Inchcape

Industry leader

Annual Report and Accounts 2007

A formula for success

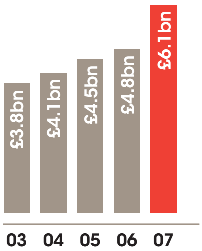

PORSCHE
LAND ROVER
LEXUS
BMW
smart

Inchcape

Creating the Ultimate Customer Experience for our Brand Partners

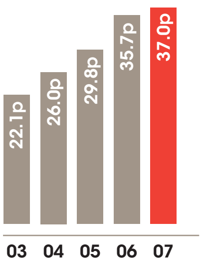
Financial highlights

Revenue



£6.1bn
+25.1%

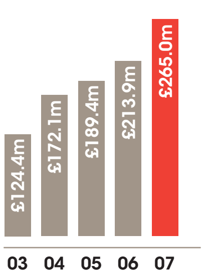
Headline earnings per share
before exceptional items



37.0p
+3.6%

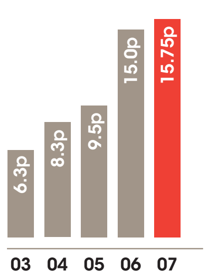
Inchcape's robust business model has delivered another year of record results

Operating profit
before exceptional items



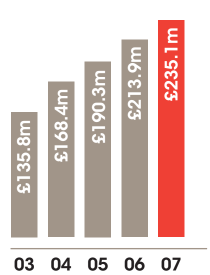
£265.0m
+23.9%

Dividend paid and proposed
per ordinary share



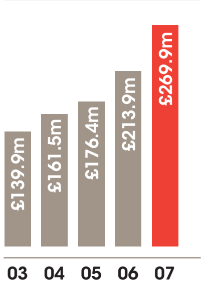
15.75p
+5.0%

Headline profit before tax
before exceptional items



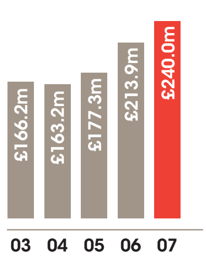
£235.1m
+9.9%

Operating profit



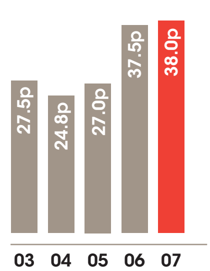
£269.9m
+26.2%

Profit before tax



£240.0m
+12.2%

Earnings per share



38.0p
+1.3%

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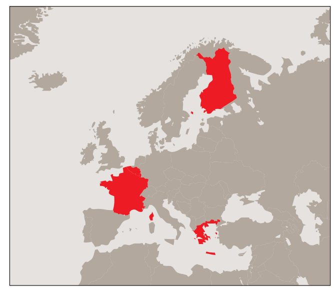
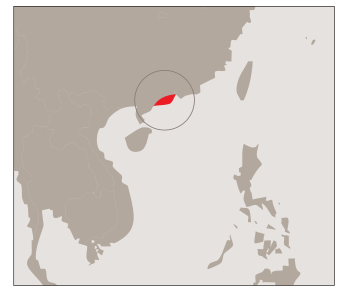
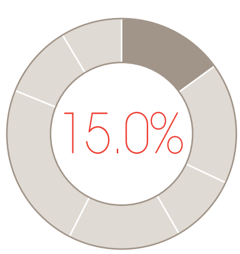
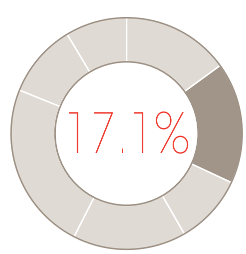
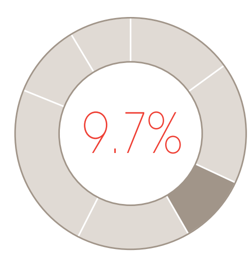
Further information

Within this report you'll see these symbols used. They point you towards further information either within the report or online. We hope you find them useful.

