Inchcape plc, the leading global automotive distributor, announces its preliminary results for the year to 31 December 2021

Strong FY21 results; focused on significant growth opportunities ahead

Duncan Tait, Group CEO, commented:

"Inchcape delivered a strong set of FY21 results, with improved performance across all regions. The combination of robust consumer demand and excellent operational execution, against the backdrop of supply shortages, drove our topline recovery and higher margins, enabling profits to rebound to pre-pandemic levels. We are pleased to declare a higher full-year dividend, and reflecting the Group's highly cash generative business model we have announced another £100m share buyback programme.

During the year we launched our new strategy, Accelerate, which is focused on two exciting growth opportunities. Our ambition is to extend our global leadership in automotive distribution, and to capture more of a vehicle's lifecycle value. We've made great progress with our strategic priorities, adding new markets and OEMs through acquisitions and contract-wins, and further developing our digital and analytics capabilities. Inchcape has a really exciting future, and is well-positioned to deliver sustainable long-term value for all of our stakeholders through organic growth, market consolidation and cash generation."

Financial highlights:

- Group revenue of £7.6bn: up 21% on an organic basis and 12% reported; underlying 3% below 2019 levels
- PBT (pre-exceptionals) of £296m (2020: £128m), driven by strong execution and high vehicle gross margins
- Statutory profit before tax of £195m, impacted by the loss on disposal of part of our Retail operations in Russia
- Highly cash generative and strong returns: 2021 free cash flow of £289m (88% cash conversion) and 30% ROCE
- Strengthened financial position: finished 2021 with net cash of £379m (Dec-20: £266m) following c.£80m share buybacks
- Proposed final dividend of 16.1p (2021 full year: 22.5p, 2020: 6.9p); announced new £100m share buyback programme

Strategic highlights:

- Launched new strategy, Accelerate: focussed on two exciting global growth opportunities, leveraging our distribution core
- Distribution footprint expanded: signed five new contracts adding an aggregate of c.£200m annualised revenue
- First-time distribution relationships with Geely (Chile) and Chrysler (Caribbean)
- Broadened geographic footprint: Caribbean (Suzuki, Mercedes-Benz), Indonesia (JLR) and Guatemala (Mercedes-Benz)
- Accelerated our digital adoption: rolled-out omnichannel capability (DXP), now live in 27 OEM markets (Dec-20: one)
- Established bravoauto, a multi-brand, digital-first, used car platform – global roll-out to begin in 2022

Outlook:

The Group's strong performance in 2021 was supported by robust consumer demand and high vehicle gross margins (particularly in Retail), largely due to vehicle supply shortages. Looking ahead, our 2022 performance to date has seen a continuation of the trends experienced last year, although there is ongoing uncertainty relating to vehicle supply and the impact of the pandemic. We expect the Group to continue to make good progress with its strategic priorities in 2022. The strength of our business model and financial position means Inchcape is well placed to continue to grow profits and generate cash, and we are confident in the medium-term outlook set out at the Capital Markets Day in November.

	2021	2020[1]	% change reported	% change constant FX[2]	% change organic[3]
Key financials					
Revenue	**£7,640m**	£6,838m	+12%	**+15%**	**+21%**
Operating profit (pre-exceptionals)[1]	**£328m**	£164m	+100%	**+120%**	
Operating margin[1]	**4.3%**	2.4%	+190bps	**+200bps**	
Profit before tax (pre-exceptionals)[1]	**£296m**	£128m	+131%		
Basic EPS (pre-exceptionals)[1]	**56.2p**	23.1p	+143%		
Dividend per share	**22.5p**	6.9p	+226%		
Free cash flow[1]	**£289m**	£177m	+63%		
Statutory financials					
Operating profit / (loss)	**£227m**	£(93)m			
Profit / (loss) before tax	**£195m**	£(130)m			
Basic EPS	**30.0p**	(36.0)p			

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

Market abuse regulation statement
This announcement contains inside information.

Results presentation today
A virtual presentation for analysts and investors will be held today, Thursday 24th February, at 08:30 (UK time). To register please contact Instinctif Partners at inchcape@instinctif.com. A replay of the presentation will be available via the Company's website, www.inchcape.com later today.

Financial calendar

Q1 trading update	28th April 2022
Ex-dividend date for 2021 final dividend	12th May 2022
Annual general meeting	19th May 2022
Half year results	28th July 2022
Q3 trading update	27th October 2022

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About Inchcape
Inchcape is the leading independent multi-brand global automotive distributor, operating in over 40 markets and territories with a portfolio of the world's leading automotive brands. Inchcape has diversified multi-channel revenue streams including sale of new and used vehicles, parts, service, finance and insurance. The Company has been listed on the London Stock Exchange (INCH) since 1958, and is classified within the 'Business Support Services' sector. The Group is headquartered in London and employs around 14,500 people globally. www.inchcape.com.

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

Operational review

Key performance indicators

	2021	2020[1]	% change reported	**% change constant FX[2]**	**% change organic[2]**
Revenue	**£7.6bn**	£6.8bn	+12%	**+15%**	**+21%**
Operating profit pre-exceptional items[1]	**£328m**	£164m	+100%	**+120%**	
Operating margin[1]	**4.3%**	2.4%	+190bps	**+200bps**	
Profit before tax and exceptional items[1]	**£296m**	£128m	+131%		
Free cash flow[1]	**£289m**	£177m	+63%		
Return on capital employed[1]	**30%**	12%			

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

Performance review: full year 2021

Our performance in the year was strong, with Group revenue almost back to pre-pandemic levels on a comparable basis. While the pandemic continued to cause disruption across the globe, the impact on the Group was less pronounced than in 2020, as we had adapted our business operations to better manage in this environment. The widely reported global supply-chain issues had a more pronounced impact in the second half. The demand for vehicles and aftersales remained strong throughout the period, which created a supply-demand imbalance, and led to higher gross margins and profitability.

Over the course of the year, the Group generated revenue of £7.6bn, operating profit pre-exceptionals of £328m and free cash flow of £289m.

Group revenue of £7.6bn rose 12% year-on-year reported and 15% in constant currency. The growth rate is dampened by the disposal of several retail businesses (including sites in St. Petersburg, Russia), which has further reduced our standalone Retail revenue exposure by c.£0.3bn. In terms of M&A, over the past 12 months we have secured **five new distribution agreements** across both the Americas and Asia, gaining entry into **three new markets**. As well as broadening our geographic footprint, we secured our first distribution relationships with **Geely** (Chile) and **Chrysler** (Caribbean).

On an **organic basis**, excluding currency effects and net M&A, revenue increased by 21%. The growth was broad based across all regions, driven by a combination of volume recovery and strong pricing. In 2020, pandemic related restrictions were most pronounced during the second quarter, and weighed significantly on our performance. On a comparable basis (adjusting for currency and portfolio changes), the Group's revenue in 2021 was 3% below 2019.

The Group delivered an **operating profit pre-exceptional items** of £328m, up 100% year-on-year reported and 120% in constant currency. The strong rebound reflects the topline increase and the year-on-year margin improvement. The 2021 outturn includes c.£10m of profit from our St. Petersburg, Russia operations sold towards the end of the first-half.

Profit before tax and exceptional items (PBT) of £296m (2020: £128m) reflects the strong improvement in revenue and operating profit. The net interest expense of £32m is £5m lower than prior year primarily as a result of lower inventory levels, which reduced the related interest expense. Adjusting for the impact of currency and changes to our portfolio, profit before tax and exceptional items is back to 2019 pre-pandemic levels (£296m).

During the reporting period, we incurred **exceptional charges** of £101m. The majority of the charge relates to the £72m loss on the disposal of a part of our Retail operations in Russia, where we realised £108m of accumulated foreign exchange losses upon disposal. In addition, we booked £13m of restructuring costs, largely related to the conclusion of our Covid-19 cost restructuring programme, and £20m of accelerated amortisation of software assets (following a change in accounting policy).

The highly cash-generative nature of our business model was evident with **free cash flow** generation of £289m (2020: £177m) – this represents a conversion of operating profit pre-exceptionals of 88% (2020: 108%), exceeding the long-term average of 60-70%. During the period we benefitted from a net working capital inflow of £44m and lower net capital expenditure (£40m) – owing to proceeds from the disposal of surplus capital assets and the reallocation of expenditure on intangible assets to operating costs (due to a change in accounting policy).

Other notable elements of the cash flow bridge include: net acquisitions and disposals, which amounted to an inflow of £56m (proceeds from **Retail disposals** offset by the acquisition of **Daimler Guatemala** and a commercial vehicle business in **Guam**) and dividend payments of £52m. We launched a **£100m share buyback** programme in July, of which c.£80m was complete by the end of the year.

The Group closed the reporting period in a **net cash** position of £379m (excluding lease liabilities), which compares to £266m at the end of December 2020, and £435m as at 30 June 2021. On an IFRS 16 basis (including lease liabilities), we ended the period with net funds of £55m (December 2020: net debt of £67m).

Return on capital employed over the period was 30%, compared to 12% for the equivalent period last year, and 22% in 2019. The increase was primarily driven by the recovery in Group profits, and supported by our portfolio shift towards Distribution and asset impairments in 2020 triggered by the pandemic.

Fourth quarter 2021

Group revenue for the fourth quarter was £1.8bn, down 4% reported. On an **organic basis** revenue increased 5%, compared to a 10% increase in Q3 – with the lower growth rate primarily owing to the shortage of vehicles globally, amid low vehicle production levels.

In **Distribution**, revenue increased 8% organically, following a 20% increase in Q3. In addition to lapping a tough comparator, during Q4 most regions were impacted by vehicle supply constraints. Aftersales performance proved resilient.

In **Retail**, while revenue was flat year-on-year on an organic basis (Q3: fell 2%), the comparable period was impacted by pandemic related restrictions. The shortage of vehicle availability (both new and used) had a meaningful impact on topline performance.

Strategic priorities

In 2021 we launched our new strategy, Accelerate, focussing on two growth opportunities: Distribution Excellence and Vehicle Lifecycle Services.

Distribution Excellence: *extending our leadership in automotive distribution (vehicles and parts)*

In the Group's core operations, we create the vital link between the OEM and the end-customer, with our full-spectrum distribution capability. This includes deciding which vehicle models and parts to order, the pricing structure in a market, arranging the importation of vehicles and parts, the building of the brand including marketing and the provision of financing solutions (F&I), the creation and management of the digital and physical network, in-market distribution of vehicles and parts for the aftermarket, and finally, when we choose to operate dealerships ourselves, we perform retail and aftersales services.

