determined by reference to short-term benchmark rates applicable in the relevant currency or market (primarily LIBOR or the local equivalent). At 31 December 2018, the weighted average floating rate was 0.45% (2017 – 0.3%).

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

At 31 December 2018, short-term deposits have a weighted average period to maturity of 20 days (2017 – 21 days).

19 ASSETS HELD FOR SALE

	2018 £m	2017 £m
Assets held for sale	**8.9**	13.8

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

20 TRADE AND OTHER PAYABLES

	Current		Non-current	
	2018 £m	2017 (Restated) £m	**2018 £m**	2017 (Restated) £m
Trade payables	**225.0**	232.4	**3.5**	4.0
Payments received on account	**87.7**	75.6	**3.7**	1.0
Vehicle funding agreements	**1,621.6**	1,547.8	**–**	–
Other taxation and social security payable	**62.7**	58.2	**–**	–
Accruals and deferred income	**339.9**	302.1	**58.0**	50.8
Amounts payable to related parties	**0.1**	0.1	**–**	–
Other payables	**19.5**	18.4	**2.1**	3.1
	2,356.5	2,234.6	**63.7**	58.9

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 90 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. Related cash flows are reported within cash flows from operating activities within the consolidated statement of cash flows.

Vehicle funding facilities are subject to LIBOR-based (or similar) interest rates. The interest incurred under these arrangements is included within finance costs and classified as stock holding interest (see note 7). At 31 December 2018, amounts outstanding under vehicle funding facilities and on which interest was payable were subject to a weighted average interest rate of 2.5% (2017 – 2.3%).

Management considers the carrying amount of trade and other payables to approximate to their fair value. Long-term payables have been discounted where the time value of money is considered to be material.

Included within accruals and deferred income are the following balances:

	2018 £m	2017 £m
Extended warranties	**42.0**	31.2
Service packages	**34.0**	29.9
Other services	**45.7**	26.9
	121.7	88.0

Analysed as:

	2018 £m	2017 £m
Current	**63.7**	37.2
Non-current	**58.0**	50.8
	121.7	88.0

Extended warranties

Certain Group companies provide extended warranties to customers over and above those provided by the manufacturer and act as the principal in the supply of the warranty service. The periods covered are up to six years and / or specific mileage limits. A proportion of revenue is allocated to the extended warranty obligation and deferred to the balance sheet. The revenue is subsequently recognised over time along with the costs incurred in fulfilling any warranty obligations.

Service packages

Certain Group companies provide service packages to customers as part of the total vehicle package. Where the Group acts as principal, the value of the additional services is separately identified, deducted from revenue and recognised as deferred income on the balance sheet. It is subsequently recognised as revenue when the service is provided.

Other services

Certain Group companies provide other services as part of the total vehicle package (e.g. road side assistance, fuel coupons etc). Where the Group acts as principal, the value of the additional services is separately identified, deducted from revenue and recognised as deferred income on the balance sheet. It is subsequently recognised as revenue over the period to which the service relates.

21 PROVISIONS

	Product warranty £m	Vacant leasehold £m	Litigation £m	Other £m	Total £m
At 1 January 2018	**37.3**	**1.7**	**1.6**	**18.9**	**59.5**
Adjustment for IFRS 15	**(26.8)**	**–**	**–**	**–**	**(26.8)**
At 1 January 2018 (restated)	**10.5**	**1.7**	**1.6**	**18.9**	**32.7**
Businesses acquired	**–**	**–**	**–**	**2.5**	**2.5**
Charged to the consolidated income statement	**3.2**	**0.8**	**0.3**	**5.0**	**9.3**
Released to the consolidated income statement	**(2.3)**	**(0.4)**	**(0.1)**	**(2.1)**	**(4.9)**
Effect of unwinding of discount factor	**0.1**	**–**	**–**	**–**	**0.1**
Utilised during the year	**(2.2)**	**(1.4)**	**(0.3)**	**(3.0)**	**(6.9)**
Effect of foreign exchange rate changes	**(0.3)**	**–**	**–**	**0.5**	**0.2**
At 31 December 2018	**9.0**	**0.7**	**1.5**	**21.8**	**33.0**

Analysed as:

	2018 £m	2017 (Restated) £m
Current	**18.5**	21.2
Non-current	**14.5**	11.5
	33.0	32.7

Product warranty
Certain Group companies provide assurance warranties as part of the sale of a vehicle. These are not separable products. The warranty periods covered are up to three years and / or specific mileage limits. Provision is made for the expected cost of labour and parts based on historical claims experience and expected future trends. These assumptions are reviewed regularly.

Vacant leasehold
The Group is committed to certain leasehold premises for which it no longer has a commercial use. These are principally located in the UK, Australia and Hong Kong. Provision has been made to the extent of the estimated future net cost. This includes taking into account existing subtenant arrangements. The expected utilisation period of these provisions is generally over the next ten years.

Litigation
This includes a number of litigation provisions in respect of claims that have been brought against various Group companies. The claims are generally expected to be concluded within the next three years.

Other
This category principally includes provisions relating to residual values on leased vehicles and provisions relating to restructuring activities. These provisions are expected to be utilised within three years.

22 BORROWINGS

2018	Floating rate £m	Floating rate Weighted average effective interest rate %	Fixed rate £m	Fixed rate Weighted average effective interest rate %	Total interest bearing £m	On which no interest is paid £m	2018 Total £m
Current							
Bank overdrafts	**125.9**	**0.8**	**–**	**–**	**125.9**	**–**	**125.9**
Bank loans	**163.6**	**1.0**	**–**	**–**	**163.6**	**–**	**163.6**
Private Placement	**127.4**	**1.5**	**–**	**–**	**127.4**	**–**	**127.4**
Other loans	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Finance leases	**–**	**–**	**0.1**	**7.0**	**0.1**	**–**	**0.1**
	416.9	**1.1**	**0.1**	**7.0**	**417.0**	**0.1**	**417.1**
Non-current							
Bank loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Private Placement	**–**	**–**	**210.0**	**3.0**	**210.0**	**–**	**210.0**
Finance leases	**–**	**–**	**1.7**	**7.0**	**1.7**	**–**	**1.7**
	–	**–**	**211.7**	**3.0**	**211.7**	**–**	**211.7**
Total borrowings	**416.9**	**1.1**	**211.8**	**3.0**	**628.7**	**0.1**	**628.8**

Bank overdrafts include £125.9m (2017 – £508.0m) held in cash pooling arrangements which have not been offset in the consolidated statement of financial position (see note 23b).

2017	Floating rate £m	Floating rate Weighted average effective interest rate %	Fixed rate £m	Fixed rate Weighted average effective interest rate %	Total interest bearing £m	On which no interest is paid £m	2017 Total £m
Current							
Bank overdrafts	510.3	0.5	–	–	510.3	–	510.3
Bank loans	19.9	1.1	2.6	5.3	22.5	–	22.5
Finance leases	–	–	1.7	3.7	1.7	–	1.7
	530.2	0.5	4.3	4.7	534.5	–	534.5
Non-current							
Bank loans	37.0	0.9	4.1	5.3	41.1	–	41.1
Private Placement	109.4	1.1	210.0	3.0	319.4	–	319.4
Finance leases	–	–	1.4	7.0	1.4	–	1.4
	146.4	1.0	215.5	3.1	361.9	–	361.9
Total borrowings	676.6	0.6	219.8	3.1	896.4	–	896.4

The above analysis is presented after taking account of the cross currency fixed to floating interest rate swap on the US dollar Private Placement loan notes of US$161m (2017 – US$161m).

Interest payments on floating rate financial liabilities are determined by reference to short-term benchmark rates applicable in the relevant currency or market (primarily LIBOR or the local equivalent).

The £210m Sterling Private Placement loan notes are held at amortised cost. They have a fair value of £208.6m (2017 – £215.0m) calculated from discounted cashflow techniques obtained using discount rates from observable market data, which is a level 2 Valuation technique. The fair values of the Group's other borrowings are not considered to be materially different from their book value.

£38.2m of the Group’s bank loans are secured by term deposits placed under a standby letter of credit and related facility arrangements (2017 – £15.6m). The Group’s bank overdrafts are secured by related offsetting cash balances held under pooling arrangements. The Group’s remaining borrowings are unsecured.

At 31 December 2018, the committed funding facilities of the Group comprised a syndicated revolving credit facility of £400m (2017 – £400m), bilateral revolving credit facilities of £221m (2017 – £101m), US dollar Private Placement loan notes totalling US$161m (2017 – US$161m) and sterling Private Placement loan notes totalling £210m (2017 – £210m).

The £400m syndicated revolving credit facility was entered into in January 2015 and after exercising extension options the expiry date is January 2022. At 31 December 2018, £nil of the £400m was drawn down (2017 – £25m). Three bilateral revolving credit facilities totalling £101m were entered into in 2017, with expiry dates of January 2022, and were undrawn as at 31 December 2018 (2017 – £12m drawn). In March 2018, a further bilateral revolving credit facility totalling £120m was entered into with an expiry date of September 2019 and this facility was fully drawn at 31 December 2018.

22 BORROWINGS CONTINUED

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

In December 2016, the Group concluded a US Private Placement transaction raising £210m to refinance existing US Private Placement borrowings which matured in May 2017. The amounts drawn under these facilities are as follows:

Maturity date	May 2024	May 2027	May 2027	May 2029
Amount drawn	£70m	£30m	£70m	£40m
Fixed rate coupon	2.85%	3.02%	3.12%	3.10%

All of the Group's remaining US$161m US dollar Private Placement loan notes are swapped into Sterling and are all repayable in May 2019.

The table below sets out the maturity profile of the Group's existing borrowings that are exposed to interest rate risk. This analysis is presented after taking account of the cross currency fixed to floating interest rate swap on US$161m (2017 – US$161m) of the Private Placement.