Find pages within this report

Find further information online

A strong geographic portfolio

	Australia	Europe	Hong Kong
Region			
Operations	One of the top ten car retailers in Australia, Inchcape operates a multi-brand Retail strategy as well as exclusive Distribution and Retail of Subaru.	Inchcape operates Distribution and Retail across five European markets. The two largest are Belgium and Greece. Smaller markets are Finland, France and Luxembourg.	Inchcape operates a multi-brand Vertically Integrated Retail (VIR) model in Hong Kong and Macau. It is the first region in the world to represent all four Toyota brands. Inchcape also supplies 100% of Hong Kong taxis.
Financial highlights	**Trading profit** £43.8m +13.8%	**Trading profit** £50.1m +27.5%	**Trading profit** £28.3m +17.9%
	Sales £657.5m +6.6%	**Sales** £1,203.9m +1.1%	**Sales** £241.5m +7.4%
Contribution to Group trading profit			
Core brand partners			
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Singapore

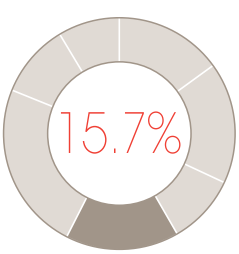
Inchcape operates a multi-brand VIR model in Singapore. Singapore has one of the youngest car parcs in the world.

Trading profit

£46.0m
-21.5%

Sales

£480.3m
-27.2%



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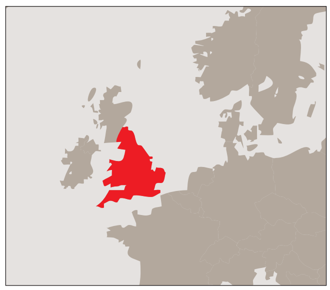
United Kingdom



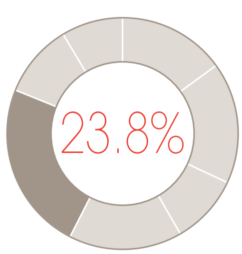
Inchcape Retail UK, the second largest car retailer in the UK based on revenue, focuses on the premium segment in core regions. Inchcape Fleet Solutions is the largest independent leasing company in the country.

Trading profit

£69.6m
+51.6%

Sales

£2,713.5m
+58.5%



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Emerging Markets

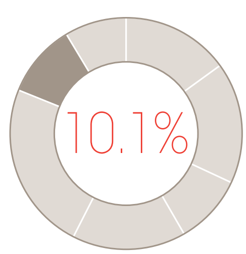
Inchcape operates multi-brand Retail, Distribution or VIR in China, Russia, the Baltics, Balkans and Poland. These markets represent exciting growth potential for the Group.

Trading profit

£29.6m
+179.2%

Sales

£518.6m
+143.7%



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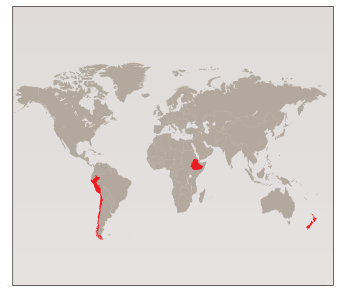
Rest of World



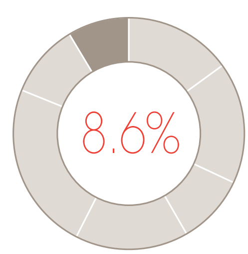
Representing 8.6% of Group profits, Inchcape has operations in Brunei, Chile, Ethiopia, Guam, New Zealand, Peru and Saipan.