Over the past 12 months we have made excellent progress:

- In 2020 we made **significant investment** in the **Group's digital capability** and formulated a revised strategy, and we have seen this translate into tangible positive results during 2021.
  - We **accelerated the roll-out** of our **omnichannel (DXP)** capability, which is **now live in 27 OEM markets** (Dec-20: one), across **11 brand partners** (Dec-20: one). We are already seeing the platform drive **better sales conversion** rates.
  - During 2021 we have built significant internal analytical capability (DAP), to leverage our data and **drive smarter, faster and better business decisions**, resulting in improved performance across lead management, customer retention and pricing.
  - During 2021 we established **two digital delivery centres** (DDCs) as we embarked on our technological transformation. The DDCs in Colombia and the Philippines provide us with 24x7 solutions and services, covering the Group's global operations. There are already over 500 'Inchcapers' working in the DDCs, which has significantly **increased our internal digital delivery capability**, for the same cost.
- In line with our focus on markets with high growth potential, we continued to **further expand our distribution footprint**, agreeing deals that will **add aggregate annualised revenue of £200m**. In addition to leveraging our existing geographic and brand footprint, the deals give us access to a number of **new markets** and **brand partners**.
  - In December 2021 we announced the acquisition of a distribution business in the **Caribbean, a new territory** for the Group, where we will distribute vehicles for **Suzuki, Mercedes-Benz, Subaru** and **Chrysler**, a **new OEM brand partner** in our portfolio. Once complete, the business will add c.£120m of annualised revenue.
  - During 2021 we also signed a global strategic partnership with **Geely** (initially launching in Chile), bolstered our presence in **Guam** with the acquisition of a **distributor of commercial vehicles**, and **entered a number of new markets: Indonesia** with **JLR**, **Guatemala** with **Mercedes-Benz** (becoming their largest partner in South America).

Inchcape is already the **leading global automotive distributor**, and we are extending this leadership with our investment in technological capability (**digital and data analytics**). Our **'plug and play' distribution platform** will help drive both **organic** and **inorganic growth** within our current geographic footprint and even faster expansion in **new markets**, with both **existing** and **new partners**.

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

- We are **making progress** with the **opportunities identified** to capture more of a **vehicle's lifecycle value** where we believe there is significant **untapped potential**, that the business has not fully realised in the past. During 2021 we created our new multi-brand, digital-first, used car platform bravoauto, which we initially launched in the UK and will begin to scale to other regions during 2022.

In 2021 we made substantial progress with our **ESG strategy (Responsible Business):** establishing global workstreams for each of our pillars (Plant, People, Places and Practices) and fully integrating climate-related issues into our strategy.

Capital allocation

Our **capital allocation policy remains unchanged:** 1) to invest in the business to strongly position it for the future; 2) to make dividend payments; 3) to conduct value-accretive M&A; and, in the absence of any immediate inorganic opportunities, 4) consider share buybacks.

Our dividend policy targets a 40% annual payout ratio of basic adjusted EPS, and as such our **full-year dividend amounts to 22.5p**, compared to 6.9p in 2020. During 2021 we secured a number of new distribution agreements, and we have a **healthy M&A pipeline** with several opportunities being actively pursued. In line with our capital allocation policy, we launched a £100m share buyback programme in July 2021, which recently completed, and are today announcing a **new £100m share buyback** to be completed over the next 12 months.

Investment proposition

Inchcape is the leading global automotive distributor. Combining our exposure to higher growth markets and diversified revenue streams, with our history of market outperformance, we expect to deliver **strong organic growth**. By leveraging our scale, operational improvements and focus on higher margin activities, we can drive **margin expansion**. The highly fragmented nature of distribution, and our strong financial position, also provides significant **consolidation opportunities**.

In addition to the **attractive growth** prospects, the business is **asset-light** with excellent financial characteristics: **high returns and cash conversion**. Combined with a **disciplined** approach to **capital allocation** we believe these should enable the Group to maintain its long track record of delivering **significant value through organic growth, consolidation and attractive shareholder returns**.

Looking ahead

The Group's strong performance in 2021 was supported by robust consumer demand and high vehicle gross margins (particularly in Retail), largely due to vehicle supply shortages. Looking ahead, our 2022 performance to date has seen a continuation of the trends experienced last year, although there is ongoing uncertainty relating to vehicle supply and the impact of the pandemic. We expect the Group to continue to make good progress with its strategic priorities in 2022. The strength of our business model and financial position means Inchcape is well placed to continue to grow profits and generate cash, and we are confident in the medium-term outlook set out at the Capital Markets Day in November:

- Distribution Excellence: mid-to-high single digit profit CAGR *plus* M&A
- Vehicle Lifecycle Services: >£50m of incremental profit

Operating and financial review

Distribution

The Distribution segment saw revenue rise 27% year-on-year, with all regions growing versus the prior year. The combination of an encouraging topline and margin improvement resulted in an operating profit[1] of £246m (2020: £140m). The operating margin[1] rose 160bps to 5.3%.

	2021 £m	2020 £m	% change reported	% change constant FX	% change organic
Revenue					
Asia	**1,082.7**	1,026.6	+5%	+11%	+11%
Australasia	**1,064.2**	876.0	+21%	+19%	+19%
APAC	**2,146.9**	1,902.6	+13%	+15%	+15%
Europe	**1,476.4**	1,120.2	+32%	+36%	+25%
Americas & Africa	**1,048.4**	797.1	+32%	+44%	+39%
Total Distribution	**4,671.7**	**3,819.9**	**+22%**	**+27%**	**+22%**
Operating profit[1]					
Asia	**93.1**	78.6	+18%	+25%	
Australasia	**34.7**	1.7	+1,941%	+2,033%	
APAC	**127.8**	80.3	+59%	+68%	
Europe	**41.4**	25.0	+66%	+72%	
Americas & Africa	**76.8**	34.2	+125%	+184%	
Total Distribution	**246.0**	**139.5**	**+76%**	**+94%**	
Operating margin[1]					
Asia	**8.6%**	7.7%	+90bps	+100bps	
Australasia	**3.3%**	0.2%	+310bps	+310bps	
APAC	**6.0%**	4.2%	+180bps	+190bps	
Europe	**2.8%**	2.2%	+60bps	+60bps	
Americas & Africa	**7.3%**	4.3%	+300bps	+360bps	
Total Distribution	**5.3%**	**3.7%**	**+160bps**	**+180bps**	

- **Asia** revenue grew 11% year-on-year, and operating profit[1] rose 25%. While countries continued to be impacted by pandemic-related uncertainty, all our markets delivered both topline and profit growth in 2021. However, the region remains significantly below 2019 levels owing to the vehicle licence cycle in Singapore and general softness in Hong Kong. During the first half, Singapore benefitted from greater availability of vehicle licences (the government's phasing of missed licences over 12 months concluded in June 2021), which did not repeat in the second half. In 2022 we expect vehicle volumes in Singapore to be broadly in line with the run-rate observed in the second half of 2021. In Hong Kong, the business grew in 2021, although volumes remain relatively subdued. Performance across the rest of Asia was solid, with an encouraging revenue and profit outturn. Having won the distribution rights for JLR in Indonesia during Q2, towards the end of the year, we acquired a business which dis-tributes commercial vehicles in Guam, further bolstering our presence in the region.
- **Australasia** revenue grew 19% year-on-year, and operating profit[1] recovered considerably. The revenue performance was supported by the launch of the new Subaru Outback and Forester models. This helped the brand gain market share in the first six months of the year, although this momentum was disrupted by supply shortages in the second half. The combination of supply-chain bottlenecks and various pandemic related restrictions held back margin recovery. Nevertheless, following a number of actions, including an adapted pricing strategy, the introduction of innovative financing products and a material reduction of overheads, the business is structurally stronger. We expect these improvements will support margins in the period ahead.
- **Europe** revenue was up 36% year-on-year with operating profit[1] rising 72%. While the pandemic continued to cause uncertainty across markets, demand remained robust. The encouraging demand backdrop supported performance, with revenue and profits recovering towards 2019 levels, in spite of vehicle supply constraints. The topline recovery was in part driven by market share gains in a number of markets, with a solid contribution from new models e.g. Toyota Yaris. Our newly acquired JLR Poland business was adversely impacted by supply constraints, although the launch of the new Range Rover is expected to support performance in 2022.
- **Americas & Africa** revenue grew 44% year-on-year, and operating profit[1] recovered to pre-pandemic levels as margins re-bounded. In the Americas, robust consumer demand enabled us to deliver positive growth across all key markets, despite some pandemic related disruptions. A combination of the strong demand and pricing environment, and our cost-restructuring efforts have supported the region's performance such that both 2021 revenue and profits are above 2019 levels. Over the past 12 months the region has secured a number of new distribution businesses, which in aggregate will add c.£200m of annualised revenue. In Africa, our performance continues to be solid, not least given the backdrop of a challenging environment. Looking further ahead, given the low penetration of vehicles per capita in the Americas & Africa region, we are optimistic about the growth prospects over the medium and long term.

Retail

The Retail segment saw revenue rise 1% year-on-year, or 19% on an organic basis when adjusting for the Retail disposals over the period. Supported by strong gross margins and our cost mitigation measures, we delivered operating profit[1] of £82m (2020: £25m). The operating margin[1] was particularly strong at 2.8%.

	2021 £m	2020 £m	% change reported	% change constant FX	% change organic
Revenue					
Australasia	–	9.4	–	–	–
APAC	–	9.4	–	–	–
UK & Europe	**2,968.4**	3,008.5	(1)%	+1%	+19%
Total Retail	**2,968.4**	**3,017.9**	**(2)%**	**+1%**	**+19%**
Operating profit[1]					
Australasia	–	0.4	–	–	
APAC	–	0.4	–	–	
UK & Europe	**82.1**	24.2	+239%	+280%	
Total Retail	**82.1**	**24.6**	**+234%**	**+272%**	
Operating margin[1]					
Australasia	–	4.3%	n/a	n/a	
APAC	–	4.3%	n/a	n/a	
UK & Europe	**2.8%**	0.8%	+200bps	+200bps	
Total Retail	**2.8%**	**0.8%**	**+200bps**	**+200bps**	

- **UK and Europe** delivered organic revenue growth of 19% and operating profit[1] rose significantly, resulting in an operating margin of 2.8%. We experienced solid demand for New and Used Vehicles against a backdrop of supply constraints. This drove gross margins to unprecedented levels across all three of our Retail-only markets in the UK, Russia and Poland. The profit outturn also benefitted from a lower overhead base, following the implementation of our cost-restructuring programme. In the first half of 2021, we disposed of our operations in St. Petersburg which contributed c.£110m of revenue and c.£10m of profit to the year's result. As indicated at our Capital Markets Day, as and when the supply situation normalises we expect margins will trend towards c.1.5%.
- **Australasia:** following a significant disposal programme, which concluded in 2020, we no longer have a Retail segment in Australasia.

