GIJSBERT DE ZOETEN
CHIEF FINANCIAL OFFICER

WELL PLACED FOR OPPORTUNITIES AHEAD

I am pleased to present our Operating and Financial Review for 2021, a year in which the Group has made substantial strategic and operational progress.

Our teams' relentless focus on strong execution in all our markets drove a rebound of all our key financial metrics. Of particular note was the delivery of another year of excellent cash flow generation.

// It is a testament to the resilience of our diverse business, and all our people, that we successfully navigated another year of uncertainty.

The Group's performance in 2021 was excellent, amid continuing challenges caused by the pandemic and supply constraints across the globe. All our regions saw an improvement in both top line and profitability, with strong demand for vehicles and aftersales services, following the significant disruption caused by Covid-19 in 2020.

It is a testament to the resilience of our diverse business, and all our people, that we successfully navigated another year of uncertainty. Our teams worked collaboratively, across borders, to ensure we were making the best possible business decisions.

Group revenue was supported by strong consumer demand for both new and used vehicles, and reduced discounting as supply was tight, particularly in the second half. This favourable pricing dynamic contributed to the strong profitability out-turn, with the Group's gross margin at unprecedented levels. At the start of the year we successfully concluded our cost-restructuring programme, which targeted a £90m reduction of overheads. We are still confident of retaining at least half of these savings as volumes return to pre-pandemic levels.

Our continued focus on cash management drove another excellent year of cash flow generation, highlighting the cash generative nature of the business model. Over the course of the past 12 months we have added a number of new distribution businesses to our portfolio, and have a healthy pipeline of opportunities. In line with our capital allocation policy, this enabled us to launch a £100m share buyback programme in the middle of the year, which is now complete.

With the Group's net cash position further improved, in addition to a full-year dividend of 22.5p (final: 16.1p), we have launched another £100m share buyback programme to be completed over the next 12 months.

During 2021, the Group launched its new growth strategy, Accelerate, which continues to put distribution at the core of our business, and extends our ambition to capture more of a vehicle's lifetime value. We are embarking on this exciting growth journey, while maintaining our disciplined approach to capital allocation, and as such remain focused on delivering long-term benefits to all of our stakeholders.

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KEY PERFORMANCE INDICATORS

Our results are stated at actual rates of exchange. However, to enhance comparability we also present year-on-year changes in sales and operating profit 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.

	2021	2020[3]	% change reported	**% change constant FX[1]**	**% change organic[2]**
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. These measures are alternative performance measures, see page 186.
2. Organic growth is defined as sales growth in operations that have been open for at least a year at constant foreign exchange rates.
3. Restated, see note on page 185.

PERFORMANCE REVIEW

Our performance in the year was strong, with our 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 was dampened by the disposal of several retail businesses (including sites in St. Petersburg, Russia), which further reduced our standalone retail revenue exposure by c.£0.3bn. In terms of M&A, over the past 12 months we 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 (Barbados and 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 out-turn 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. 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, although 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.

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 rose 160bps to 5.3%.

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 distributes 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.

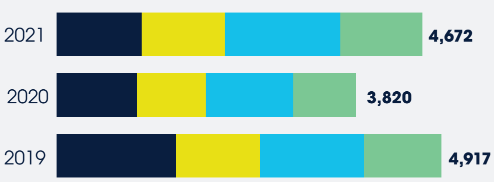
Europe revenue was up 36% year-on-year, with operating profit[1] rising 72%. While the pandemic continued to cause uncertainty across markets, demand remained robust. The encouraging demand backdrop supported performance, with revenue and profits recovering towards 2019 levels, in spite of vehicle supply 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 rebounded. 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.

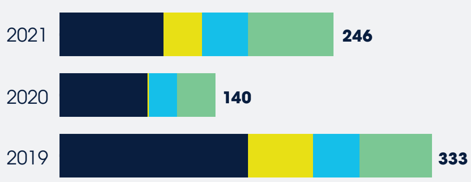
REGIONAL BREAKDOWN

● Asia ● Australasia ● Europe ● Americas & Africa

Revenue



Operating profit[1]



Operating margin

	Operating margin
2021	5.3%
2020	3.7%
2019	6.8%

1. Operating profit and operating margin stated pre-exceptionals.

RETAIL

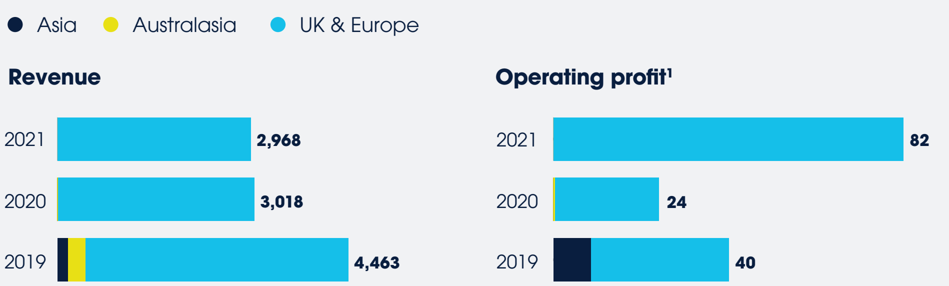
The Retail segment saw revenue rise 1% year-on-year, or 19% on an organic basis when adjusting for the Retail disposals over the period.

Supported by strong gross margins and our cost mitigation measures, we delivered operating profit[1] of £82m (2020: £24m). The operating margin was particularly strong at 2.8%.

UK & 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 out-turn 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 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.

REGIONAL BREAKDOWN



Operating margin

2021: 2.8%

2020: 0.8%

2019: 0.9%

1. Operating profit and operating margin stated pre-exceptionals.

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 was £13m of restructuring costs and £20m of accelerated amortisation on software assets. Further details can be found in note three on page 194.

Net finance 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 tax 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.

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
Group				
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.

RECONCILIATION OF FREE CASH FLOW[1]

	2021 £m	**2021 £m**	2020[2] £m	2020[2] £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

Included within free cash flow are movements where prior approval is required to transfer funds aborad, as described in note 19 on page 165.
1. APM (alternative performance measure), see page 186
2. Restated, see note on page 185

RETURN ON CAPITAL EMPLOYED[1]

	2021 £m	2020[2] £m
Operating profit (before exceptional items)	**328.1**	164.1
Net assets	**1,130.5**	1,061.2
Less (net cash) / 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 page 186.
2. Restated, see note on page 185.

REGIONAL BUSINESS MODELS

DISTRIBUTION

AMERICAS & AFRICA

Country	Brands
Argentina	Subaru, Suzuki
Barbados[1]	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

1. Distribution agreements for these brands across a range of Caribbean islands, centred on Barbados

APAC

Country	Brands
Brunei	Lexus, Toyota
Guam[2]	BMW, Chevrolet, Freightliner, Hyundai, Kohler, Lexus, Mercedes-Benz, 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

2. Distribution agreements for these brands across a range of Pacific islands, centred on Guam

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, 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[3]	Isuzu Ute, Jeep, Kia, Mitsubishi, Volkswagen
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

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