2018	**Less than 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 3 years £m**	**Between 3 and 4 years £m**	**Between 4 and 5 years £m**	**Greater than 5 years £m**	**Total interest bearing £m**
Fixed rate							
Bank loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Private Placement	**–**	**–**	**–**	**–**	**–**	**210.0**	**210.0**
Finance leases	**0.1**	**0.1**	**0.1**	**0.3**	**1.2**	**–**	**1.8**
Floating rate							
Bank overdrafts	**121.7**	**–**	**–**	**–**	**–**	**–**	**121.7**
Bank loans	**163.6**	**–**	**–**	**–**	**–**	**–**	**163.7**
Private Placement	**127.4**	**–**	**–**	**–**	**–**	**–**	**127.4**

2017	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Greater than 5 years £m	Total interest bearing £m
Fixed rate							
Bank loans	2.6	2.8	1.3	–	–	–	6.7
Private Placement	–	–	–	–	–	210.0	210.0
Finance leases	1.7	–	0.1	0.1	0.1	1.1	3.1
Floating rate							
Bank overdrafts	510.3	–	–	–	–	–	510.3
Bank loans	19.9	–	–	–	37.0	–	56.9
Private Placement	–	109.4	–	–	–	–	109.4

23 FINANCIAL INSTRUMENTS

The Group's financial liabilities, other than derivatives, comprise overdrafts, loan notes, finance leases and trade and other payables. The main purpose of these instruments is to raise finance for the Group's operations. The Group also has various financial assets such as trade and other receivables, cash and short-term deposits which arise from its trading operations.

The Group's primary derivative transactions are forward and swap currency contracts, and cross currency interest rate swaps. The purpose is to manage the currency and interest rate risks arising from the Group's trading operations and its sources of finance. Group policy is that there is no trading or speculation in derivatives.

The main risks arising from the Group's financial instruments are interest rate risk, currency risk, credit risk and liquidity risk.

a. Classification of financial instruments

2018	**Measured at amortised cost £m**	**Measured at fair value through other comprehensive income £m**	**Measured at fair value through profit or loss £m**	**Total £m**
Financial assets				
Available for sale financial assets	**–**	**7.4**	**–**	**7.4**
Trade and other receivables	**397.6**	**–**	**–**	**397.6**
Derivative financial instruments	**–**	**16.8**	**75.3**	**92.1**
Cash and cash equivalents	**589.3**	**–**	**–**	**589.3**
Total financial assets	**986.9**	**24.2**	**75.3**	**1,086.4**
Financial liabilities				
Trade and other payables	**(2,225.7)**	**–**	**–**	**(2,225.7)**
Derivative financial instruments	**–**	**(1.2)**	**(12.1)**	**(13.3)**
Borrowings	**(628.8)**	**–**	**–**	**(628.8)**
Total financial liabilities	**(2,854.5)**	**(1.2)**	**(12.1)**	**(2,867.8)**
	(1,867.6)	**23.0**	**63.2**	**(1,781.4)**

2017	Measured at amortised cost £m	Measured at fair value through other comprehensive income £m	Measured at fair value through profit or loss £m	Total £m
Financial assets				
Available for sale financial assets	–	7.5	–	7.5
Trade and other receivables	419.0	–	–	419.0
Derivative financial instruments	–	0.8	51.6	52.4
Cash and cash equivalents	926.9	–	–	926.9
Total financial assets	1,345.9	8.3	51.6	1,405.8
Financial liabilities				
Trade and other payables	(2,068.2)	–	–	(2,068.2)
Derivative financial instruments	–	(7.4)	(14.2)	(21.6)
Borrowings	(896.4)	–	–	(896.4)
Total financial liabilities	(2,964.6)	(7.4)	(14.2)	(2,986.2)
	(1,618.7)	0.9	37.4	(1,580.4)

23 FINANCIAL INSTRUMENTS CONTINUED

b. Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting, enforceable netting arrangements and similar agreements:

	Gross amounts of financial assets £m	Gross amounts of financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m	Related amounts not set off in the statement of financial position: Financial instruments £m	Cash collateral received £m	Net amount £m
As at 31 December 2018						
Derivative financial assets	**98.4**	**(6.3)**	**92.1**	**(11.9)**	**–**	**80.2**
Cash and cash equivalents	**589.3**	**–**	**589.3**	**(125.9)**	**–**	**463.4**
Other receivables	**–**	**–**	**–**	**–**	**–**	**–**
Total	**687.7**	**(6.3)**	**681.4**	**(137.8)**	**–**	**543.6**
As at 31 December 2017						
Derivative financial assets	56.9	(4.5)	52.4	(2.7)	–	49.7
Cash and cash equivalents	926.9	–	926.9	(508.0)	–	418.9
Other receivables	1.0	(0.3)	0.7	–	–	0.7
Total	984.8	(4.8)	980.0	(510.7)	–	469.3

The following financial liabilities are subject to offsetting, enforceable netting arrangements and similar agreements:

	Gross amounts of financial liabilities £m	Gross amounts of financial assets set off in the statement of financial position £m	Net amounts of financial liabilities presented in the statement of financial position £m	Related amounts not set off in the statement of financial position: Financial instruments £m	Cash collateral paid £m	Net amount £m
As at 31 December 2018						
Derivative financial liabilities	**(19.5)**	**6.3**	**(13.2)**	**11.9**	**–**	**(1.3)**
Bank overdrafts	**(125.9)**	**–**	**(125.9)**	**125.9**	**–**	**–**
Other payables	**–**	**–**	**–**	**–**	**–**	**–**
Total	**(145.4)**	**6.3**	**(139.1)**	**137.8**	**–**	**(1.3)**
As at 31 December 2017						
Derivative financial liabilities	(26.1)	4.5	(21.6)	2.7	–	(18.9)
Bank overdrafts	(510.3)	–	(510.3)	508.0	–	(2.3)
Other payables	(0.3)	0.3	–	–	–	–
Total	(536.7)	4.8	(531.9)	510.7	–	(21.2)

For the financial assets and liabilities subject to enforceable netting arrangements or similar agreements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities if the amounts relate to the same transaction and are in the same currency. If the parties subject to the agreement do not elect to settle on a net basis, financial assets and liabilities will be settled on a gross basis. However, each party to the netting agreement will have the option to settle all such amounts on a net basis in the event of a default of the other party.

23 FINANCIAL INSTRUMENTS CONTINUED

c. Market risk and sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The Group is not exposed to commodity price risk. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity to changes in market variables, being primarily UK interest rates and the Japanese yen exchange rate with both the Australian dollar and Chilean peso.

The following assumptions were made in calculating the sensitivity analysis:

- changes in the carrying value of derivative financial instruments designated as cash flow hedges from movements in interest rates are assumed to be recorded fully in equity;
- changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates have an immaterial effect on the consolidated income statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of financial instruments not in hedging relationships only affect the consolidated income statement; and
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the consolidated income statement.

d. Interest rate risk and sensitivity analysis

The Group's interest rate policy has the objective of minimising net interest expense, and protecting the Group from material adverse movements in interest rates.

Instruments approved for the purpose of hedging interest rate risk include interest rate swaps, forward rate agreements and options. The Group's exposure to the risk of changes in market interest rates arises primarily from the floating rate interest payable on the Group's loan notes that expire in 2019, bank borrowings, supplier-related finance and the returns available on surplus cash. In December 2016 the Group entered into agreements to issue new 3.0% fixed interest rate Private Placement loan notes to refinance the floating rate loan notes that matured in May 2017 (see note 22).

Interest rate risk table

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates on bank borrowings, supplier related finance and cash balances as at 31 December 2018 with all other variables held constant.

	Increase in basis points	Effect on profit before tax £m
2018		
Sterling	**75**	**(9.6)**
Euro	**50**	**0.1**
Russian rouble	**500**	**0.4**
Australian dollar	**100**	**1.2**
US Dollar	**75**	**0.9**
2017		
Sterling	75	(4.8)
Euro	50	–
Russian rouble	500	(0.9)
Australian dollar	100	(2.7)

23 FINANCIAL INSTRUMENTS CONTINUED

e. Foreign currency risk

The Group publishes its consolidated financial statements in Sterling and faces currency risk on the translation of its earnings and net assets, a significant proportion of which are in currencies other than Sterling.

Transaction exposure hedging

The Group has transactional currency exposures, where sales or purchases by an operating unit are in currencies other than in that unit's reporting currency. For a significant proportion of the Group these exposures are removed as trading is denominated in the relevant local currency. In particular, local billing arrangements are in place for many of our businesses with our brand partners. The principal exception is for our business in Australia which purchases vehicles in Japanese yen and our South and Central American businesses which purchase vehicles in Japanese yen and US dollars.

In this instance, the Group seeks to hedge forecast transactional foreign exchange rate risk using forward foreign currency exchange contracts. The effective portion of the gain or loss on the hedge is recognised in the consolidated statement of comprehensive income to the extent it is effective and recycled into the consolidated income statement at the same time as the underlying hedged transaction affects the consolidated income statement. Under IFRS 9 hedges are documented and tested for the hedge effectiveness on an ongoing basis.

Hedge of foreign currency debt

The Group uses cross currency interest rate swaps to hedge the forward foreign currency risk associated with the US$161m Private Placement (2017 – US$161m). The effective portion on the gain or loss of the hedge is recognised in the consolidated income statement at the same time as the underlying hedged transaction affects the consolidated income statement.

Foreign currency risk table

The following table shows the Group sensitivity to a reasonably possible change in foreign exchange rates on its Japanese yen financial instruments. In this table, financial instruments are only considered sensitive to foreign exchange rates when they are not in the functional currency of the entity that holds them.