1: Operating profit and operating margin stated pre-exceptionals

Value drivers

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

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

	2021 £m	2020 £m	% change reported	% change constant FX
Gross Profit (pre-exceptionals)				
Vehicles	**749.5**	516.9	45%	50%
Aftersales	**391.4**	372.5	5%	10%
Total	**1,140.9**	**889.4**	**28%**	**33%**

We operate across the automotive value chain, and during the year we generated 34% of gross profit through Aftersales, compared to 42% in 2020. This reflects the rebound in vehicle sales from the prior year, when sales were significantly disrupted as a result of the pandemic.

Other financial items

Exceptional items: During the year, we have incurred exceptional charges of £101m (2020: £257m). The charge arose largely from the recycling of £108m of foreign exchange losses previously recognised in other comprehensive income in relation to the disposal of the Russia Retail business, partially offset by gains on the disposal of other retail businesses in the UK and Europe. Additionally, there were £13m of restructuring costs and £20m of accelerated amortisation on software assets. Further details can be found in note 3.

Net financing costs: Net finance costs were £32m (2020: £37m). The decrease is largely due to a reduction in the cost of financing inventory following our retail disposals, and the overall reduction in inventory and associated inventory financing following our S&OP improvements and restrictions in supply globally. The interest charge is stated on an IFRS 16 basis and, excluding interest relating to leases, our net finance charge was £21m compared to £23m in 2020.

Tax: The effective tax rate for the year is 24% before exceptional items (2020: 26%). Compared to the prior year, the effective tax rate before exceptional items benefits from improved operational performance reducing the adverse impact of unrecognised losses. The effective rate for the year, after exceptional items, is 37% (2020: negative 7%), and is not comparable to the prior year due to the impact of the pandemic on the Group's performance in the prior period.

Non-controlling interests: Profits attributable to our non-controlling interests were £5m (2020: £3m). The Group's non-controlling interests comprise a 40% holding in PT JLM Auto Indonesia, a 33% share in UAB Vitvela in Lithuania, a 30% share in NBT Brunei, a 30% share in Inchcape JLR Europe, a 10% share of Subaru Australia and 6% of the Motor Engineering Company of Ethiopia.

Dividend: The Board has declared a final dividend of 16.1p per ordinary share which will be paid on 21 June 2022 to shareholders on the register at close of business on 13 May 2022. This follows an interim dividend of 6.4p, and takes the total dividend in respect of FY21 to 22.5p (2020: 6.9p). The Dividend Reinvestment Plan is available to ordinary shareholders and the final date for receipt of elections to participate is 27 May 2022.

Cash flow and net debt: The Group generated free cash flow of £289m (2020: £177m) driven primarily by an improvement in profitability, the level of working capital and continued careful capital allocation. After the proceeds received from our Retail disposals, as well as the acquisition of the Distribution business in Guatemala and Morrico in Guam, the Group had net cash excluding lease liabilities of £379m (2020: £266m). Including lease liabilities (IFRS 16), the Group had net funds of £55m (2020: net debt of £67m).

Capital expenditure: During 2021, the Group incurred net capital expenditure of £40m (2020: £35m), consisting of £65m of capital expenditure and £25m of proceeds from the sale of property. In 2022, we continue to expect net capital expenditure of less than 1% of Group sales.

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

Acquisitions: In 2021 the Group continued to further expand its distribution footprint, completing four deals during the year. Towards the end of the fourth quarter the Group agreed terms to acquire an additional distribution business: Simpson Motors in the Caribbean. The deal remains subject to customary conditions, and upon completion (anticipated in the first half of 2022) we expect an aggregate cash outflow of c.£60m.

Pensions: At 31 December 2021, the IAS 19 net post-retirement surplus was £82m (2020: £20m), with the increase driven largely by a rise in the discount rate used to determine the value of scheme liabilities. In line with the funding programme agreed with the Trustees, the Group made additional cash contributions to the UK pension schemes amounting to £4m (2020: £4m). Discussions with the Trustees of the Inchcape Motors Pension Scheme in respect of the actuarial valuation as at 5 April 2019 were finalised during the first half of the year and the Group has agreed to contribute an additional £3m per annum to the scheme over the next seven years.

Our financial metrics

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

Metric	£m	Use of Metric
Gross Profit	**1,140.9**	Direct profit contribution from Value Drivers (e.g. Vehicles and Aftersales)
Less: Segment operating expenses	(812.8)	
Operating Profit (before exceptional Items)[1]	**328.1**	Profit generated by the Group
Less: Exceptional items	(101.2)	
Operating Profit	**226.9**	Statutory measure of Operating Profit
Less: Net Finance Costs	(32.1)	
Profit Before Tax	**194.8**	Statutory measure of profit after the costs of financing the Group
Add back: Exceptional Items	101.2	
Profit Before Tax & Exceptional Items[1]	**296.0**	

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

Reconciliation of free cash flow[1]

	2021 £m	**2021 £m**	2020 £m	2020 £m
Net cash generated from operating activities		**377.0**		249.2
Add back: Payments in respect of exceptional items		**12.0**		24.3
Net cash generated from operating activities, before exceptional items		**389.0**		273.5
Purchase of property, plant and equipment	**(48.5)**		(27.4)	
Purchase of intangible assets	**(16.1)**		(14.5)	
Proceeds from disposal of property, plant and equipment	**24.6**		6.7	
Net capital expenditure		**(40.0)**		(35.2)
Net payment in relation to leases		**(57.0)**		(56.7)
Dividends paid to non-controlling interests		**(3.0)**		(4.3)
Free cash flow		**289.0**		177.3

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

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

Return on capital employed[1]

	2021 £m	2020 £m
Operating profit (before exceptional items)	**328.1**	164.1
Net assets	**1,130.5**	1,061.2
Less (net funds) / add net debt	**(54.7)**	66.5
Capital employed	**1,075.8**	1,127.7
Effect of averaging	**26.0**	200.0
Average capital employed	**1,101.8**	1,327.7
Return on capital employed	**29.8%**	12.4%

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

Net cash[1]

	2021 £m	2020 £m
Net funds / (net debt)	**54.7**	(66.5)
Add back: lease liabilities	**324.1**	332.8
Net cash	**378.8**	266.3

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

Risks

Principal business risks

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

Strategic risks, including:

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

Material operational risks, including:

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

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

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

Appendix – business models

Distribution

Americas & Africa

Country	Brands
Argentina	Subaru, Suzuki
Barbados (+)	Chrysler, Freightliner, FUSO, Isuzu, JCB, Jeep, John Deere, Mercedes-Benz, Subaru, Suzuki, Western Star
Chile	BMW, BMW Motorrad, DFSK, Geely, Hino, MINI, Rolls Royce, Subaru,
Colombia	DFSK, Dieci, Doosan, Hino, Jaguar, Land Rover, Mack, Mercedes-Benz, Subaru
Costa Rica	Changan, JAC, Suzuki
Ecuador	Freightliner, Mercedes-Benz, Western Star
El Salvador	Freightliner, Mercedes-Benz, Western Star
Guatemala	Freightliner, Mercedes-Benz, Western Star
Panama	Suzuki
Peru	BMW, BMW Motorrad, BYD, DFSK, MINI, Subaru
Uruguay	Freightliner, Fuso, Mercedes-Benz
Djibouti	BMW, Komatsu, Toyota
Ethiopia	BMW, Hino, Komatsu, New Holland, Suzuki, Toyota
Kenya	BMW, BMW Motorrad, Jaguar, Land Rover

APAC

Country	Brands
Brunei	Lexus, Toyota
Guam (+)	BMW, Chevrolet, Freightliner, Hyundai, Kohler, Lexus, New Holland, Toyota
Hong Kong	Daihatsu, Ford, Hino, Jaguar, Land Rover, Lexus, Maxus, Toyota
Indonesia	Jaguar, Land Rover
Macau	Daihatsu, Ford, Hino, Jaguar, Land Rover, Lexus, Maxus, Toyota
Saipan	Toyota
Singapore	Hino, Lexus, Suzuki, Toyota
Thailand	Jaguar, Land Rover
Australia	Citroen, Peugeot, Subaru
New Zealand	Subaru

Europe

Country	Brands
Belgium	Lexus, Toyota
Bulgaria	Lexus, Toyota
Estonia	BMW, BMW Motorrad, Ford, Jaguar, Land Rover, Mazda, MINI
Finland	Jaguar, Land Rover, Mazda
Greece	Lexus, Toyota
Latvia	BMW, BMW Motorrad, Ford, Jaguar, Land Rover, Mazda, MINI
Lithuania	BMW, BMW Motorrad, Ford, Hyundai, Jaguar, Land Rover, Mazda, MINI, Rolls-Royce
Luxembourg	Lexus, Toyota
North Macedonia	Lexus, Toyota
Poland	Jaguar, Land Rover
Romania	Lexus, Toyota

Retail

Country	Brands
Australia[1]	Isuzu Ute, Jeep, Kia, Mitsubishi, VW
Poland	BMW, BMW Motorrad, MINI
Russia	Audi, BMW, Jaguar, Land Rover, Lexus, MINI, Rolls Royce, Toyota, Volvo
UK	Audi, BMW, Jaguar, Land Rover, Lexus, Mercedes-Benz, MINI, Porsche, Smart, Toyota, Volkswagen

1: Following scale disposal of retail businesses in Australia, Retail is no longer reported as a separate segment in APAC

(+): indicates the base of the core distribution operations which also serves other neighbouring islands

Consolidated income statement
for the year ended 31 December 2021

	Notes	Before exceptional items 2021 £m	Exceptional items (note 3) 2021 £m	Total 2021 £m	Before exceptional items 2020 (restated)[1] £m	Exceptional items (note 3) 2020 (restated)[1] £m	Total 2020 (restated)[1] £m
Revenue	2	**7,640.1**	**–**	**7,640.1**	6,837.8	–	6,837.8
Cost of sales		**(6,499.2)**	**–**	**(6,499.2)**	(5,948.4)	(11.6)	(5,960.0)
Gross profit		**1,140.9**	**–**	**1,140.9**	889.4	(11.6)	877.8
Net operating expenses		**(812.8)**	**(101.2)**	**(914.0)**	(725.3)	(245.5)	(970.8)
Operating profit / (loss)	2,3	**328.1**	**(101.2)**	**226.9**	164.1	(257.1)	(93.0)
Share of profit after tax of joint ventures and associates		**–**	**–**	**–**	–	–	–
Profit / (loss) before finance and tax		**328.1**	**(101.2)**	**226.9**	164.1	(257.1)	(93.0)
Finance income	4	**12.5**	**–**	**12.5**	14.4	–	14.4
Finance costs	5	**(44.6)**	**–**	**(44.6)**	(51.0)	–	(51.0)
Profit / (loss) before tax		**296.0**	**(101.2)**	**194.8**	127.5	(257.1)	(129.6)
Tax	6	**(71.6)**	**(1.3)**	**(72.9)**	(33.7)	24.2	(9.5)
Profit / (loss) for the year		**224.4**	**(102.5)**	**121.9**	93.8	(232.9)	(139.1)
Profit / (loss) attributable to:							
– Owners of the parent				**117.0**			(142.0)
– Non-controlling interests				**4.9**			2.9
				121.9			(139.1)
Basic earnings / (loss) per share (pence)	7			**30.0p**			(36.0)p
Diluted earnings / (loss) per share (pence)	7			**29.6p**			(36.0)p

