



Chairman's Address
Annual General Meeting
Wednesday 24 May 2017

Shareholders, I am once again proud to report 2016 produced a net profit before tax of \$141.4 million and a full year dividend of 35 cents per share, both record results.

The positives during 2016 were record trading performances in South Australia and New South Wales Hunter Region, significant improvement in our National truck operations, and solid contributions from our Victoria/Tasmania businesses acquired during the year.

These positives were partially offset by a decline in Queensland which was unfortunate but not completely unexpected as we cycled the previous highs in 2015 associated with the repair and replacement of vehicles from Queensland's large hail storm. Although we have diversified our portfolio over the last decade Queensland still represents around 45% of our trading profit.

The calendar year 2016 was unusual. It was characterised by continued comment around industry disruption, electric cars, battery operated cars, ride sharing, driverless cars – and you can be assured this will continue. Secondly, the appropriate authorities governing our industry during 2016, commenced a number of industry reviews and these included:

- ASIC's review into flex commissions payable by financiers to car retailers
- ASIC's review of add-on insurance products available to consumers
- ACCC's review of insurance companies' response to ASIC
- Increased scrutiny and enforcement of current rules around "responsible lending" by financiers
- ACCC's new car retailing industry market study

For 100 years AP Eagers has prided itself on being able to professionally work within the rules set for our industry. However, this level of review and interference during 2016 was unprecedented and created great uncertainty for us, our suppliers, our staff, our customers and our shareholders. It appears unreasonable when all these reviews happen at once particularly as these same regulators have overseen the industry for decades.

There is little doubt that some of these factors have contributed to a small reduction in national new car sales, exacerbated in Queensland by local economic conditions, and all of them have created a shift in sentiment towards our industry which we believe has been reflected in our share price.

The good news is that there is now greater clarity on most of the outcomes of these regulatory reviews and AP Eagers' management were directly involved along with the AADA (Australian

Automotive Dealers Association) in most if not all of the final detailed outcomes. We are still actively engaged with the regulatory bodies on all outstanding reviews.

Shareholders should take comfort that we are well prepared and better placed than most in our industry for these challenges, even though some impact has flowed through to the first half of 2017.

Our acquisition and diversification growth strategy continued during 2016 and is now complemented with a transition strategy to a lower cost base. Martin will expand on this during his address.

During 2016 our car retailing acquisitions expanded into new geographic territories, including Melbourne, Tasmania, Toowoomba, Hervey Bay and Townsville. Many existing brands represented by AP Eagers were included in this geographical expansion along with a new franchise relationship with Mercedes-Benz passenger cars at Doncaster and Ringwood in Victoria and at Toowoomba in Queensland.

While integrating these growth acquisitions, we are focused on improving efficiencies and transitioning to a lower cost base across the group through numerous initiatives, including:

- Construction and opening our new Jaguar and Land Rover showrooms in Newstead
- Extending our parts warehouse facility at Pinkenba to accommodate the relocation of our Metro Ford parts warehouse from Eagle Farm in the third quarter of 2017
- The relocation of our corporate office from Fortitude Valley to Newstead to improve cost efficiencies and asset utilisation

We have also invested in the future of automotive retailing including;

- The launch of our first Carzoos retail stores at Westfield Garden City in southern Brisbane, and Westfield North Lakes in northern Brisbane, introducing an entirely new way for customers to buy and sell used cars, and
- The introduction of our new finance initiative, Simplr, which provides Carzoos' customers with a completely new consumer-centric finance option to take advantage of our extensive portfolio of finance providers

We have also increased our strategic investment in Automotive Holdings Group Limited to 22.8%. This investment is in an industry we know and understand.

Our disciplined approach to all our initiatives and the integration of recent acquisitions will lay the foundation for future growth, with the benefits of these initiatives yet to be fully realised.

We remain confident in the future of our industry and confident we are well placed within the industry, as is Automotive Holdings Group.

I would like to take this opportunity to thank my fellow directors for their dedication and ability to act quickly and positively for all shareholders.

I also thank Martin, our strong senior management team and all employees for their continuing efforts in evolving market conditions while continuing to satisfy our many distributors, suppliers and other stakeholders.

I now pass to Martin to present his report on 2016 and comment on the year ahead.

Thank you.

Tim Crommelin
Chairman