	Increase / (decrease) in exchange rate	Effect on equity £m
2018		
Yen	**+10%**	**–**
Yen	**-10%**	**(0.1)**
2017		
Yen	+10%	–
Yen	-10%	(0.1)

f. Credit risk

The amount due from counterparties arising from cash deposits and the use of financial instruments creates credit risk. 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 notional amounts of financial instruments used in interest rate and foreign exchange management do not represent the credit risk arising through the use of these instruments. The immediate credit risk of these instruments is generally estimated by the fair value of contracts with a positive value. Credit limits are reviewed regularly.

The table below analyses the Group's short-term deposits and derivative assets by credit exposure excluding bank balances and cash in hand:

	2018		2017	
Credit rating of counterparty	**Derivative assets £m**	**Short-term deposits £m**	Derivative assets £m	Short-term deposits £m
AA-	**43.4**	**–**	29.5	3.1
A+	**32.5**	**68.1**	22.5	–
A	**–**	**–**	–	37.8
A-	**12.0**	**32.0**	–	–
BBB+	**0.9**	**0.7**	0.4	0.6
BBB-	**0.1**	**19.9**	–	12.0
No rating*	**3.2**	**98.3**	–	53.4
	92.1	**219.0**	52.4	106.9

* Counterparties in certain markets in which the Group operates do not have a credit rating.

23 FINANCIAL INSTRUMENTS CONTINUED

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties.

The maximum exposure to credit risk for cash at bank, receivables and other financial assets is represented by their carrying amount.

Total cash at bank of £370.3m (2017 – £820.0m) includes cash in the Group's regional pooling arrangements which are offset against borrowings for interest purposes. Netting of cash and overdraft balances in the consolidated statement of financial position only occurs to the extent that there is the legal ability and intention to settle net. As such, overdrafts are presented in current liabilities to the extent that there is no intention to offset with the cash balance.

Trade receivables include amounts due from a number of finance houses in respect of vehicles sold to customers on finance arranged through the Group. An independent credit rating agency is used to assess the credit standing of each finance house. Limits for the maximum outstanding with each finance house are set accordingly.

g. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial assets and liabilities at 31 December 2018 based on contractual expected undiscounted cash flows:

2018	**Less than 3 months £m**	**Between 3 to 12 months £m**	**Between 1 to 5 years £m**	**Greater than 5 years £m**	**Total £m**
Financial assets					
Cash and cash equivalents	**573.7**	**15.6**	**–**	**–**	**589.3**
Trade and other receivables	**356.2**	**31.1**	**10.3**	**–**	**397.6**
Available for sale financial assets	**0.2**	**–**	**7.2**	**–**	**7.4**
Derivative financial instruments	**24.7**	**141.8**	**–**	**–**	**166.5**
	954.8	**188.5**	**17.5**	**–**	**1,160.8**
Financial liabilities					
Interest bearing loans and borrowings	**(164.6)**	**(253.6)**	**(25.9)**	**(229.7)**	**(673.8)**
Trade and other payables	**(1,913.6)**	**(299.2)**	**(12.9)**	**–**	**(2,225.7)**
Derivative financial instruments	**(13.4)**	**(76.4)**	**–**	**–**	**(89.8)**
	(2,091.6)	**(629.2)**	**(38.8)**	**(229.7)**	**(2,989.3)**
Net outflows	**(1,136.8)**	**(440.7)**	**(21.3)**	**(229.7)**	**(1,828.5)**

2017	Less than 3 months £m	Between 3 to 12 months £m	Between 1 to 5 years £m	Greater than 5 years £m	Total £m
Financial assets					
Cash and cash equivalents	895.3	31.6	–	–	926.9
Trade and other receivables	390.7	19.0	8.2	1.1	419.0
Available for sale financial assets	–	0.2	–	7.3	7.5
Derivative financial instruments	1.7	10.8	178.3	–	190.8
	1,287.7	61.6	186.5	8.4	1,544.2
Financial liabilities					
Interest bearing loans and borrowings	(516.0)	(31.9)	(173.2)	(242.5)	(963.6)
Trade and other payables	(1,981.1)	(79.5)	(7.6)	–	(2,068.2)
Derivative financial instruments	(12.5)	(12.4)	(131.4)	–	(156.3)
	(2,509.6)	(123.8)	(312.2)	(242.5)	(3,188.1)
Net outflows	(1,221.9)	(62.2)	(125.7)	(234.1)	(1,643.9)

23 FINANCIAL INSTRUMENTS CONTINUED

h. Fair value measurement

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:

				2018				2017
	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	**–**	**92.1**	**–**	**92.1**	–	52.4	–	52.4
Available for sale financial assets	**0.5**	**–**	**6.9**	**7.4**	1.3	–	6.2	7.5
	0.5	**92.1**	**6.9**	**99.5**	1.3	52.4	6.2	59.9
Liabilities								
Derivatives used for hedging	**–**	**(13.3)**	**–**	**(13.3)**	–	(21.6)	–	(21.6)

Level 1 represents the fair value of financial instruments that are traded in active markets and is based on quoted markets 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.

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 prevailing at 31 December 2018.

The Group's derivative financial instruments comprise the following:

		Assets		Liabilities
	2018 £m	2017 £m	**2018 £m**	2017 £m
Cross currency interest rate swaps	**52.2**	49.7	**–**	–
Forward foreign exchange contracts	**39.9**	2.7	**(13.3)**	(21.6)
	92.1	52.4	**(13.3)**	(21.6)

The ineffective portion recognised in the consolidated income statement that arises from fair value hedges amounts to a loss of £0.6m (2017 – Gain of £1.2m). The ineffective portion recognised in the consolidated income statement that arises from cash flow hedges amounts to a gain of £nil (2017 – £nil).

23 FINANCIAL INSTRUMENTS CONTINUED

Cash flow hedges

The Group principally uses forward foreign exchange contracts to hedge purchases in a non-functional currency against movements in exchange rates. The cash flows relating to these contracts are generally expected to occur within 12 months (2017 – 12 months) of the end of the reporting period.

The nominal principal amount of the outstanding forward foreign exchange contracts relating to transactional exposures at 31 December 2018 was £810.5m (2017 – £910.4m).

Net fair value gains and losses recognised in the hedging reserve in shareholders' equity (see note 25) on forward foreign exchange contracts as at 31 December 2018 are expected to be released to the consolidated income statement within 12 months of the end of the reporting period (2017 – 12 months).

Fair value hedge

At 31 December 2018, the Group had in place three cross currency interest rate swaps. Two of these total US$200m which hedge changes in the fair value of the Group's 12-year loan notes that are due to mature in May 2019. Under these swaps the Group receives fixed rate US dollar interest of 6.04% on US$200m and pays LIBOR +90bps.

An additional US$39.2m cross currency interest rate swap was put in place after debt reduction in 2009 to offset the non-required portion of the original swaps. Under this swap the Group pays US dollar interest of 6.04% on US$39.2m and receives LIBOR +214bps. The loan notes and cross currency interest rate swaps have the same critical terms.

i. Capital management

The Group's capital structure consists of equity and debt. Equity represents funds raised from shareholders and debt represents funds raised from banks and other financial institutions. The primary objective of the Group's management of debt and equity is to ensure that it maintains a strong credit rating and healthy capital ratios in order to finance the Group's activities, both now and in the future, and to maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Directors consider the Group's capital structure and dividend policy at least twice a year prior to the announcement of results, taking into account the Group's ability to continue as a going concern and the requirements of its business plan.

The Group uses return on capital employed (ROCE) as a measure of its ability to drive better returns on the capital invested in the Group's operations.

	2018	2017
Return on capital employed	**27.8%**	30.1%

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. The Group is required to maintain a ratio of not less than three to one and was compliant with this covenant throughout the year.

The Group monitors Group leverage by reference to three tests: Adjusted EBITA interest cover, the ratio of net debt to EBITDA and the ratio of net debt to market capitalisation.

	2018	2017
Adjusted EBITA interest cover (times) *	**62.0**	60.0
Net debt to EBITDA (times) **	**n/a**	n/a
Net debt / market capitalisation (percentage) ***	**n/a**	n/a

* Calculated as Adjusted EBITA / interest on consolidated borrowings.

** Calculated as net debt / earnings before exceptional items, interest, tax, depreciation and amortisation.

*** Calculated as net debt / market capitalisation as at 31 December.

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

24 SHARE CAPITAL

a. Allotted, called up and fully paid up

	2018 Number	2017 Number	2018 £m	2017 £m
Ordinary shares (nominal value of 10.0p each)				
At 1 January	**415,018,286**	421,004,809	**41.6**	42.2
Allotted under share option schemes	**109,167**	142,505	**–**	–
Cancelled under share buyback	**–**	(6,129,028)	**–**	(0.6)
At 31 December	**415,127,453**	415,018,286	**41.6**	41.6

b. Share buyback programme

During the year, there were no repurchases of own shares. In 2017, the Group repurchased 6,129,028 of its own shares through purchases on the London Stock Exchange at a cost of £49.8m. The shares repurchased during the year were cancelled, with none held within treasury shares at the end of the reporting period. An amount of £0.6m, equivalent to the nominal value of the cancelled shares, was transferred to the capital redemption reserve. Costs of £0.4m associated with the transfer to the Group of the repurchased shares and their subsequent cancellation were charged to the profit and loss reserve.

c. Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 27 February 2019 under the provisions of the Companies Act 2006 have been disclosed in the significant shareholdings section of the Corporate Governance Report.

d. Share options

At 31 December 2018, options to acquire ordinary shares of 10.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Number of ordinary shares of 10.0p each	Exercisable until	Option price (£)	Number of ordinary shares of 10.0p each	Exercisable until	Option price (£)
The Inchcape 1999 Share Option Plan			**The Inchcape SAYE Share Option Scheme**		
– approved (Part II – UK)			**– approved**		
2	19 May 2019	2.00	453,464	1 May 2019	5.78
3	7 April 2020	3.10	438,351	1 May 2020	5.63
			410,683	1 May 2021	6.66
			1,273,731	1 May 2022	5.54
– unapproved (Part I – UK)			**Recruitment and Retention Plan**		
1,000	19 May 2019	2.00	74,504	10 April 2026	0.10
1,612	7 April 2020	3.10			
– unapproved overseas (Part I – Overseas)					
3,224	7 April 2020	3.10			

Included within the retained earnings reserve are 771,211 (2017 – 493,012) ordinary shares in the Company held by the Inchcape Employee Trust, a general discretionary trust whose beneficiaries include current and former employees of the Group and their dependants. The book value of these shares at 31 December 2018 was £5.1m (2017 – £3.5m). The market value of these shares at 31 December 2018 and 27 February 2019 was £4.3m and £4.6m respectively (31 December 2017 – £3.9m, 26 February 2018 – £3.5m).