1. See note 1.

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Notes	2021 £m	2020 (restated)[1] £m
Profit / (loss) for the year		**121.9**	(139.1)
Other comprehensive income / (loss):			
Items that will not be reclassified to the consolidated income statement			
Changes in the fair value of equity investments at fair value through other comprehensive income		**1.6**	(2.7)
Defined benefit pension scheme remeasurements		**58.2**	14.8
Deferred tax recognised in consolidated statement of comprehensive income		**(0.4)**	(2.5)
		59.4	9.6
Items that may be or have been reclassified subsequently to the consolidated income statement			
Cash flow hedges			
– Fair value movements		**18.5**	(4.7)
Exchange differences on translation of foreign operations		**(104.3)**	(42.8)
Recycling of foreign currency reserve		**108.2**	(8.4)
Current tax recognised in consolidated statement of comprehensive income		**(2.3)**	0.3
Deferred tax recognised in consolidated statement of comprehensive income		**(0.5)**	(0.9)
		19.6	(56.5)
Other comprehensive income / (loss) for the year, net of tax		**79.0**	(46.9)
Total comprehensive income / (loss) for the year		**200.9**	(186.0)
Total comprehensive income / (loss) attributable to:			
– Owners of the parent		**196.8**	(189.3)
– Non-controlling interests		**4.1**	3.3
		200.9	(186.0)

1. See note 1.

Consolidated statement of financial position
as at 31 December 2021

	Notes	2021 £m	2020 (restated)[1] £m	1 January 2020 (restated)[1] £m
Non-current assets				
Intangible assets		**394.1**	425.8	554.4
Property, plant and equipment		**548.0**	569.8	695.1
Right-of-use assets		**261.4**	257.3	313.3
Investments in joint ventures and associates		**4.9**	2.4	4.3
Financial assets at fair value through other comprehensive income		**4.8**	3.6	6.9
Derivative financial instruments		**3.0**	–	–
Trade and other receivables		**45.4**	49.2	38.7
Deferred tax assets		**67.4**	70.5	60.9
Retirement benefit asset		**135.3**	101.0	78.7
		1,464.3	1,479.6	1,752.3
Current assets				
Inventories		**1,134.7**	1,216.2	1,566.9
Trade and other receivables		**324.1**	369.6	512.3
Financial assets at fair value through other comprehensive income		**0.2**	0.2	0.2
Derivative financial instruments		**24.6**	13.3	16.2
Current tax assets		**9.0**	20.6	21.6
Cash and cash equivalents	9	**596.4**	481.2	423.0
		2,089.0	2,101.1	2,540.2
Assets held for sale and disposal group		**4.8**	31.2	149.4
		2,093.8	2,132.3	2,689.6
Total assets		**3,558.1**	3,611.9	4,441.9
Current liabilities				
Trade and other payables		**(1,548.3)**	(1,610.3)	(1,996.4)
Derivative financial instruments		**(31.9)**	(42.4)	(27.4)
Current tax liabilities		**(63.0)**	(65.0)	(82.4)
Provisions		**(34.9)**	(26.8)	(23.0)
Lease liabilities		**(56.5)**	(58.5)	(56.8)
Borrowings		**(7.6)**	(6.1)	(50.1)
		(1,742.2)	(1,809.1)	(2,236.1)
Liabilities directly associated with the disposal group		**–**	(7.7)	(106.1)
		(1,742.2)	(1,816.8)	(2,342.2)
Non-current liabilities				
Trade and other payables		**(63.2)**	(69.3)	(77.2)
Provisions		**(23.4)**	(19.8)	(12.9)
Deferred tax liabilities		**(68.1)**	(79.1)	(96.7)
Lease liabilities		**(267.6)**	(274.3)	(296.0)
Borrowings		**(210.0)**	(210.0)	(270.0)
Retirement benefit liability		**(53.1)**	(81.4)	(69.2)
		(685.4)	(733.9)	(822.0)
Total liabilities		**(2,427.6)**	(2,550.7)	(3,164.2)
Net assets		**1,130.5**	1,061.2	1,277.7
Equity				
Share capital		**38.5**	39.4	40.0
Share premium		**146.7**	146.7	146.7
Capital redemption reserve		**142.1**	141.2	140.6
Other reserves		**(227.1)**	(248.2)	(190.4)
Retained earnings		**1,008.7**	962.8	1,120.5
Equity attributable to owners of the parent		**1,108.9**	1,041.9	1,257.4
Non-controlling interests		**21.6**	19.3	20.3
Total equity		**1,130.5**	1,061.2	1,277.7

1. See note 1.

Duncan Tait, GROUP CHIEF EXECUTIVE **Gijsbert de Zoeten**, CHIEF FINANCIAL OFFICER

Consolidated statement of changes in equity
for the year ended 31 December 2021

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total equity attributable to owners of the parent £m	Non-controlling interests £m	Total shareholders' equity £m
At 1 January 2020		40.0	146.7	140.6	(190.4)	1,141.4	1,278.3	20.3	1,298.6
Adjustment for IFRIC ("SaaS")		–	–	–	–	(20.9)	(20.9)	–	(20.9)
At 1 January 2020 (restated)[1]		40.0	146.7	140.6	(190.4)	1,120.5	1,257.4	20.3	1,277.7
(Loss) / profit for the year (restated)[1]		–	–	–	–	(142.0)	(142.0)	2.9	(139.1)
Other comprehensive loss for the year (restated)[1]		–	–	–	(59.3)	12.0	(47.3)	0.4	(46.9)
Total comprehensive loss for the year (restated)[1]		–	–	–	(59.3)	(130.0)	(189.3)	3.3	(186.0)
Hedging gains and losses transferred to inventory		–	–	–	1.5	–	1.5	–	1.5
Share-based payments, net of tax		–	–	–	–	3.7	3.7	–	3.7
Share buyback programme		(0.6)	–	0.6	–	(31.4)	(31.4)	–	(31.4)
Dividends:		–	–	–	–	–	–	–	–
– Owners of the parent	8	–	–	–	–	–	–	–	–
– Non-controlling interests		–	–	–	–	–	–	(4.3)	(4.3)
At 1 January 2021 (restated)[1]		**39.4**	**146.7**	**141.2**	**(248.2)**	**962.8**	**1,041.9**	**19.3**	**1,061.2**
Profit for the year		**–**	**–**	**–**	**–**	**117.0**	**117.0**	**4.9**	**121.9**
Other comprehensive income for the year		**–**	**–**	**–**	**22.0**	**57.8**	**79.8**	**(0.8)**	**79.0**
Total comprehensive income for the year		**–**	**–**	**–**	**22.0**	**174.8**	**196.8**	**4.1**	**200.9**
Hedging gains and losses transferred to inventory		**–**	**–**	**–**	**(0.9)**	**–**	**(0.9)**	**–**	**(0.9)**
Share-based payments, net of tax		**–**	**–**	**–**	**–**	**10.0**	**10.0**	**–**	**10.0**
Share buyback programme		**(0.9)**	**–**	**0.9**	**–**	**(80.5)**	**(80.5)**	**–**	**(80.5)**
Purchase of own shares by the Inchcape Employee Trust		**–**	**–**	**–**	**–**	**(6.2)**	**(6.2)**	**–**	**(6.2)**
Transactions with non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**1.2**	**1.2**
Dividends:									
– Owners of the parent	8	**–**	**–**	**–**	**–**	**(52.2)**	**(52.2)**	**–**	**(52.2)**
– Non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(3.0)**	**(3.0)**
At 31 December 2021		**38.5**	**146.7**	**142.1**	**(227.1)**	**1,008.7**	**1,108.9**	**21.6**	**1,130.5**

1. See note 1.

Share-based payments include a net tax credit of £1.6m (current tax charge of £nil and a deferred tax credit of £1.6m) (2020 – net tax credit of £0.4m (current tax charge of £nil and a deferred tax credit of £0.4m)).

Consolidated statement of cash flows
for the year ended 31 December 2021

	Notes	2021 £m	2020 (restated)[1] £m
Cash generated from operating activities			
Cash generated from operations	9	**469.2**	333.2
Tax paid		**(63.8)**	(51.8)
Interest received		**12.2**	13.9
Interest paid		**(40.6)**	(46.1)
Net cash generated from operating activities		**377.0**	249.2
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired	10	**(20.2)**	(31.5)
Net cash inflow from sale of businesses	10	**76.2**	71.8
Net cash inflow from disposal of investments in joint ventures and associates		**–**	2.0
Purchase of investment in joint ventures and associates		**(2.6)**	–
Purchase of property, plant and equipment		**(48.5)**	(27.4)
Purchase of intangible assets		**(16.1)**	(14.5)
Proceeds from disposal of property, plant and equipment		**24.6**	6.7
Proceeds from disposal of intangible assets		**–**	0.2
Payments made before the commencement date of a lease		**(2.5)**	–
Receipt from finance sub-lease receivables		**2.3**	0.7
Net cash generated from investing activities		**13.2**	8.0
Cash flows from financing activities			
Share buyback programme		**(80.5)**	(32.1)
Purchase of own shares by the Inchcape Employee Trust		**(6.2)**	–
Cash inflow from Covid Corporate Financing Facility		**–**	99.6
Repayment of Covid Corporate Financing Facility		**–**	(99.6)
Cash outflow from other borrowings		**(12.7)**	(66.1)
Payment of capital element of lease liabilities		**(59.3)**	(57.4)
Transactions with non-controlling interests		**1.2**	–
Equity dividends paid	8	**(52.2)**	–
Dividends paid to non-controlling interests		**(3.0)**	(4.3)
Net cash used in financing activities		**(212.7)**	(159.9)
Net increase in cash and cash equivalents	-	**177.5**	97.3
Cash and cash equivalents at beginning of the period		**476.3**	379.2
Effect of foreign exchange rate changes		**(65.0)**	(0.2)
Cash and cash equivalents at the end of the year		**588.8**	476.3
Cash and cash equivalents consist of:			
– Cash at bank and cash equivalents	9	**501.8**	378.5
– Short-term deposits	9	**94.6**	102.7
– Bank overdrafts		**(7.6)**	(6.1)
– Cash at bank and cash equivalents included in disposal groups held for sale		**–**	1.2
		588.8	476.3

1. See note 1.

Notes to the financial statements

1 Basis of preparation and accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom and International Financial Reporting Interpretation Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The condensed set of financial information presented for the years ended 31 December 2020 and 2021 do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The financial information for the year ended 31 December 2020 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) of the Companies Act 2006. The financial information presented for the year ended 31 December 2021 is unaudited as the audit of the statutory accounts for that year is not yet complete. The audited statutory financial information will be published in the Inchcape Annual Report and Accounts.