Trading profit

£25.1m
+14.6%

Sales

£241.5m
+7.1%



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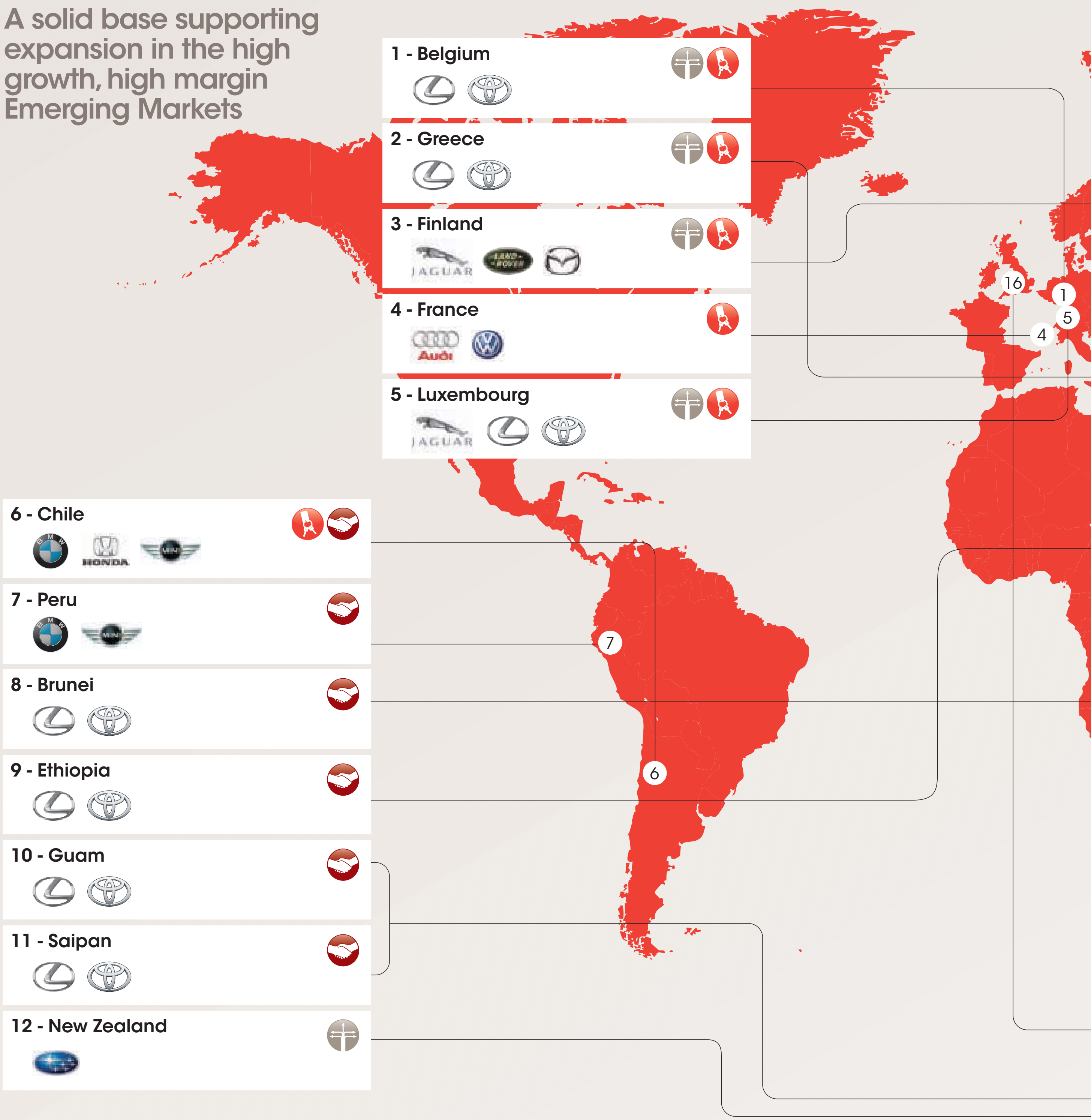
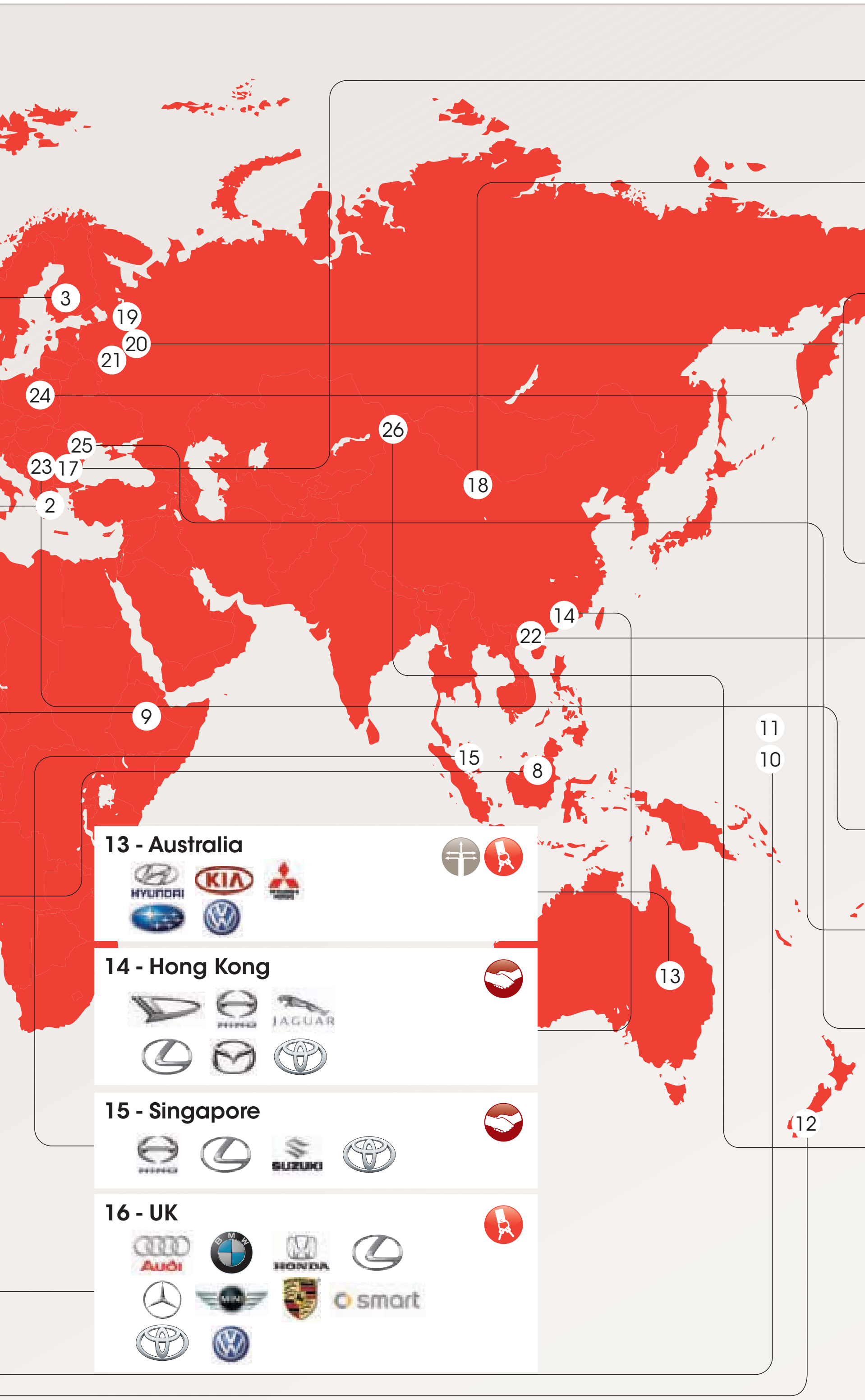
Across the globe