25 OTHER RESERVES

	Translation reserve (Restated)[1] £m	Hedging reserve £m	Total other reserves (Restated)[1] £m
At 1 January 2017	0.2	(25.8)	(25.6)
Cash flow hedges:			
– Fair value movements	–	30.5	30.5
– Reclassified and reported in inventories	–	(16.5)	(16.5)
– Tax on cash flow hedges	–	(4.7)	(4.7)
Effect of foreign exchange rate changes	(67.2)	–	(67.2)
At 1 January 2018	**(67.0)**	**(16.5)**	**(83.5)**
Cash flow hedges:			
– Fair value movements	**–**	**38.7**	**38.7**
– Reclassified and reported in inventories	**–**	**(15.3)**	**(15.3)**
– Tax on cash flow hedges	**–**	**(5.7)**	**(5.7)**
Effect of foreign exchange rate changes	**(10.5)**	**–**	**(10.5)**
At 31 December 2018	**(77.5)**	**1.2**	**(76.3)**

1. See note 32.

The effect of foreign exchange rate changes includes a gain of £2.8m (2017 – gain of £2.0m) on the sale and liquidation of overseas subsidiaries that has been reclassified to the consolidated income statement in accordance with IAS 21 The effects of changes in foreign exchange rates.

Available for sale reserve
Gains and losses on available for sale financial assets are recognised in the 'available for sale reserve' until the asset is sold or is considered to be impaired, at which time the cumulative gain or loss is included in the consolidated income statement.

Translation reserve
The translation reserve is used to record foreign exchange rate changes relating to the translation of the results of foreign subsidiaries arising after 1 January 2004. It is also used to record foreign exchange differences arising on long-term foreign currency borrowings used to finance or hedge foreign currency investments.

Hedging reserve
For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that are determined to be an effective hedge are recognised directly in shareholders' equity. When the hedged firm commitment results in the recognition of a non-financial asset or liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in shareholders' equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

26 RETAINED EARNINGS

	2018 £m	2017 (Restated)[1] £m
At 1 January	**1,183.5**	1,036.4
Total comprehensive income attributable to owners of the parent for the year:		
– Profit for the year	**48.2**	267.7
– Actuarial losses on defined pension benefits (note 5)	**36.4**	37.9
– Tax credited to reserves	**(6.2)**	(5.5)
Total comprehensive income for the year	**78.4**	300.1
Share-based payments, net of tax	**7.2**	11.0
Share buyback programme	**–**	(50.2)
Net purchase of own shares by Inchcape Employee Trust	**(12.6)**	(11.1)
Dividends paid (note 10)	**(115.2)**	(102.7)
At 31 December	**1,141.3**	1,183.5

1. See note 32.

27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of cash generated from operations

	2018 £m	2017 £m
Cash flows from operating activities		
Operating profit	**174.3**	394.0
Exceptional items (see note 2)	**210.8**	12.6
Amortisation	**14.2**	13.8
Depreciation of property, plant and equipment	**43.9**	43.8
Profit on disposal of property, plant and equipment	**(2.1)**	(10.6)
Share-based payments charge	**7.5**	10.2
Increase in inventories	**(41.5)**	(239.6)
Increase in trade and other receivables	**(14.2)**	(36.1)
Increase in trade and other payables	**95.0**	350.8
Increase / (decrease) in provisions	**0.6**	(6.1)
Pension contributions less than the pension charge for the year*	**21.3**	3.1
Decrease / (increase) in interest in leased vehicles	**2.9**	(1.4)
Payments in respect of operating exceptional items	**(10.1)**	(32.1)
Other non-cash items	**(1.1)**	(2.0)
Cash generated from operations	**501.5**	500.4

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

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

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

Net funds is analysed as follows:

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

28 ACQUISITIONS AND DISPOSALS

a. Acquisitions

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

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

	Acquisition book values £m	Fair value adjustments £m	Final fair values £m
Assets and liabilities acquired			
Intangible assets	0.2	–	0.2
Distribution agreements recognised on acquisition (see note 11)	–	80.1	80.1
Property, plant and equipment	38.2	6.6	44.8
Tax assets	0.3	1.4	1.7
Inventory	58.0	(1.6)	56.4
Trade and other receivables	29.3	11.5	40.8
Cash and cash equivalents	8.5	–	8.5
Trade and other payables	(17.0)	(2.1)	(19.1)
Provisions	(0.9)	(1.6)	(2.5)
Borrowings	(61.2)	–	(61.2)
Tax liabilities[1]	(1.7)	(34.6)	(36.3)
Net assets acquired	**53.7**	**59.7**	**113.4**
Goodwill			42.1
Purchase consideration			**155.5**

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

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

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

b. Other acquisitions

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

c. Disposals

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

d. 2017 acquisitions and disposals

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

29 GUARANTEES AND CONTINGENCIES

	2018 £m	2017 £m
Guarantees, performance bonds and contingent liabilities	**77.4**	101.4

Guarantees and contingencies largely comprise letters of credit issued on behalf of the Group in the ordinary course of business.

The Group also has, in the ordinary course of business, commitments under foreign exchange instruments relating to the hedging of transactional exposures (see note 23).

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

As reported previously, the resolution of the test case in the FII GLO remains incomplete. Inchcape has in the meantime joined an action at the High Court to establish whether judgment should be entered for non-test claims, also involving the determination of some issues that do not arise in the test case. A positive judgment would result in the recovery by Inchcape of amounts claimed from HMRC. However, this judgment would remain subject to the final conclusion of the test case and so could be amended resulting in a reduction of the non-test case recoveries and thus a repayment to HMRC.

As at 31 December 2018, 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. In addition, following the judgment of the Supreme Court in Prudential Assurance Company Limited v The Commissioners for HM Revenue and Customs in July 2018, there is uncertainty regarding the value of the claim and it is likely to be lower than the previously reported amount (£35.8m).

Other matter
While this does not represent a contingent liability, we note that a class action has been brought against our subsidiary, Subaru (Australia) Pty Limited, in connection with the global Takata airbag inflator recall. Subaru (Australia) Pty Limited is one of a number of named defendants and is, along with others, taking steps to defend the action.

30 COMMITMENTS

a. Capital commitments

Contracts placed for future capital expenditure at the balance sheet date but not yet incurred are as follows:

	2018 £m	2017 £m
Property, plant and equipment	**20.6**	41.3
Computer software	**0.4**	–

b. Lease commitments

Operating lease commitments – Group as lessee
The Group has entered into non-cancellable operating leases for various offices, warehouses and dealerships. These leases have varying terms, escalation clauses and renewal rights. None of these leases are considered to be individually significant.

Future minimum lease payments under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
Within one year	**67.6**	70.7
Between one and five years	**177.5**	171.2
After five years	**185.1**	168.8
	430.2	410.7

Operating lease commitments – Group as lessor
The Group has entered into non-cancellable operating leases on a number of its vehicles and certain properties. These leases have varying terms, escalation clauses and renewal rights and are not individually significant to the Group.

Future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
Within one year	**5.1**	5.1
Between one and five years	**6.8**	9.5
After five years	**4.8**	5.1
	16.7	19.7

30 COMMITMENTS CONTINUED

Finance leases and hire purchase contracts

The Group has finance leases and hire purchase contracts for various items of property, plant and equipment. These leases have varying terms, escalation clauses and renewal rights. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments (included within borrowings), are as follows:

	2018 £m	2017 £m
Minimum lease payments:		
– Within one year	**0.2**	1.8
– Between one and five years	**1.0**	0.6
– After five years	**1.9**	1.9
Total minimum lease payments	**3.1**	4.3
Less: Future finance charges	**(1.3)**	(1.2)
Present value of finance lease liabilities	**1.8**	3.1

c. Residual value commitments

The Group has entered into agreements with leasing companies and other third parties to repurchase vehicles for a specified value at a predetermined date as follows:

	2018 £m	2017 £m
Vehicles subject to residual value commitments	**81.9**	88.0

Residual value commitments comprise the total repurchase liability on all vehicles where the Group has a residual value commitment. These commitments are largely expected to be settled over the next three years.

Where the repurchase commitment is in respect of a vehicle sold by the Group, the repurchase commitment is included within 'trade and other payables'. Included within the above are £6.8m (2017 – £12.8m) of residual value commitments that are included within 'trade and other payables'.