Accounting policies

The condensed set of consolidated financial information have been prepared using accounting policies consistent with those in the Group's Annual Report and Accounts 2020 with the exception of the following standards, amendments and interpretations which have been newly adopted from 1 January 2021:

Newly adopted accounting policies

From 1 January 2021, the following standards became effective in the Group's consolidated financial statements:

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

The impact of adopting the amendments to IFRS 9, IAS39, IFRS7, IFRS4 and IFRS16 as a result of interest rate benchmark reform is described below. The adoption of the amendments due to IFRS 16 COVID-19 Related Rent Concessions beyond 30 June 2021 has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

Additionally, due to an IFRS Interpretations Committee's agenda decision on 'Software as a Service' ('SaaS') arrangements, the Group's accounting policy has changed relating to the capitalisation of software costs. The impact on the Group's accounting policy is further discussed below.

All other accounting policies have been applied consistently throughout the reporting period. The Group has not early adopted other standards, amendments to standards or interpretations that have been issued but are not yet effective.

Interest rate benchmark reform

The Group has adopted the 'interest rate benchmark reform' amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in the current financial year.

The Group had a number of contracts in the UK with OEM's that make reference to LIBOR. At the end of the reporting period all contracts in scope for amendment had been renegotiated to use the Sterling Overnight Index Average (SONIA) based rate. We will continue to monitor the renegotiation of vehicle funding arrangements throughout the Group that make reference to other Interbank Offered Rates (IBOR) based rates which did not expire during the reporting period.

Our syndicated rolling credit facility incurred interest charged upon a LIBOR based rate. This was renegotiated during 2021 to SONIA. The Group have a total of £nil drawdown on the facility as at 31 December 2021.

Software as a service – accounting for configuration and customisation costs

The Group has changed its accounting policy related to the capitalisation of certain software costs. This change follows the IFRS Interpretations Committee's agenda decisions published in April 2021 and relates to the capitalisation of costs of configuring or customising application software under 'Software as a Service' ('SaaS') arrangements.

The Group's accounting policy has historically been to capitalise costs directly attributable to the configuration and customisation of such arrangements as intangible assets on the balance sheet. Following the adoption of the IFRIC agenda guidance, current SaaS arrangements were identified and assessed to determine if the Group had control of the software. For those arrangements where it was determined that the Group did not have control of the developed software, to the extent that the services were considered distinct from the access to the software, the Group derecognised the intangible asset previously capitalised. Amounts paid to the supplier for implementation and customisation services that cannot be performed by third parties, are amortised over the underlying contract period.

The change in accounting policy has resulted in a reduction in the value of the intangible assets recognised as at 1 January 2020 and 31 December 2020 by £23.5m and £24.4m respectively. The comprehensive income reported for the year ended 31 December 2020 has reduced by £1.9m on account of a corresponding increase in operating expenses within administrative expenses. A third balance sheet as at 1 January 2020 has been presented in accordance with IAS 1 to disclose the impact of the change.

Going concern

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will operate within the level of its committed facilities for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing its financial statements. In assessing whether the Group is a going concern, the ongoing implications of Covid-19 have been considered together with measures taken to mitigate its impact on the Group. In making this assessment, the Group has considered available liquidity in relation to net debt and committed facilities, the Group's latest forecasts for 2022 and 2023 cash flows, together with adjusted scenarios. The forecasts used reflect the latest view on the economic impact of Covid-19 on the markets in which the Group operates, with a key emphasis on the latest Group forecasts for 2022 and 2023.

Committed bank facilities and Private Placement borrowings totalling £910m, of which £210m was drawn at 31 December 2022, are subject to the same interest cover covenant based on an adjusted EBITA measure to interest on consolidated borrowings measured on a trailing 12-month basis at June and December.

The latest Group forecasts for 2022 and 2023 indicate that the Group is expected to be compliant with this covenant throughout the forecast period and have sufficient liquidity to continue operating throughout that period.

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

- further periods of Covid-19 restrictions similar in nature and impact to those seen both in the second half of 2020 and the first half of 2021, impacting half of the Group's markets simultaneously for a period of time in 2022;
- a reduction in New and Used vehicle sales due to a short-term shortage of semi-conductor chips, reducing gross profit in the second half of 2022 and the first half of 2023;
- an appreciation in sterling against the Group's main trading companies; combined with
- working capital sensitivities.

In a scenario where all of the above sensitivities occur at the same time, the Group has modelled the possibility of the interest cover covenant being breached in 2022 and 2023. With the interest cover covenant measured on a trailing 12-month basis, the sensitised forecasts indicate that the Group is not expected to breach any covenants and would be compliant with the interest cover requirements at June 2022 and throughout the forecast period. Additionally, under these circumstances, the Group expects to have sufficient funds to meet cash flow requirements. In a scenario where such restrictions impacted half of the group markets simultaneously for a period of 24 months, the Group is forecasted to be compliant with the interest cover covenant.

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

Therefore, the board concluded that the group will be able to operate within the level of its committed facilities for the foreseeable future. The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements for the year ending 31 December 2021.

Sources of estimation uncertainty

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

Impairment of goodwill and indefinite life intangible assets

In the year, an impairment charge of £12.9m against goodwill has been recognised in the income statement, offset by a reversal of £12.9m against indefinite life intangible assets. The most significant judgement that could materially impact the charge is in relation to the sensitivity of the assumptions applied to the value in use calculations performed over the Americas – Suzuki CGU groups.

Goodwill and other indefinite life intangible assets are tested at least annually for impairment. When an impairment review is carried out, the recoverable value is determined based on value in use calculations which require the use of estimates, including projected future cash flows (see note 11).

The value in use calculations mainly use cash flow projections based on five-year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to volumes, revenue, gross margins, the level of working capital required to support trading, discount rates, long-term growth rate and capital expenditure. For CGU groups in the Americas & Africa reporting segment, cash flows after the five-year period are extrapolated for a further five years using declining growth rates which reduces the year five growth rate down to the long-term growth rate appropriate for each CGU or CGU group, to better reflect the medium-term growth expectations for those markets. A terminal value calculation is used to estimate the cash flows after year 10 using these long-term growth rates. For all other markets, a terminal value calculation is used to estimate the cash flows after year five.

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

Goodwill and distribution agreements

Goodwill acquired in a business combination has been allocated to the cash generating units (CGUs) or group of CGUs (hereafter collectively referred to as 'CGU groups') that are expected to benefit from the synergies associated with that business combination.

Indefinite-life intangible assets, principally distribution agreements acquired in a business combination, are also allocated to the CGUs or CGU groups that are expected to benefit from the cash flows associated with the relevant agreements.

These CGUs or CGU groups represent the lowest level within the Group at which the associated goodwill or indefinite-life intangible asset is monitored for management purposes. The carrying amount of goodwill and indefinite-life intangible assets has been allocated to CGU groups within the following reporting segments:

Reporting segment	CGU group	**Goodwill 2021 £m**	**Distribution agreements 2021 £m**	**Total 2021 £m**	Goodwill 2020 £m	Distribution agreements 2020 £m	Total 2020 £m
UK & Europe Distribution	Baltics – BMW	**5.8**	**27.2**	**33.0**	6.2	28.9	35.1
Americas & Africa Distribution	Americas – Daimler	**5.8**	**29.7**	**35.5**	4.4	27.7	32.1
	Americas – Hino/Subaru	**39.8**	**116.3**	**156.1**	47.2	137.8	185.0
	Americas – Suzuki	**24.8**	**65.8**	**90.6**	37.6	52.2	89.8
	Kenya	**1.1**	**–**	**1.1**	1.1	–	1.1
APAC Distribution	Singapore	**22.3**	**–**	**22.3**	22.5	–	22.5
	Guam	**16.7**	**–**	**16.7**	–	–	–
		116.3	**239.0**	**355.3**	119.0	246.6	365.6

In accordance with the Group's accounting policy, goodwill and other indefinite-life intangible assets are tested at least annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment tests were performed for all CGU groups during the year ended 31 December 2021.

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

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

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

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

The assumptions used in the value in use calculations are based on past experience, recent trading and forecasts of operational performance in the relevant markets including the impact of Covid-19 and the UK trading arrangements with the European Union and expectations about continuing relationships with key brand partners. The calculations also incorporate the expected impact of climate change. Several climate-related risks have been identified and assessed as to their relevance and potential impact on the Group. Transition risks, as outlined by the TCFD, are considered to be of greater risk in the medium to long-term, particularly in those markets where the Group acts as a distributor and the potential future actions of an OEM partner are not aligned with that of the market.

An estimate of the impact of the transition to electric vehicles across our CGUs has been factored into the testing performed. Using key data inputs available such as electric vehicle penetration forecasts and market maturity for such vehicles in the markets in which we operate. These possible impacts are reflected in the impairment models through adjustments to both market share and aftersales margin. Considering climate change is not expected to have a significant impact on short-term forecasts, these adjustments have been applied to the outer years in the impairment models. Whilst at this stage there is significant uncertainty regarding what the long-term impact of climate change initiatives may be on the markets in which we operate, the forecasts reflect our best estimate.

For CGU groups in the Americas & Africa reporting segment, cash flows after the five-year period are extrapolated for a further five years using declining growth rates which reduces the year five growth rate down to the long-term growth rate appropriate for each CGU or CGU group, to better reflect the medium-term growth expectations for those markets. A terminal value calculation is used to estimate the cash flows after year 10 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 discount rate specific to each CGU. The discount rates used are calculated using the capital asset pricing model to derive a cost of equity which is then weighted with an estimated cost of debt and lease liabilities based on an optimal market gearing structure. The Group uses several inputs to calculate a range for each discount rate from which an absolute measure is determined for use in the value in use calculations. Key inputs include benchmark risk free rates, inflation differentials, equity risk premium, country risk premium and a risk adjustment (beta) calculated by reference to comparable companies with similar retail and distribution operations. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate.