Inchcape operates in twenty six countries around the world

A solid base supporting expansion in the high growth, high margin Emerging Markets





17 - Bulgaria

18 - China

19 - Estonia

20 - Latvia

21 - Lithuania

22 - Macau

23 - Macedonia

24 - Poland

25 - Romania

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14 - Hong Kong

15 - Singapore

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Key

Distribution

Retail

Vertically integrated retail

Chairman's statement

Inchcape has delivered record results in 2007, reflecting the progress we are making against our growth strategy

Inchcape has delivered record results for the sixth consecutive year, reflecting the progress we are making against our growth strategy and the benefits of an excellent portfolio diversification.

Performance

Group sales have increased by 25% to £6.1bn for the full year to 31 December 2007, benefiting from both strategic and focused acquisitions, and from encouraging organic growth in sales in most of our markets. On a like for like basis, sales grew by 2.5% (3.4% on a constant currency basis).

Headline profit before tax and exceptional items of £235.1m was 9.9% higher than 2006 and headline earnings per share rose 3.6% to 37.0p. On a statutory basis, which includes exceptional items, profit before tax of £240.0m was 12.2% above 2006 and earnings per share rose 1.3% to 38.0p.

When reviewing the performance of our business units, trading profit is a key measure and is defined as operating profit excluding the impact of exceptional items and central costs.

In our Distribution businesses we have delivered record results in Europe, strengthening our market leadership in Greece and delivering good growth in Belgium and Finland. In Australia, the launch of the new Subaru Impreza model helped grow operating margins and delivered a 24.1% growth in trading profits. The markets in Asia were very competitive but we performed well in Hong Kong with trading profits up 17.9% in a market which grew by 16.5%. In Singapore, the market declined by 9.6% while parallel imports increased their share. In that context our Singapore trading profits fell 21.5% but we maintained

Headline profit before tax

	Year ended 31.12.2007 £m	Year ended 31.12.2006 £m
Profit before tax	**240.0**	213.9
Exceptional items	**(4.9)**	–
Headline profit before tax	**235.1**	213.9

our market leadership position and strong margin of 9.6%.

Sales from our Retail businesses grew by 53%, benefiting from both acquisitions and organic growth. In the UK, we outperformed a very challenging market and delivered like for like sales growth of 5.2%. Across Europe, our focus on the Customer showed solid results with growth in like for like sales of 4.8%. In the Emerging Markets, growth was outstanding, with like for like sales up 57% and overall sales up 247%.

Acquisition and disposal summary

We acquired European Motor Holdings plc (EMH) in the UK at the beginning of February 2007. At the same time we announced the restructuring of our UK business to focus on a limited number of premium brands. As a consequence we have disposed of a number of non-core businesses, including Bentley, Ferrari and Maserati, together with the EMH auction businesses, Wilcomatic and the Inchcape Automotive vehicle refurbishment business, for a total consideration of £38m, realising a loss of £7.1m. We also announced the sale of the non-core Vauxhall businesses.

In January 2007, we sold our shares in the non-core Hong Kong joint venture finance company, Inchroy, for £46m, realising a profit of £12m.

We have invested, and will continue to invest, the proceeds from these disposals, as well as our ongoing cash generation, in the Emerging Markets where growth rates are good and market opportunities continue to develop.

We have made good progress in executing our Emerging Markets expansion strategy. In January 2007 we opened our first retail centre in China, retailing Toyota in Shaoxing, near Shanghai. This has performed ahead of our expectations. In January 2008 we also opened a Lexus centre in Shaoxing and plan to open a second Lexus retail centre in Shanghai in the third quarter of 2008.

In July we completed a major acquisition in Latvia. As a result Inchcape has a market leading position with Distribution and Retail of Ford, Land Rover, Jaguar and Mazda, as well as Retail of BMW, giving Inchcape over 10% market share. We also acquired 67% of UAB Vitvela in Lithuania in July, giving us scale representation of Ford and Mazda in that country and a leading share of Mitsubishi and Hyundai Retail. This gives Inchcape close to 20% share of a market which grew by 68% in 2007.

In December we strengthened our position in the high growth Russia market with the acquisition of Audi and Peugeot retail centres in St Petersburg, bringing our total number of retail centres operating in the second largest market in Russia to five.

Dividend

The Board is recommending the payment of a final ordinary dividend for the year of 10.5p (2006 - 10.0p). This gives a total dividend for 2007 of 15.75p, which is 5% above the 2006 dividend of 15.0p.