31 RELATED PARTY DISCLOSURES

a. Trading transactions

Intra-group transactions have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	Transactions		Amounts outstanding	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Other income paid to related parties	**0.8**	0.6	**0.1**	0.1

All of the transactions arise in the ordinary course of business and are on an arm's length basis. The amounts outstanding are unsecured and will be settled in cash. There have been no guarantees provided or received for any related party receivables. The Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2017 – £nil).

b. Compensation of key management personnel

The remuneration of the Board of Directors and the Executive Committee was as follows:

	2018 £m	2017 £m
Wages and salaries	**5.9**	6.7
Post-retirement benefits	**0.6**	0.6
Share-based payments	**2.4**	4.0
	8.9	11.3

The remuneration of the Directors and other key management is determined by the Remuneration Committee having regard to the performance of individuals and market trends. Further details of emoluments paid to the Directors are included in the Directors' Report on Remuneration.

32 RESTATEMENT ON INITIAL ADOPTION OF IFRS 15

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

The impacts on the consolidated income statement are:

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

The impacts on the consolidated statement of financial position are:

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

Refer to Note 1 for details of the change in accounting policies arising from the adoption of IFRS 15.

33 FOREIGN CURRENCY TRANSLATION

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

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

34 EVENTS AFTER THE REPORTING PERIOD

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

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

ALTERNATIVE PERFORMANCE MEASURES

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

Performance measure	Definition	Why we measure it
Trading profit	Operating profit (before exceptional items) and unallocated central costs. Refer to note 1.	A measure of the contribution of the Group's segmental performance.
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 into profit.
Profit before tax & exceptional items	Represents the profit made after operating and interest expense excluding the impact of exceptional items and before tax is charged. Refer to consolidated income statement.	A key driver of delivering sustainable and growing earnings to shareholders.
Exceptional items	Items that are charged or credited in the consolidated income statement which are material and non-recurring in nature. Refer to note 2.	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 26.	A key driver of the Group's ability to 'Invest to Accelerate Growth' and to make distributions to shareholders.
Return on capital employed (ROCE)	Operating profit (before exceptional items) divided by the average of opening and closing capital employed, where capital employed is defined as net assets less net funds.	A key measure of Ignite (Invest to Accelerate Growth), ROCE is a measure of the Group's ability to drive better returns for investors on the capital we invest.
Net funds / (debt)	Cash and cash equivalents less borrowings adjusted for the fair value of derivatives that hedge interest rate or currency risk on borrowings. Refer to note 27.	A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength.
Net capital expenditure	Cash outflows from the purchase of property, plant, equipment and intangible assets less the proceeds from the disposal of property, plant, equipment and intangible assets. Refer to page 26.	A measure of the net amount invested in operational facilities in the period.
Constant currency	Presentation of reported results translated using constant rates of exchange.	A measure of underlying business performance which excludes the impact of changes in exchange rates used for translation.

Five year record

The information presented in the table below is prepared in accordance with IFRS, as in issue and effective at that year end date.

Consolidated income statement	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue	**9,277.0**	8,953.3	7,838.4	6,836.3	6,702.7
Operating profit before exceptional items	**385.1**	406.6	359.1	324.7	318.4
Operating exceptional items	**(210.8)**	(12.6)	(81.6)	(49.5)	(47.4)
Operating profit	**174.3**	394.0	277.5	275.2	271.0
Share of profit / (loss) after tax of joint ventures and associates	**0.1**	–	(0.1)	0.7	(1.9)
Profit before finance and tax	**174.4**	394.0	277.4	275.9	269.1
Net finance costs before exceptional items	**(28.4)**	(25.0)	(9.6)	(13.3)	(13.3)
Exceptional finance costs	**(13.9)**	–	(9.6)	(13.3)	(13.3)
Profit before tax	**132.1**	369.0	267.8	262.6	255.8
Tax before exceptional tax	**(80.2)**	(96.1)	(88.0)	(74.9)	(68.6)
Exceptional tax	**3.3**	2.7	11.5	(4.8)	–
Profit after tax	**55.2**	275.6	191.3	182.9	187.2
Non-controlling interests	**(7.0)**	(7.9)	(6.9)	(7.1)	(7.6)
Profit for the year	**48.2**	267.7	184.4	175.8	179.6
Basic:					
– Profit before tax	**132.1**	369.0	267.8	262.6	255.8
– Earnings per share (pence)	**11.6p**	64.6p	43.2p	39.8p	39.7p
Adjusted (before exceptional items):					
– Profit before tax	**356.8**	381.6	349.4	312.1	303.2
– Earnings per share (pence)	**65.0p**	66.7p	59.6p	52.1p	50.2p
Dividends per share – interim paid and final proposed (pence)	**26.8p**	26.8p	23.8p	20.9p	20.1p
Consolidated statement of financial position					
Non-current assets	**1,658.0**	1,641.0	1,563.4	1,259.1	1,341.2
Other assets less (liabilities) excluding net funds	**(254.9)**	(266.1)	(227.4)	(183.6)	(233.3)
	1,403.1	1,374.6	1,336.0	1,075.5	1,107.9
Net funds	**12.7**	80.2	26.5	166.4	210.2
Net assets	**1,415.8**	1,447.9	1,362.5	1,241.9	1,318.1
Equity attributable to owners of the parent	**1,392.3**	1,427.3	1,343.9	1,219.0	1,292.9
Non-controlling interests	**23.5**	20.6	18.6	22.9	25.2
Total equity	**1,415.8**	1,447.9	1,362.5	1,241.9	1,318.1

Company statement of financial position
As at 31 December 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Intangible assets	3	**13.8**	20.1
Property, plant and equipment	4	**1.5**	1.5
Investment in subsidiaries	5	**1,576.9**	1,649.1
Trade and other receivables – amounts falling due after more than one year	6	**211.1**	330.2
		1,803.3	2,000.9
Current assets			
Trade and other receivables – amounts due within one year	6	**176.4**	54.2
Cash and cash equivalents	7	**0.9**	6.3
		177.3	60.5
Total assets		**1,980.6**	2,061.4
Current liabilities			
Trade and other payables – amounts falling due within one year	8	**(135.1)**	(20.6)
		(135.1)	(20.6)
Non-current liabilities			
Trade and other payables – amounts falling due after more than one year	9	**(1,099.6)**	(1,145.5)
Provisions	11	**–**	–
		(1,099.6)	(1,145.5)
Total liabilities		**(1,234.7)**	(1,166.1)
Net assets		**745.9**	895.3
Equity			
Share capital	13	**41.6**	41.6
Share premium		**146.7**	146.7
Capital redemption reserve		**139.0**	139.0
Retained earnings		**418.6**	568.0
Total shareholders' funds		**745.9**	895.3

The Company reported a loss for the financial year ended 31 December 2018 of £29.1m (2017 – a loss of £13.0m). The financial statements on pages 167 to 183 were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:

Stefan Bomhard
Group Chief Executive

Richard Howes
Chief Financial Officer

Registered Number: 609782

Inchcape plc

Company statement of changes in equity

For the year ended 31 December 2018

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 January 2017		42.2	146.7	138.4	734.8	1,062.1
Loss for the year		–	–	–	(13.0)	(13.0)
Total comprehensive loss for the year		–	–	–	(13.0)	(13.0)
Dividends	14	–	–	–	(102.7)	(102.7)
Net purchase of own shares by the Inchcape Employee Trust		–	–	–	(11.1)	(11.1)
Share buyback programme	13	(0.6)	–	0.6	(50.2)	(50.2)
Share-based payments, net of tax		–	–	–	10.2	10.2
At 1 January 2018		**41.6**	**146.7**	**139.0**	**568.0**	**895.3**
Loss for the year		**–**	**–**	**–**	**(29.1)**	**(29.1)**
Total comprehensive loss for the year		**–**	**–**	**–**	**(29.1)**	**(29.1)**
Dividends	14	**–**	**–**	**–**	**(115.2)**	**(115.2)**
Net purchase of own shares by the Inchcape Employee Trust		**–**	**–**	**–**	**(12.6)**	**(12.6)**
Share-based payments, net of tax		**–**	**–**	**–**	**7.5**	**7.5**
At 31 December 2018		**41.6**	**146.7**	**139.0**	**418.6**	**745.9**

Share-based payments include a net tax charge of £nil (2017 – £nil).

GENERAL INFORMATION

These financial statements are prepared for Inchcape plc (the Company) for the year ended 31 December 2018. The Company is the ultimate parent entity of the Inchcape Group (the Group).

BASIS OF PREPARATION

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The financial statements are prepared under the historical cost convention modified for fair values in accordance with the Companies Act 2006. As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. The Directors of Inchcape plc manage the Group's risks at a group level rather than an individual business unit or company level. Further information on these risks and uncertainties, in the context of the Group as a whole, are included within the Group disclosures on pages 40 to 46.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise price of share options, and how the fair value of goods and services received was determined)
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment';
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows),
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 40A-D (requirements for a third statement of financial position),
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

GOING CONCERN

Having assessed the principal risks and the other matters discussed in connection with the viability statement, the Directors have considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

FOREIGN CURRENCIES

Monetary assets and liabilities in foreign currencies are translated into Sterling at closing rates of exchange and differences are taken to the income statement.

FINANCE COSTS

Finance costs consist of interest payable on the Private Placement borrowing. Costs are recognised as an expense in the period in which they are incurred.

INVESTMENTS

Investments in subsidiaries are stated at cost, less provisions for impairment.

OTHER INTANGIBLE ASSETS

Intangible assets, when acquired separately from a business (including computer software), are carried at cost less accumulated amortisation and impairment losses. Costs comprise purchase price from third parties as well as internally generated development costs where relevant. Amortisation is provided on a straight line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer software is eight years.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and directly attributable costs of the asset and includes, where relevant, capitalised borrowing costs. Depreciation is provided on a straight line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer hardware is five years.