Key assumptions used

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

Goodwill:

2021	**UK Retail**	**Baltics**	**Americas – Daimler**	**Americas – Hino/Subaru**	**Americas – Suzuki**	**Kenya**	**Singapore**	**Australia Retail**	**Peugeot Citroën Australia**
Pre-tax discount rate (%)	**–**	**6.9**	**12.9**	**10.6**	**11.7**	**14.7**	**6.8**	**–**	**–**
Long-term growth rate (%)	**–**	**2.1**	**2.3**	**2.9**	**2.5**	**5.1**	**1.5**	**–**	**–**

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

Indefinite-life intangible assets:

2021	**Baltics – BMW**	**Americas – Daimler**	**Americas – Hino**	**Americas – Subaru**	**Americas – Suzuki**
Pre-tax discount rate (%)	**6.9**	**12.9**	**11.9**	**11.0**	**11.7**
Long-term growth rate (%)	**2.1**	**2.3**	**3.1**	**3.1**	**2.5**

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

Impairment

Americas – Suzuki

In 2020, the region was heavily affected by the impact of Covid-19, the resulting financial forecasts triggering an impairment charge of £6.2m against goodwill and £31.2m against the Suzuki distribution agreement.

In 2021, trading momentum has been above management expectations with revenue tracking above 2020 levels and profitability exceeding original projections as the region recovered from the pandemic. Based on the impairment assessment carried out, forecast assumptions continue to expect the business to grow and improve its profitability over the next five years. The forecasts applied in the model considered the historical performance achieved by the business, the expected short-term impact of the semi-conductor chip shortage affecting the global automotive industry and the potential impact of climate change on the market.

The impairment models for the Americas – Suzuki CGU have two contrasting outcomes. The assessment performed over the Suzuki distribution agreement indicates an amount of headroom of £12.9m and therefore a partial reversal of the charge taken in 2020 is required. Conversely, the goodwill model indicates a further impairment of goodwill is required of £12.9m. This re-classification of impairment charges / reversals on the balance sheet is due to the forecast performance of the Suzuki brand in the market relative to the other brands represented which form only a small component of the CGU.

The recoverable value of the CGU was determined based on value-in-use calculations, consistent with the approach used as at 31 December 2020. Cash flows were discounted back to present value using a pre-tax discount rate of 11.7% (2020 – 12.2%) and resulted in the impairment of the goodwill balance of £12.9m and a partial reversal of the impairment of the distribution agreement recognised in 2020 of £12.9m.

As at 31 December 2021, the recoverable amount of the CGU was £117.6m. The cash flows used within the impairment models are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a further impairment. Management have performed sensitivity analysis on the key assumptions in the indefinite-life intangible asset impairment model using reasonably possible changes in these key assumptions.

	Increase / (decrease) in assumption	impairment charge £m	Impairment credit £m
Revenue CAGR (%)	**(1.0%) / 1.0%**	**(17.5)**	**20.3**
Pre-tax discount rate (%)	**1.0% / (1.0%)**	**(14.3)**	**18.6**
Average gross margin (%)	**(0.5%) / 0.5%**	**(9.1)**	**9.1**
Long-term growth rate (%)	**(0.5%) / 0.5%**	**(5.3)**	**7.1**

Other CGUs

The Group's value in use calculations are sensitive to a change in the key assumptions used. However, a reasonably possible change in a key assumption will not cause a material impairment of goodwill or indefinite-life intangible assets in any of the CGU groups.

2 Segmental analysis

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

In 2020, following the disposal of the Group's business in China and the Retail disposals in Australia in 2019, the management and reporting of the previous Asia and Australasia regions changed to encompass the combination of these to form an Asia Pacific (APAC) region. The Retail businesses in the APAC region which were disposed of in 2019 and 2020 were maintained as a separate reportable segment. In 2020, this segment solely represents the disposed of businesses in Australia.

The Group reports the performance of its reporting segments after the allocation of central costs. These represent costs of Group functions.

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

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

	Distribution				Retail			
2021	APAC £m	UK & Europe £m	Americas & Africa £m	Total Distribution £m	APAC £m	UK & Europe £m	Total Retail £m	Total £m
Revenue								
Total revenue	**2,146.9**	**1,476.4**	**1,048.4**	**4,671.7**	**–**	**2,968.4**	**2,968.4**	**7,640.1**
Results								
Operating profit before exceptional items	**127.8**	**41.4**	**76.8**	**246.0**	**–**	**82.1**	**82.1**	**328.1**
Operating exceptional items								**(101.2)**
Operating profit after exceptional items								**226.9**
Share of profit after tax of joint ventures and associates								**–**
Profit before finance and tax								**226.9**
Finance income								**12.5**
Finance costs								**(44.6)**
Profit before tax								**194.8**
Tax								**(72.9)**
Profit for the year								**121.9**

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:

2021	£m
UK	**1,894.3**
Australia	**1,003.6**
Russia	**852.8**
Rest of the world	**3,889.4**
Group	**7,640.1**

	Distribution				Retail			
2021	APAC £m	UK & Europe £m	Americas & Africa £m	Total Distribution £m	APAC £m	UK & Europe £m	Total Retail £m	Total £m
Segment assets and liabilities								
Segment assets	**428.9**	**256.4**	**336.1**	**1,021.4**	**-**	**489.9**	**489.9**	**1,511.3**
Other current assets								**629.8**
Other non-current assets								**1,417.0**
Segment liabilities	**(633.9)**	**(261.1)**	**(318.6)**	**(1,213.6)**	**-**	**(407.6)**	**(407.6)**	**(1,621.2)**
Other liabilities								**(806.4)**
Net assets								**1,130.5**

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

2021	Distribution APAC £m	UK & Europe £m	Americas & Africa £m	Total Distribution £m	Retail APAC £m	UK & Europe £m	Total Retail £m	Total £m
Other segment items								
Capital expenditure:								
– Property, plant and equipment	**10.7**	**5.1**	**12.4**	**28.2**	**–**	**21.2**	**21.2**	**49.4**
– Interest in leased vehicles	**1.8**	**2.0**	**0.1**	**3.9**	**–**	**-**	**-**	**3.9**
– Right-of-use assets	**29.1**	**1.6**	**7.8**	**38.5**	**–**	**6.2**	**6.2**	**44.7**
– Intangible assets	**4.1**	**4.6**	**2.8**	**11.5**	**–**	**4.3**	**4.3**	**15.8**
Depreciation:								
– Property, plant and equipment	**7.7**	**3.7**	**7.2**	**18.6**	**–**	**11.4**	**11.4**	**30.0**
– Interest in leased vehicles	**2.0**	**0.2**	**0.3**	**2.5**	**–**	**-**	**-**	**2.5**
– Right-of-use assets	**25.3**	**4.7**	**9.3**	**39.3**	**–**	**10.6**	**10.6**	**49.9**
Amortisation of intangible assets	**11.5**	**13.2**	**3.4**	**28.1**	**–**	**4.9**	**4.9**	**33.0**
Impairment of goodwill	**–**	**–**	**12.9**	**12.9**	**–**	**–**	**–**	**12.9**
Impairment of distribution agreements	**–**	**–**	**(12.9)**	**(12.9)**	**–**	**–**	**–**	**(12.9)**
Impairment of other intangible assets	**0.1**	**–**	**0.1**	**0.2**	**–**	**–**	**–**	**0.2**
Impairment of property, plant and equipment	**–**	**0.4**	**0.3**	**0.7**	**–**	**(2.6)**	**(2.6)**	**(1.9)**
Impairment of right-of-use assets	**0.3**	**–**	**0.6**	**0.9**	**–**	**0.2**	**0.2**	**1.1**
Impairment of assets held for sale	**–**	**–**	**1.5**	**1.5**	**–**	**–**	**–**	**1.5**
Net provisions charged / (credited) to the consolidated income statement	**10.7**	**3.0**	**8.0**	**21.7**	**–**	**5.7**	**5.7**	**27.4**

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

2020 (restated)[1]	Distribution APAC £m	UK & Europe £m	Americas & Africa £m	Total Distribution £m	Retail APAC £m	UK & Europe £m	Total Retail £m	Total £m
Revenue								
Total revenue	1,902.6	1,120.2	797.1	3,819.9	9.4	3,008.5	3,017.9	6,837.8
Results								
Operating profit before exceptional items	80.3	25.0	34.2	139.5	0.4	24.2	24.6	164.1
Operating exceptional items								(257.1)
Operating loss after exceptional items								(93.0)
Share of profit after tax of joint ventures and associates								–
Loss before finance and tax								(93.0)
Finance income								14.4
Finance costs								(51.0)
Loss before tax								(129.6)
Tax								(9.5)
Loss for the year								(139.1)

1. See note 1.

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

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

2020 (restated)[1]	Distribution APAC £m	UK & Europe £m	Americas & Africa £m	Total Distribution £m	Retail APAC £m	UK & Europe £m	Total Retail £m	Total £m
Segment assets and liabilities								
Segment assets	402.7	281.6	361.7	1,046.0	–	618.4	618.4	1,664.4
Other current assets								515.3
Other non-current assets								1,432.2
Segment liabilities	(602.1)	(295.8)	(299.3)	(1,197.2)	–	(566.4)	(566.4)	(1,763.6)
Other liabilities								(787.1)
Net assets								1,061.2

1. See note 1.

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

	Distribution				Retail			
2020 (restated)[1]	APAC £m	UK & Europe £m	Americas & Africa £m	Total Distribution £m	APAC £m	UK & Europe £m	Total Retail £m	Total £m
Other segment items								
Capital expenditure:								
– Property, plant and equipment	6.0	2.4	9.2	17.6	–	9.9	9.9	27.5
– Interest in leased vehicles	2.3	0.7	0.1	3.1	–	–	–	3.1
– Right-of-use assets	10.4	3.4	3.5	17.3	–	5.3	5.3	22.6
– Intangible assets	6.1	2.6	2.0	10.7	–	4.2	4.2	14.9
Depreciation:				–				
– Property, plant and equipment	9.5	4.0	9.3	22.8	–	13.1	13.1	35.9
– Interest in leased vehicles	3.1	0.1	0.8	4.0	–	0.1	0.1	4.1
– Right-of-use assets	28.5	4.7	10.6	43.8	–	10.4	10.4	54.2
Amortisation of intangible assets	6.3	3.2	2.1	11.6	–	3.0	3.0	14.6
Impairment of goodwill	11.1	–	6.2	17.3	–	80.2	80.2	97.5
Impairment of distribution agreements	–	–	31.2	31.2	–	–	–	31.2
Impairment of other intangible assets	5.7	1.2	1.5	8.4	–	9.4	9.4	17.8
Impairment of property, plant and equipment	9.7	1.2	1.4	12.3	–	30.4	30.4	42.7
Impairment of right-of-use assets	24.7	–	0.2	24.9	–	8.4	8.4	33.3
Net provisions charged / (credited) to the consolidated income statement	15.9	4.7	11.8	32.4	–	(3.4)	(3.4)	29.0