DEFERRED TAX

Deferred income tax is accounted for using the liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference is due to goodwill arising on a business combination, or to an asset or liability, the initial recognition of which does not affect either taxable or accounting income.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled using rates enacted or substantively enacted at the end of the reporting period. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to shareholders' equity, in which case the deferred tax is also dealt with in shareholders' equity.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle balances net.

PROVISIONS

Provisions are recognised when the Company has a present obligation in respect of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

SHARE CAPITAL

Ordinary shares are classified as equity.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid is deducted from shareholders' funds until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' funds.

DIVIDENDS

Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

SHARE-BASED PAYMENTS

The Company operates various share-based award schemes. The fair value at the date at which the share-based awards are granted is recognised in the income statement (together with a corresponding credit in shareholders' equity) on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At the end of each reporting period, the Company revises its estimates of the number of awards that are expected to vest. The impact of any revision is recognised in the income statement with a corresponding adjustment to equity.

For equity-settled share-based awards, the services received from employees are measured by reference to the fair value of the awards granted. With the exception of the Save As You Earn scheme, the vesting of all share-based awards under all schemes is solely reliant upon non-market conditions, therefore no expense is recognised for awards that do not ultimately vest. Where an employee cancels a Save As You Earn award, the charge for that award is recognised as an expense immediately, even though the award does not vest.

FINANCIAL INSTRUMENTS

The Company's policies on the recognition, measurement and presentation of financial instruments under IFRS 7 are the same as those set out in the Group's accounting policies on pages 107 to 117.

JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Company financial statements for the financial year did not require the exercise of any critical accounting judgements or significant estimates.

1 AUDITOR'S REMUNERATION

The Company incurred £0.1m (2017 – £0.1m) in relation to UK statutory audit fees for the year ended 31 December 2018.

2 DIRECTORS' REMUNERATION

	2018 £m	2017 £m
Wages and salaries	**3.1**	4.4
Social security costs	**0.3**	0.3
Pension costs	**0.3**	0.3
	3.7	5.0

Further information on Executive Directors' emoluments and interests is given in the Directors' Report on Remuneration which can be found on pages 68 to 87.

3 INTANGIBLE ASSETS

	Computer software £m	Total £m
Cost		
At 1 January 2018	**39.6**	**39.6**
Additions	**4.6**	**4.6**
Transfer to Group companies	**(10.5)**	**(10.5)**
At 31 December 2018	**33.7**	**33.7**
Accumulated amortisation and impairment		
At 1 January 2018	**(19.5)**	**(19.5)**
Amortisation charge for the year	**(0.4)**	**(0.4)**
At 31 December 2018	**(19.9)**	**(19.9)**
Net book value at 31 December 2018	**13.8**	**13.8**
Net book value at 31 December 2017	20.1	20.1

4 PROPERTY, PLANT AND EQUIPMENT

	Plant, machinery and equipment £m	Total £m
Cost		
At 1 January 2018	**1.8**	**1.8**
Additions	**–**	**–**
At 31 December 2018	**1.8**	**1.8**
Accumulated depreciation and impairment		
At 1 January 2018	**(0.3)**	**(0.3)**
Depreciation charge for the year	**–**	**–**
At 31 December 2018	**(0.3)**	**(0.3)**
Net book value at 31 December 2018	**1.5**	**1.5**
Net book value at 31 December 2017	1.5	1.5

5 INVESTMENT IN SUBSIDIARIES

	2018 £m	2017 £m
Cost		
At 1 January	**1,711.0**	1,711.0
Disposals	**–**	–
At 31 December	**1,711.0**	1,711.0
Provisions		
At 1 January	**(61.9)**	(81.6)
Provisions for impairment	**(72.2)**	(0.3)
Reversal of provisions for impairment	**–**	20.0
At 31 December	**(134.1)**	(61.9)
Net book value	**1,576.9**	1,649.1

The Directors believe that the carrying value of the individual investments is supported by their underlying net assets.

An impairment charge of £72.2m in relation to Inchcape Finance (Ireland) Ltd has been recognised in the year (2017 – £0.3m) following a capital reduction, to ensure that the carrying value of the individual investments is stated at the lower of cost and estimated recoverable amount. In 2017, the reversal of impairment charge of £20.0m arose as a result of an increase in the underlying net assets of the relevant subsidiaries.

6 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Amounts due within one year		
Current tax asset	**2.1**	–
Amounts owed by Group undertakings	**174.3**	54.2
	176.4	54.2
Amounts due after more than one year		
Deferred tax asset (note 10)	**1.1**	0.3
Amounts owed by Group undertakings	**210.0**	329.9
	211.1	330.2

Amounts owed by Group undertakings that are due within one year consist of current account balances that are interest free and repayable on demand, as well as intercompany loans that bear interest at rates linked to source currency base rates.

Amounts owed by Group undertakings that are due after more than one year bear interest at rates linked to source currency base rates.

7 CASH AND CASH EQUIVALENTS

	2018 £m	2017 £m
Cash and cash equivalents	**0.9**	6.3

8 TRADE AND OTHER PAYABLES – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £m	2017 £m
Amounts owed to Group undertakings	**5.5**	16.5
Private Placement	**124.8**	–
Other taxation and social security payable	**2.7**	2.3
Other creditors	**2.1**	1.8
	135.1	20.6

Amounts owed to Group undertakings are interest free and repayable on demand.

The Company has an amount of US$160.8m under the Private Placement which bears interest at a fixed rate of 6.04% per annum and is repayable in 2019.

9 TRADE AND OTHER PAYABLES – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2018 £m	2017 £m
Amounts owed to Group undertakings	**889.6**	817.3
Private Placement	**210.0**	328.2
	1,099.6	1,145.5

Amounts owed to Group undertakings are repayable in more than one year and bear interest at rates linked to source currency base rates.

In December 2016, the Group concluded a US Private Placement transaction raising £210m to refinance existing US Private Placement borrowings which matured in May 2017. The amounts drawn under these facilities are as follows:

Maturity date	May 2024	May 2027	May 2027	May 2029
Amount drawn	£70m	£30m	£70m	£40m
Fixed rate coupon	2.85%	3.02%	3.12%	3.10%

10 DEFERRED TAX

Net deferred tax asset	Tax losses	Accelerated tax depreciation	Other timing differences £m	Total £m
At 1 January 2018	**–**	**–**	**0.3**	**0.3**
Credited / (Charged) to the income statement	**0.8**	**(0.1)**	**0.1**	**0.8**
At 31 December 2018	**0.8**	**(0.1)**	**0.4**	**1.1**

11 PROVISIONS FOR LIABILITIES

	2018 £m	2017 £m
At 1 January	**–**	2.0
Released to the income statement	**–**	(2.0)
At 31 December	**–**	–

12 CONTINGENT LIABILITY

The Company is party to composite cross guarantees between banks and its subsidiaries. The Company's contingent liability under these guarantees at 31 December 2018 was £0.9m (2017 – £6.3m), equal to the carrying value of its cash and cash equivalents at the end of the period (see note 7).

In addition, the Company has given performance guarantees in the normal course of business in respect of the obligations of Group undertakings amounting to £94.7m (2017 – £84.7m).

13 SHARE CAPITAL

a. Allotted, called up and fully paid up

	2018 Number	2017 Number	2018 £m	2017 £m
Ordinary shares				
At 1 January	**415,018,286**	421,004,809	**41.6**	42.2
Allotted under share option schemes	**109,167**	142,505	**–**	–
Cancelled under share buyback	**–**	(6,129,028)	**–**	(0.6)
At 31 December	**415,127,453**	415,018,286	**41.6**	41.6

b. Share buyback programme

During 2017, the Company repurchased 6,129,028 of its own shares through purchases on the London Stock Exchange, at a cost of £49.8m. The shares repurchased during the year were cancelled, with none held within treasury shares at the end of the reporting period. An amount of £0.6m, equivalent to the nominal value of the cancelled shares, has been transferred to the capital redemption reserve. Costs of £0.4m associated with the transfer to the Company of the repurchased shares and their subsequent cancellation have been charged to the profit and loss reserve.

c. Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 27 February 2019 under the provisions of the Companies Act 2006 have been disclosed in the significant shareholdings section of the Corporate Governance Report.

13 SHARE CAPITAL CONTINUED

d. Share options

At 31 December 2018, options to acquire ordinary shares of 10.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Number of ordinary shares of 10.0p each	Exercisable until	Option price (£)	Number of ordinary shares of 10.0p each	Exercisable until	Option price (£)
The Inchcape 1999 Share Option Plan – approved (Part II – UK)			**The Inchcape SAYE Share Option Scheme – approved**		
2	19 May 2019	2.00	453,464	1 May 2019	5.78
3	7 April 2020	3.10	438,351	1 May 2020	5.63
			410,683	1 May 2021	6.66
			1,273,731	1 May 2022	5.54
– unapproved (Part I – UK)			**Recruitment and Retention Plan**		
1,000	19 May 2019	2.00	74,504	10 April 2026	0.10
1,612	7 April 2020	3.10			
– unapproved overseas (Part I – Overseas)					
3,224	7 April 2020	3.10			

Included within the retained earnings reserve are 777,211 (2017 – 493,012) ordinary shares in the Company held by the Inchcape Employee Trust, a general discretionary trust whose beneficiaries include current and former employees of the Group and their dependants. The book value of these shares at 31 December 2018 was £5.1m (2017 – £3.5m). The market value of these shares at both 31 December 2018 and 27 February 2019 was £4.3m and £4.6m respectively (31 December 2017 – £3.9m, 28 February 2018 – £3.5m).

e. Share-based remuneration

Inchcape plc has two employees, the Group Chief Executive and the Chief Financial Officer.

The terms and conditions of the Company's share-based payment plans are detailed in the Directors' Report on Remuneration.

The charge arising from share-based transactions during the year was £1.2m (2017 – £2.1m), all of which is equity-settled.

The weighted average exercise price of shares exercised during the period was £0.10 (2017 – £0.10).

The weighted average remaining contractual life for the share options outstanding at 31 December 2018 is 5.9 years (2017 – 7.8 years) and the range of exercise prices for options outstanding at the end of the year was £0.10 to £5.63 (2017 – £0.10 to £6.66).

14 DIVIDENDS

The following dividends were paid by the Company:

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

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

15 RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, associates and joint ventures as at 31 December 2018 is shown below:

Subsidiaries

Name and address		Percentage owned
Argentina		
Entre Ríos 2550, Martínez, Buenos Aires		
Distribuidora Automatriz Argentina SA		100%
Inchcape Argentina SA		100%
Australia		
Level 2, 4 Burbank Place, Baulkham Hills, NSW 2153		
AutoNexus Pty Ltd		100%
Bespoke Automotive Australia Pty Ltd		100%
Inchcape Australia Ltd	(i)	100%
Trivett Automotive Retail Pty Ltd		100%
Inchcape European Automotive Pty Ltd	(ii)	100%
SMLB Pty Ltd		100%
Subaru (Aust) Pty Ltd		90%
TCH Unit Trust		100%
Trivett Automotive Group Pty Ltd		100%
Trivett Bespoke Automotive Pty Ltd		100%
Trivett Classic Garage Pty Ltd		100%
Trivett Classic Group Finance Pty Ltd		100%
Trivett Classic Holdings Pty Ltd	(iii)	100%
Trivett Classic Pty Ltd	(iv)	100%
Trivett Motorcycles Pty Ltd		100%
Trivett P/L		100%
Trivett Tyres Pty Ltd		100%
Belgium		
Leuvensesteenweg 369, 1932 Sint-Stevens-Woluwe		
Autoproducts NV		100%
Car Security NV		100%
Toyota Belgium NV/SA		100%
Boulevard Industriel 198, 1070 Anderlecht		
Garage Francorchamps SA		100%
Inchcape Retail Belgium		100%
Brunei		
KM3.6, Jalan Gadong, Bandar Seri Begawan		
Champion Motors (Brunei) Sdn Bhd		70%
NBT (Brunei) Sdn Bhd		70%
NBT Services Sdn Bhd		70%
Bulgaria		
163 Tsarigradsko Shosse Str, Sofia		
Inchcape Brokerage Bulgaria EOOD		100%
TM Auto EOOD		100%
Toyota Balkans EOOD		100%

15 RELATED UNDERTAKINGS CONTINUED

Name and address	Percentage owned
Chile	
Av. La Dehesa 265, Santiago, Región Metropolitana	
Mobility Services Chile SpA	100%
Universal Motors SpA	100%
Williamson Balfour Motors SpA	100%
Williamson Balfour SA	100%
19 Ruta 5 Norte, 100, Lampa	
Inchcape Automotriz Chile SA	100%
Hino Chile SA	100%
Inchcape Camiones y Buses SA	100%
455 Santa Rosa, Santiago	
Inchcape Latam Internacional SA	100%
537 Santa Rosa, Santiago	
Subaru Chile SA	100%
Apoquindo 3721, Piso 13, Las Condes, Santiago	
Indigo Chile Holdings SpA	100%
Inchcape Commercial Chile SA	100%
China	
405 Shi Guang Road, Yang Pu District, Shanghai	
Inchcape Investment Holding (China) Ltd	100%
4109, Wu Gong Shan Avenue, Wang Cheng District, Nanchang, Jiangxi	
Jiangxi Inchcape Auto Sales & Services Co Ltd	100%
110 Jiurui Avenue, International Auto Park, Kiujiang Economic & Technological Development Zone, Jiujiang City, Jiangxi	
Jiujiang Inchcape Premium Auto Sales & Service Co Ltd	100%
755 Gaoxin Avenue, Nanchang, Jiangxi	
Nanchang Inchcape Premium Auto Sales & Service Co Ltd	100%
Suite 208, Tower 1, 1135 Bo Tou Road, Yang Pu District, Shanghai	
Shanghai Hongshi Consultancy Co Ltd	100%
Suite 319, Tower A, 169 Taigu Road, China (Shanghai) Pilot Free Trade Zone, Shanghai	
Shanghai Bell Rock Auto Sales & Service Co Ltd	100%
6 Yu Yue Middle Road, Dou Men Town, Paojiang Industrial Zone, Shaoxing	
Shaoxing Inchcape Lexus Auto Sales & Service Co Ltd	100%
QC-1, Keqiao Economic Development Zone, East of Jin Keqiao Avenue, South of Kehai, Shaoxing	
Shaoxing Inchcape Premium Auto Sales & Service Co Ltd	100%

15 RELATED UNDERTAKINGS CONTINUED

Name and address	Percentage owned
Colombia	
78-20 Avenida el Dorado, Bogotá	
Distribuidora Hino de Colombia SAS	100%
Impoquing Motor SAS	100%
Matrase SAS	100%
Praco Didacol SAS	100%
Cook Islands	
First Floor, BCI House, Avarua, Rarotonga	
IB Enterprises Ltd	100%
Costa Rica	
Distrito Automotriz, La Uruca, San Jose, Costa Rica	
3-101-647375 SA	100%
3-101-665052 SA	100%
3-101-692077 SA	100%
3-101-719581 SA	100%
3-101-727047 SA	100%
Arienda Express SA	100%
Autos Preferidos La Uruca SA	100%
Comericio de las Americas SA	100%
Inchcape Protection Insurance	100%
Sun Motors SA	100%
Vehiculos de Trabajo SA	100%
Vento Sem Forma SA	100%
Vistas de Guanacaste Orquideas SA	100%
YRR Comercializadora SA	100%
Djibouti	
Route de Venise – Djibouti Free Zone – LOB 124, PO Box 2645	
Red Sea Automotive FZCO	100%
Estonia	
Läike tee 38, Peetri küla, Rae vald, Harjumaa 75312	
Inchcape Motors Estonia OÜ	100%
Ethiopia	
Bole Sub City, Kebele 03, H.Nr. 2441, Addis Ababa	
The Motor & Engineering Company Of Ethiopia (Moenco) S.C.	94%
Finland	
Ansatie 6 a C, 01740 Vantaa, Kotipaikka, Helsinki	
Inchcape Motors Finland Oy	100%
Greece	
48 Ethnikis Antistaseos Street, Halandri 15231	
British Providence SA	100%
Eurolease Fleet Services SA	100%
Toyota Hellas SA	100%
11th Km, National Road Thessaloniki-Airport, Thessaloniki 60371	
Polis Inchcape Thessaloniki SA	100%
517 Vouliagmenis Avenue, Hlioupoli, Athens 16341	
Polis Inchcape Athens SA	100%

15 RELATED UNDERTAKINGS CONTINUED

Name and address		Percentage owned
Guam		
443 South Marine Corps Drive, Tamuning, Guam 96913		
Atkins Kroll Inc		100%
Hong Kong		
22nd Floor, Citicorp Centre, 18 Whitfield Road, North Point		
British Motors Ltd		100%
Crown Motors Ltd		100%
Future Motors Ltd		100%
Inchcape Asia Pacific Ltd		100%
Inchcape Finance (HK) Ltd		100%
Inchcape Hong Kong Ltd		100%
Inchcape Mobility Limited		100%
Inchcape Motor Services Ltd		100%
Mega EV Ltd		100%
Nova Motors Ltd		100%
Ireland		
7th Floor, Hume House, Ballsbridge, Dublin 4		
Inchcape Finance (Ireland) Ltd	(v)	100%
Ivory Coast		
01 BP 3893, Abidjan O1		
Distribution Services Cote d'Ivoire SA		100%
Toyota Services Afrique SA		100%
Latvia		
4a Skanstes Street, Riga, LV-1013		
Baltic Motors Imports SIA		100%
Baltijas Ipasumu Fonds SIA		100%
BM Lizings SIA		100%
Ermans SIA		100%
Inchcape Motors Latvia SIA		100%
Paula Stradina 29, Ventspils, LV-3602		
Ventmotors SIA		100%
Lithuania		
Laisves av. 137, Vilnius, LT-06118		
UAB Autovista		67%
UAB Autovytaras		67%
UAB Inchcape Motors		67%
Inchcape Lithuania UAB		100%
Luxembourg		
6 ZAI Bourmicht L-8070, Bertrange		
Grand Garage de Luxembourg		100%
193 Route d'Arlon, L-1150		
Jaguar Luxembourg		100%

15 RELATED UNDERTAKINGS CONTINUED

Name and address		Percentage owned
Macau		
No. 223-225, Av. Do Dr. Rodrigo Rodrigues, 8/F Nam Kwong Building, Apt B-C		
Nova Motors (Macao) Ltd		100%
Yat Fung Motors Ltd		100%
Macedonia		
21 8th September Boulevard, 1000 Skopje		
Toyota Auto Center DOOEL		100%
Netherlands		
Strawinskylaan 3127, Atrium Building, 8th Floor, 1077 ZX Amsterdam		
Inchcape International Group BV	(i)	100%
New Zealand		
C/- Bell Gully, Level 22, Vero Centre, 48 Shortland Street, Auckland		
Inchcape Motors NZ Ltd		100%
Panama		
Vïa General Nicanor A. de Obarrio (Street 50), Plaza Bancomer		
Ilaother SA		100%
Ilachile SA		100%
PH Arifa 9th -10th Floors, West Boulevard, Santa Maria Business District, Panama City		
Arrendadora Automotriz SA		100%
Bielesfield Corp		100%
Edenborn Trading Inc		100%
Goltex Commerce Inc		100%
Inmuebles Comerciales SA		100%
Iron Crag Corporation		100%
Motors Japoneses SA		100%
Sun Motors SA		100%
Peru		
Av. Republica de Panama 3330, San Isidro 15047, Lima 27		
Inchcape Motors Peru SA		100%
IMP Distribuidora SA		100%
Av. Morro Solar 812, Santiago de Surco		
Autocar del Peru SA		100%
Distribuidora Automotriz del Peru SA		100%
Inchcape Latam Peru SA		100%
Rentas e Inmobiliaria Sur Andina SA		100%
Poland		
Al. Prymasa Tysiąclecia 64, 01-424 Warszawa		
Inchcape Motors Polska Sp z.o.o		100%
Al. Karkonoska 61, 53-015 Wroclaw		
Interim Cars Sp z.o.o		100%