1. See note 1.

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

3 Exceptional items

	2021 £m	2020 £m
Goodwill and distribution agreement impairments	**–**	(128.7)
Other asset write-offs and impairments	**2.9**	(94.3)
Inventory and other provisions	**–**	(11.9)
Disposal of businesses	**(67.3)**	1.9
Restructuring costs	**(13.3)**	(28.4)
Acquisition of businesses	**(3.4)**	(4.1)
Accelerated amortisation	**(20.1)**	–
Other operating exceptional items	**–**	8.4
Total exceptional operating items before tax	**(101.2)**	(257.1)
Exceptional tax (see note 6)	**(1.3)**	24.2
Total exceptional items	**(102.5)**	(232.9)
Total exceptional items are analysed as follows:		
Exceptional cost of sales	**–**	(11.6)
Exceptional net operating expenses	**(101.2)**	(245.5)
Exceptional tax (see note 6)	**(1.3)**	24.2
Total exceptional items	**(102.5)**	(232.9)

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

In 2020, due to the impact of Covid-19 on the Group's operations a review of the Group's cost base was initiated to identify savings and plan longer-term changes to the way in which the Group operates. A proposal was approved by the Board for a planned restructuring activity under which the Group incurred restructuring costs of £28.4m during 2020. These costs were principally in relation to redundancy, consultancy and occupancy costs. In 2021, a further £13.3m of restructuring costs have been recognised, mainly in relation to Group-wide transformation projects impacting both Finance and IT, encompassing the potential for sharing back-office services and review of organisational structures and costs. These costs have been reported as exceptional costs in line with the Group's policy to report significant Group-wide restructuring impacting multiple geographies and functions as an exceptional item.

In 2021, the Group started to migrate the Group's existing ERP applications to a cloud-based solution. This was a strategic decision to consolidate and upgrade the systems, improve speed and performance and facilitate centralised support following the transformation of the Information Technology organisational structure. The new solution has been determined to be Software as a Service (see note 1) and therefore the existing software assets no longer fall to be treated as an asset under IAS 38 once the migration to the new solution has occurred. Consequently, the useful life of the existing assets has been reassessed and the impact has been accounted for prospectively as a change in an estimate. This change resulted in a significant increase in the amortisation recognised for software costs. Accordingly, the incremental amortisation of £20.1m has been disclosed as an exceptional item in accordance with the Group's policy.

During the year exceptional operating costs of £3.4m have been incurred in connection with the acquisition and integration of businesses.

In 2020, due to Covid-19 and the temporary closure of operations across the Group's many markets, impairment assessments were carried out using cash flow forecasts updated for latest available market data and estimates of fair value less costs of disposal. As a result of these reviews, the Group recognised goodwill impairment charges of £80.2m and £11.1m in the UK and Australia respectively. Additionally, further impairment charges were recognised against the Americas – Suzuki CGU of £6.2m and £31.2m against goodwill and distribution agreement assets respectively. Exceptional items also include asset impairments and write-offs of £94.3m following an impairment review of certain site-based assets across the Group, primarily in the UK, Australia and Russia.

In 2020, the Group also

- recognised additional inventory and other provisions of £11.9m, which were determined to be directly attributable to the Covid-19 pandemic and therefore disclosed as an exceptional charge;
- continued to optimise its retail market portfolio and recognised an exceptional operating profit of £1.9m related to the disposal of retail sites in the UK and Australia;
- incurred exceptional operating costs of £4.1m in connection with the acquisition and integration of businesses. These primarily related to the Daimler businesses acquired in South America; and
- recognised exceptional other operating items of £8.4m including the recycling of a cumulative gain previously recorded in OCI which arose due to the reorganisation of the ownership structure of the Group's operations in the APAC region.

4 Finance income

	2021 £m	2020 £m
Bank and other interest receivable	**11.5**	11.6
Net interest income on post-retirement plan assets and liabilities	**0.3**	0.4
Sub-lease finance income	**0.6**	0.5
Other finance income	**0.1**	1.9
Total finance income	**12.5**	14.4

5 Finance costs

	2021 £m	2020 £m
Interest payable on bank borrowings	**7.8**	6.5
Interest payable on Private Placement	**6.3**	6.6
Finance costs on lease liabilities	**10.6**	13.9
Stock holding interest	**14.1**	18.5
Other finance costs	**5.8**	5.5
Total finance costs	**44.6**	51.0

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% (2020 – 2.0%).

6 Tax

	2021 £m	2020 (restated)[1] £m
Current tax:		
– UK corporation tax	**0.1**	(0.7)
– Overseas tax	**83.0**	47.9
	83.1	47.2
Adjustments to prior year liabilities:		
– UK	**–**	(4.8)
– Overseas	**(4.8)**	(2.7)
Current tax	**78.3**	39.7
Deferred tax	**(5.4)**	(30.2)
Total tax charge	**72.9**	9.5
The total tax charge is analysed as follows:		
– Tax charge on profit before exceptional items	**71.6**	33.7
– Tax charge / (credit) on exceptional items	**1.3**	(24.2)
Total tax charge	**72.9**	9.5

1. See note 1.

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

Factors affecting the tax expense for the year

The effective tax rate for the year after exceptional items is 37.4% (2020 – -7.3% restated). The effective tax rate before the impact of exceptional items is 24.2% (2020 – 26.4% restated). The weighted average tax rate is 25.4% (2020 – 25.8% restated). The weighted average tax rate comprises the average statutory rates across the Group, weighted in proportion to accounting profits and losses.

During the period, there was a net loss generated by the legal entities within the UK tax group. Given current forecasts, no net deferred tax asset is recognised for the losses within the UK and this results in a higher overall tax expense than expected.

In addition, tax audits in several overseas markets were successfully closed and so provisions in respect of these audits have been released to offset the final assessed tax. The net result is a credit to the current tax charge, thus reducing the tax expense for the period.

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

	2021 £m	2020 (restated)[1] £m
Profit / (loss) before tax	**194.8**	(129.6)
Profit / (loss) before tax multiplied by the weighted average tax rate of 25.4% (2020 – 25.8%)	**49.5**	(33.4)
– Permanent differences	**9.0**	8.1
– Non-taxable income	**(3.0)**	(2.4)
– Prior year items	**(0.8)**	(5.1)
– Derecognition / (recognition) of deferred tax assets	**7.9**	27.6
– Tax audits and settlements	**(3.3)**	(4.8)
– Taxes on undistributed earnings	**1.6**	1.6
– Other items (including tax rate differentials and changes)	**(0.6)**	(0.6)
– Goodwill impairment	**3.8**	20.5
– Acquisition and disposals of businesses	**8.9**	(1.8)
– Other asset write-offs and impairment	**(0.1)**	(0.2)
Total tax charge	**72.9**	9.5

1. See note 1.

Factors affecting the tax expense of future years

The Group's future tax expense, and effective tax rate, could be affected by several factors including; the resolution of audits and disputes, changes in tax laws or tax rates, the ability to utilise brought forward losses and business acquisitions and disposals. In addition, a change in profit mix between low and high taxed jurisdictions will impact the Group's future tax expense.

The utilisation of brought forward tax losses or the recognition of deferred tax assets associated with such losses may also give rise to tax charges or credits. The recognition of deferred tax assets, particularly in respect of tax losses, is based upon an assessment of whether it is probable that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group against which to utilise the assets in the future. Judgement is required when determining probable future taxable profits. In the event that actual taxable profits are different to those forecast, the Group's future tax expense and effective tax rate could be affected.

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

7 Earnings per share

	2021 £m	2020 (restated)[1] £m
Profit / (loss) for the year	**121.9**	(139.1)
Non-controlling interests	**(4.9)**	(2.9)
Basic earnings / (loss)	**117.0**	(142.0)
Exceptional items	**102.5**	232.9
Adjusted earnings	**219.5**	90.9
Basic earnings / (loss) per share	**30.0p**	(36.0)p
Diluted earnings / (loss) per share	**29.6p**	(36.0)p
Basic Adjusted earnings per share	**56.2p**	23.1p
Diluted Adjusted earnings per share	**55.6p**	22.9p

	2021 number	2020 number
Weighted average number of fully paid ordinary shares in issue during the year	**391,136,363**	394,448,982
Weighted average number of fully paid ordinary shares in issue during the year:		
– Held by the Inchcape Employee Trust	**(553,006)**	(535,394)
Weighted average number of fully paid ordinary shares for the purposes of basic EPS	**390,583,357**	393,913,588
Dilutive effect of potential ordinary shares	**4,506,362**	2,616,104
Adjusted weighted average number of fully paid ordinary shares in issue during the year for the purposes of diluted EPS	**395,089,719**	396,529,692

1. See note 1.

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

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

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

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

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

8 Dividends

The following dividends were paid by the Group:

	2021 £m	2020 £m
Interim dividend for the six months ended 30 June 2021 of 6.4p per share (30 June 2020 of nil per share)	**25.1**	–
Final dividend for the year ended 31 December 2020 of 6.9p per share (31 December 2019 of nil per share)	**27.1**	–
	52.2	–

A final proposed dividend for the year ended 31 December 2021 of 16.1p per share is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2021.

The Group has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Inchcape plc, currently has adequate levels of realised profits within its retained earnings to support dividend payments. At 31 December 2021, Inchcape plc's company-only distributable reserves were £308.4m. On an annual basis, the distributable reserve levels of the Group's subsidiary undertakings are reviewed and dividends paid up to Inchcape plc where it is appropriate to do so.