15 RELATED UNDERTAKINGS CONTINUED

Name and address	Percentage owned
Romania	
Pipera Boulevard No 1, Voluntari, Ilfov, 077190	
Inchcape Motors Srl	100%
Inchcape Real Estate Srl	100%
Toyota Romania Srl	100%
Russia	
Building 1, 18 2-ya Magistralnaya street, Moscow 123290	
LLC Inchcape Management Services Rus	100%
LLC Inchcape Holding	100%
31 Litera A, Rustaveli Street, St Petersburg 195273	
LLC Inchcape Olimp	100%
Building 8, Kievskoe Shosse 24 km, Kartmazovo Village, Settlement Moskovskiy, Moscow 142784	
LLC Inchcape T	100%
10 Seslavinskaya Street, Moscow 121309	
LLC Autoproject	100%
36 Yaroslavskoe Shosse, Moscow 129337	
LLC Borishof 1	100%
87 Litera A, ul. Sofiyskaya, St Petersburg 192289	
LLC Concord	100%
Building 22, 18 2-ya Magistralnaya Street, Moscow 123290	
LLC Musa Motors JLR	100%
LLC Musa Motors Volvo	100%
41 ul. Kuznetsovskaya, St Petersburg 196105	
LLC Orgtekhstroy	100%
Saipan	
PO Box 500267, MP 96950-0267	
Atkins Kroll (Saipan) Inc	100%
Singapore	
33 Leng Kee Road, 159102	
Borneo Motors (Singapore) Pte Ltd	100%
Century Motors (Singapore) Ltd	100%
Champion Motors (1975) Pte Ltd	100%
Inchcape Automotive Services Pte Ltd	100%
Inchcape Motors Private Ltd	100%
Spain	
C.Monte Esquinza, 26-2° dcha , 28010 Madrid	
Inchcape Inversiones España, SLu	100%
Thailand	
No. 4332 Rama IV Road, Prakhanong Sub-District, Klongtoey District, Bangkok	
Inchcape (Thailand) Company Ltd	100%
Inchcape Services (Thailand) Co Ltd	100%

15 RELATED UNDERTAKINGS CONTINUED

Name and address		Percentage owned
United Kingdom		
Inchcape House, Langford Lane, Kidlington, Oxford OX5 1HT		
Armstrong Massey (York) Ltd		100%
Armstrong Massey Holdings Ltd		100%
Autobytel Ltd		100%
Automobiles of Distinction Ltd		100%
Bates Motors (Belcher) Ltd		100%
Casemount Holdings Ltd		100%
Castle Motors (York) Ltd		100%
Chapelgate Holdings Ltd		100%
Chapelgate Motors Ltd		100%
D J Smith Ltd		100%
Dane Motor Company (Chester) Ltd		100%
European Motor Holdings Ltd		100%
Ferrari Concessionaires Ltd	(vi)	100%
Gerard Mann Ltd		100%
H A Fox Ltd		100%
Inchcape East (2) Ltd		100%
Inchcape East (Acre) Ltd		100%
Inchcape East (Brook) Ltd		100%
Inchcape East (Hill) Ltd		100%
Inchcape East (Holdings) Ltd		100%
Inchcape East (Properties) Ltd		100%
Inchcape East Ltd		100%
Inchcape Estates Ltd		100%
Inchcape Fleet Solutions Ltd		100%
Inchcape Motors International Ltd		100%
Inchcape Motors Pension Trust Ltd		100%
Inchcape Midlands Ltd		100%
Inchcape North West Group Ltd		100%
Inchcape North West Ltd		100%
Inchcape Park Lane Ltd		100%
Inchcape Retail Ltd		100%
Inchcape Trade Parts Ltd		100%
Inchcape Transition Ltd		100%
Inchcape UK Ltd		100%
Inchcape UK Corporate Management Ltd		100%
James Edwards (Chester) Ltd		100%
L&C Auto Services (Croydon) Ltd	(vii)	100%
L&C Auto Services Ltd	(vii)	100%
L&C Banstead Ltd		100%
Malton Motors Fleet Ltd		100%
Malton Motors Ltd		100%
Mann Egerton & Co Ltd		100%
Mill Garages Ltd		100%
Nexus Corporation Ltd		100%
Normand Heathrow Ltd		100%
Normand Ltd		100%
Normand Motor Group Ltd		100%

15 RELATED UNDERTAKINGS CONTINUED

Name and address		Percentage owned
Normand Trustees Ltd		100%
Northfield Garage (Tetbury) Ltd		100%
Notneeded No. 144 Ltd		100%
Notneeded No. 145 Ltd		100%
Packaging Industries Ltd		100%
Penta Watford Ltd		88%
Smith Knight Faye (Holdings) Ltd		100%
Smith Knight Faye Ltd		100%
The Cooper Group Ltd		100%
Tozer International Holdings Ltd		100%
Tozer Kemsley Millbourn Automotive Ltd		100%
Wyvern (Wrexham) Ltd		100%
22a St James's Square, London, SW1Y 5LP		
Cavendish 1 Ltd		100%
Inchcape Baltic Motors Ltd		100%
Inchcape (Belgium) Ltd	(vii)	100%
Inchcape BMI Ltd		100%
Inchcape Corporate Services Ltd		100%
Inchcape Finance plc		100%
Inchcape Hellas Funding (unlimited)		100%
Inchcape Hellas UK (unlimited)		100%
Inchcape Imperial (unlimited)		100%
Inchcape Investments (no 1) Ltd		100%
Inchcape Investments (no 2) Ltd		100%
Inchcape International Holdings Ltd		100%
Inchcape Latvia Ltd		100%
Inchcape Management (Services) Ltd		100%
Inchcape Overseas Ltd		100%
Inchcape Russia (UK) Ltd	(vii)	100%
Inchcape (Singapore) Ltd		100%
Kenning Motor Group Ltd		100%
St Mary Axe Securities Ltd		100%
PO Box 33, Maison Trinity, Trinity Square, St Peter Port, Guernsey, Channel Islands GY1 4AT		
St James's Insurance Ltd		100%
4th Floor 115 George Street, Edinburgh EH2 4JN		
Inchcape Investments & Asset Management Ltd		100%
United States of America		
The Corporation Company, 30600 Telegraph Road Bingham Farms, MI 48025		
Baltic Motors Corporation		100%
Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801		
SS Acquisition Corporation		100%

15 RELATED UNDERTAKINGS CONTINUED

Joint ventures

Name and address		Percentage owned
Greece		
48 Ethnikis Antistaseos Street, Halandri 15231		
Tefin SA		50%
United Kingdom		
116 Cockfosters Road, Barnet, Hertfordshire, EN4 0DY		
Enterprise Car Finance Ltd	(i)	49%
Charterhall House, Charterhall Drive, Chester, Cheshire CH88 3AN		
Inchcape Financial Services Ltd	(i)	49%

Unless stated below, all holdings have one type of ordinary share capital:

(i) Ordinary A and Ordinary B shares

(ii) Ordinary shares, B Class shares, J Class shares and L Class shares

(iii) Ordinary shares and E Class shares

(iv) Ordinary shares, A Class shares, C Class shares, D Class shares and E Class shares

(v) Ordinary shares, redeemable cumulative preference shares and non-redeemable preference shares

(vi) Ordinary shares, Ordinary A shares and 8% non-cumulative redeemable preference shares

(vii) Ordinary shares and redeemable cumulative preference shares

REGISTERED OFFICE

Inchcape plc
22a St James's Square
London SW1Y 5LP
Tel: +44 (0) 20 7546 0022
Fax: +44 (0) 20 7546 0010
Registered number: 609782
Registered in England and Wales

ADVISORS

Independent Auditor
Deloitte
Chartered Accountants and
Statutory Auditor

SHARE REGISTRARS

Computershare Investor Services PLC
Registrar's Department, The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel: +44 (0) 370 707 1076

SOLICITORS

Slaughter and May
Herbert Smith Freehills

CORPORATE BROKERS

Deutsche Bank
JP Morgan Cazenove

INCHCAPE PEPS

Individual Savings Accounts (ISAs) replaced Personal Equity Plans (PEPs) as the vehicle for tax efficient savings. Existing PEPs may be retained. Inchcape PEPs are managed by The Share Centre Ltd, who can be contacted at PO Box 2000, Oxford House, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB
Tel: +44 (0) 1296 414144

INCHCAPE ISA

Inchcape has established a Corporate Individual Savings Account (ISA). This is managed by Equiniti Financial Services Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Tel: 0870 300 0430

International callers:
Tel: +44 121 441 7560
More information is available at www.shareview.com

FINANCIAL CALENDAR

Annual General Meeting
23 May 2019

Announcement of 2019 Interim Results
25 July 2019

EXPLORE OUR WEBSITE FOR ACCESS TO OUR LATEST ANNUAL REPORT AND MORE.

The 2018 Online Annual Report includes:

- a searchable PDF of the Annual Report
- download prior year Annual Reports
- Inchcape videos – watch and learn more about Inchcape and what we do

www.inchcape.com/annualreport

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Inchcape

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