9 Notes to the consolidated statement of cash flows

a. Reconciliation of cash generated from operations

	2021 £m	2020 £m
Cash flows from operating activities		
Operating profit / (loss)	**226.9**	(93.0)
Exceptional items (see note 3)	**101.2**	257.1
Amortisation of intangible assets (including non-exceptional impairment charges)	**13.1**	14.2
Depreciation of property, plant and equipment (including non-exceptional impairment charges)	**30.9**	35.3
Depreciation of right-of-use assets (including non-exceptional impairment charges)	**51.0**	54.0
Profit on disposal of property, plant and equipment	**(4.8)**	–
Impairment of held for sale assets	**1.5**	–
Gain on disposal of right-of-use assets	**(0.9)**	(1.6)
Share-based payments charge	**8.4**	3.3
Decrease in inventories	**36.3**	351.0
Decrease in trade and other receivables	**29.7**	124.4
Decrease in trade and other payables	**(22.3)**	(413.0)
Increase in provisions	**10.5**	5.1
Pension contributions (more) / less than the pension charge for the year[1]	**(5.5)**	3.3
Decrease in interest in leased vehicles	**3.9**	15.9
Payments in respect of operating exceptional items	**(12.0)**	(24.3)
Other non-cash items	**1.3**	1.5
Cash generated from operations	**469.2**	333.2

1. Includes additional payments of £3.7m (2020 – £3.7m).

b. Net debt reconciliation

	Liabilities from financing activities			Assets	
	Borrowings £m	Leases £m	Sub-total £m	Cash / bank overdrafts £m	Total net debt £m
Net debt at 1 January 2020	(276.3)	(352.8)	(629.1)	379.2	(249.9)
Cash flows	66.1	57.4	123.5	55.3	178.8
Acquisitions	–	(1.1)	(1.1)	(31.5)	(32.6)
Disposals	–	–	–	73.5	73.5
New lease liabilities	–	(35.7)	(35.7)	–	(35.7)
Transferred to liabilities held for sale	–	1.0	1.0	–	1.0
Foreign exchange adjustments	0.2	(1.6)	(1.4)	(0.2)	(1.6)
Net debt at 1 January 2021	**(210.0)**	**(332.8)**	**(542.8)**	**476.3**	**(66.5)**
Cash flows	**12.7**	**59.3**	**72.0**	**121.5**	**193.5**
Acquisitions	**(12.7)**	**(1.9)**	**(14.6)**	**(20.2)**	**(34.8)**
Disposals	**–**	**10.1**	**10.1**	**76.2**	**86.3**
New lease liabilities	**–**	**(68.3)**	**(68.3)**	**–**	**(68.3)**
Transferred to liabilities held for sale	**–**	**(1.3)**	**(1.3)**	**–**	**(1.3)**
Foreign exchange adjustments	**–**	**10.8**	**10.8**	**(65.0)**	**(54.2)**
Net funds at 31 December 2021	**(210.0)**	**(324.1)**	**(534.1)**	**588.8**	**54.7**

Net debt is analysed as follows:

	2021 £m	2020 £m
Cash and cash equivalents as per the statement of financial position	**596.4**	481.2
Cash and cash equivalents included in disposal groups held for sale	**–**	1.2
Borrowings – disclosed as current liabilities	**(7.6)**	(6.1)
Add back: amounts treated as debt financing (see below)	**–**	–
Cash and cash equivalents as per the statement of cash flows	**588.8**	476.3
Debt financing		
Borrowings – disclosed as current liabilities and treated as debt financing (see above)	**–**	–
Borrowings – disclosed as non-current liabilities	**(210.0)**	(210.0)
Lease liabilities	**(324.1)**	(332.8)
Debt financing	**(534.1)**	(542.8)
Net funds / (debt)	**54.7**	(66.5)
Add back: lease liabilities	**324.1**	332.8
Net cash	**378.8**	266.3

Cash and cash equivalents are analysed as follows:

	2021 £m	2020 £m
Cash at bank and cash equivalents	**501.8**	378.5
Short-term deposits	**94.6**	102.7
	596.4	481.2

£71.8m (2020 – £81.2m) of cash and cash equivalents is held in Ethiopia where prior approval is required to transfer funds abroad, and currency may not be available locally to effect such transfers.

10 Acquisitions and disposals

a. Acquisitions

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

On 1 December 2021, the Group acquired the full share capital of Morrico Equipment Holdings Inc, a distributor of new and used heavy equipment vehicles, including Freightliner, Mercedes-Benz and Hyundai, in Guam and Micronesia for a total cash consideration of £26.8m, including the settlement of £12.7m of debt acquired. The business was acquired to expand the Group's footprint into commercial vehicles in the region. Provisional goodwill of £16.5m arose on the acquisition. The goodwill is expected to be deductible for tax purposes.

Revenue and profit contribution

Income statement items	Total £m
Revenue recognised since the acquisition date in the consolidated income statement	**13.5**
Profit after tax since the acquisition date in the consolidated income statement	**0.3**

Other acquisitions

During the period, the Group acquired inventory assets from Star Motors SA de CV, a company registered in El Salvador, as well as the Daimler Trucks North America distribution rights in Ecuador and the distribution rights to Daimler vans in Colombia. The total cost of these acquisitions was £2.3m.

	2021 £m	2020 £m
Cash outflow to acquire businesses, net of cash and overdrafts acquired		
Cash consideration	**21.9**	31.5
Less: Cash acquired	**(1.7)**	–
Net cash outflow	**20.2**	31.5

In December 2021, the Group announced an agreement to acquire Interamericana Trading Corporation and Simpson Motors, a business based in the Caribbean. The deal will expand Inchcape's global footprint with entry into the Caribbean, and will also strengthen the Group's geographic reach with Suzuki, Mercedes-Benz and Subaru. The transaction remains subject to customary conditions, including receipt of local regulatory approvals, with completion anticipated in H1 2022.

Measurement period adjustments

During the year, no adjustments have been made to the fair value of assets and liabilities acquired in business combinations in 2020 (2020 – £0.7m).

b. Disposals

During the year the Group continued to reduce its retail operations and disposed of its Toyota and Audi retail business in St Petersburg, Russia, generating disposal proceeds of £109.6m. In Belgium, the Group disposed of three retail sites, generating disposal proceeds of £1.9m and two sites in the UK, generating disposal proceeds of £10.1m. The Group also disposed of its Retail business in Luxembourg in January 2021 for £4.5m.

	Russia Retail £m	UK Retail £m	Belgium & Luxembourg £m	Total £m
Disposal proceeds, net of disposal costs	**107.5**	**9.4**	**6.4**	**123.3**
Net assets disposed of	**(71.3)**	**(8.1)**	**(3.3)**	**(82.7)**
Gain on disposal before reclassification of foreign currency translation reserve	**36.2**	**1.3**	**3.1**	**40.6**
Recycling of foreign currency translation reserve	**(108.0)**	**–**	**0.1**	**(107.9)**
(Loss) / gain on disposal	**(71.8)**	**1.3**	**3.2**	**(67.3)**

	Russia Retail £m	UK Retail £m	Belgium & Luxembourg £m	Total £m
Consideration received, net of disposal costs paid	**107.5**	**9.4**	**6.4**	**123.3**
Cash & cash equivalents disposed of	**(46.0)**	**–**	**(1.1)**	**(47.1)**
Net cash inflow on disposal of business	**61.5**	**9.4**	**5.3**	**76.2**

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

c. 2020 acquisitions and disposals

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

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

During 2020, the Group continued to optimise its UK Retail portfolio and disposed of 13 sites, generating disposal proceeds of £59.5m. In Australia, two further sites in our Retail business were disposed of in February 2020, generating disposal proceeds of £6.1m. The Group also received deferred consideration of £7.9m and incurred £0.4m of costs relating to the disposal of Retail operations in China in 2019.

11 Foreign currency translation

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

	Average rates		Year-end rates	
	2021	2020	**2021**	2020
Australian dollar	**1.84**	1.87	**1.86**	1.78
Chilean peso	**1,043.46**	1,024.2	**1,152.93**	973.00
Ethiopian birr	**60.21**	45.18	**66.81**	52.91
Euro	**1.16**	1.13	**1.19**	1.12
Hong Kong dollar	**10.69**	10.01	**10.55**	10.59
Russian rouble	**101.55**	94.11	**101.43**	101.21
Singapore dollar	**1.85**	1.78	**1.82**	1.81
US dollar	**1.38**	1.29	**1.35**	1.37

12 Events after the reporting period

On 15 February 2022, the Group's contract with a broker to purchase its own shares completed. A further 2,189,677 shares were repurchased, at a cost of £19.5m, and subsequently cancelled during this period. An amount of £0.2m, equivalent to the nominal value of the cancelled shares, has been transferred to the capital redemption reserve.

13 Alternative performance measures

Alternative performance measures (APMs)

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

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

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

Constant currency

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

Performance measure	Definition	Why we measure it
Gross profit before exceptional items	Gross profit before exceptional items. Refer to the consolidated income statement.	A key metric of the direct profit contribution from the Group's revenue streams (e.g. Vehicles and Aftersales).
Operating profit before exceptional items	Operating profit before exceptional items. Refer to the consolidated income statement.	A key metric of the Group's business performance.
Operating margin	Operating profit (before exceptional items) divided by revenue.	A key metric of operational efficiency, ensuring that we are leveraging global scale to translate sales growth into profit.
Profit before tax and exceptional items	Represents the profit made after operating and interest expense excluding the impact of exceptional items and before tax is charged. Refer to consolidated income statement.	A key driver of delivering sustainable and growing earnings to shareholders.
Exceptional items	Items that are charged or credited in the consolidated income statement which are material and non-recurring in nature. Refer to note 3.	The separate reporting of exceptional items helps provide additional useful information regarding the Group's business performance and is consistent with the way that financial performance is measured by the Board and the Executive Committee.
Net capital expenditure	Cash outflows from the purchase of property, plant and equipment and intangible assets less the proceeds from the disposal of property, plant and equipment and intangible assets.	A measure of the net amount invested in operational facilities in the period.
Free cash flow	Net cash flows from operating activities, before exceptional cash flows, less normalised net capital expenditure and dividends paid to non-controlling interests.	A key driver of the Group's ability to 'Invest to Accelerate Growth' and to make distributions to shareholders.
Return on capital employed (ROCE)	Operating profit (before exceptional items) divided by the average of opening and closing capital employed, where capital employed is defined as net assets add net debt / less net funds.	ROCE is a measure of the Group's ability to drive better returns for investors on the capital we invest.
Net funds / (debt)	Cash and cash equivalents less borrowings and lease liabilities adjusted for the fair value of derivatives that hedge interest rate or currency risk on borrowings. Refer to note 9.	A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength.
Net cash	Cash and cash equivalents less borrowings adjusted for the fair value of derivatives that hedge interest rate or currency risk on borrowings and before the incremental impact of IFRS 16 lease liabilities. Refer to note 9.	A measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength and is widely used by external parties.
Constant currency % change	Presentation of reported results compared to prior period translated using constant rates of exchange.	A measure of business performance which excludes the impact of changes in exchange rates used for translation.
Organic growth	Organic growth is defined as sales growth in operations that have been open for at least a year at constant foreign exchange rate.	A measure of underlying business performance which excludes the impact of acquisition and disposals in the period.

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 Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB)' 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 Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

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

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

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

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

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

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

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