The increase reflects our continuing confidence in the business and is consistent with our stated aim of maintaining a progressive dividend policy to our shareholders. The full year dividend is covered 2.3 times by headline earnings per share (2006 – 2.4 times).

Share buy back

The Group successfully purchased £18.5m of its shares in 2007, through the purchase of 4.5m shares, now held as Treasury shares, at an average price of £4.07 per share.

Approach to governance and management

Good governance and management remains high on our agenda. We focus on compliance with the Combined Code and other relevant guidance for listed companies in all of our global operations. In 2007 we increased our focus on our Corporate Social Responsibility (CSR) programme, engaging an external consultancy to help us redefine, benchmark and progress implementation, ensuring that it provides benefits to both our employees and to our shareholders.

People

We are making very good progress towards the goal of becoming the world's most Customer-centric automotive retailer, a goal which continues to motivate and energise everyone in the Group. I would like, on behalf of the Board, to express our thanks to our colleagues across the Group for their commitment and pride in the delivery of outstanding results for 2007.

Outlook

The fundamentals of our Group are strong and our strategic direction is clear. Our focus on superior Customer service and our track record of operational excellence makes us well placed to deliver continued organic growth this year. Further, the launch of a number of new models in 2008 and the associated investment will enable us to build momentum as the year progresses. Additionally, we expect to benefit from our increased investment in the high growth Emerging Markets. We therefore look forward to 2008 with confidence.

Peter Johnson
Chairman
26 February 2008

Group Chief Executive's review

Inchcape's unique business model has proven a robust formula for success

In 2006 we laid out a clear strategic plan to build on the past successes of the Group. Our twin-track growth strategy is about strengthening our existing business and expanding in Emerging Markets. We have made significant progress in executing our strategy and have delivered record results in 2007 for the sixth consecutive year.

We are successfully rebalancing our portfolio, growing significantly outside of Asia, thanks to strong performances in the UK, Europe, Australia and Emerging Markets. We operated in favourable market conditions, all major markets achieving growth in 2007, excluding Singapore. The average market growth in 2007 for all countries in which we operate was 4.2% and the expected weighted average GDP growth for all of our markets is 2.9% in 2008.

The implementation of our transformational strategy in the UK is well under way. The successful integration of acquisitions and focus on the premium sector has helped us to yet again outperform the market.

In Europe, our Distribution businesses have performed ahead of our expectations and the turnaround in Retail is delivering excellent results. In Australia we have seen a significant improvement in our performance.

We are also building scale in the high growth, higher margin Emerging Markets. By doubling sales and tripling profits we have established powerful platforms for further growth.

We believe we have a successful formula for profitable growth; one that has produced another year of record results in 2007 and gives us confidence for the coming years. It is a focused growth strategy applied to a robust business model.

Our business model is quite unlike any of our competitors: we operate both Distribution and Retail businesses, with multiple revenue streams (including sales of new and used vehicles, parts, service, finance and insurance), for multiple, successful brands in twenty six countries around the world.

We have developed a highly effective management structure – co-ordinated globally but locally delivered – to enable consistent quality and control and a fast flexible response to specific market conditions.

We share a Vision across every level of the organisation: to be the world's most Customer-centric automotive retail group deploying world class retail standards.

And we are delivering our Vision through a strategy of strengthening our core business in parallel with significant expansion within existing and Emerging Markets.

It is a strategy that works – in 2007 our core business achieved growth of 2.5% in like for like sales and 4.8% in like for like trading profits. Total sales have grown by 25% and total trading profits by 22%.

To reinforce the emphasis we put on achieving our Vision and on creating shareholder value, management at every level is incentivised on economic profit and Customer service levels. Economic profit is defined as trading profit less tax less a notional charge for capital.

During 2007 we have also worked hard starting to put in place the policies and practices that will help us meet our CSR obligations.

Our people create and deliver the Ultimate Customer Experience for our Brand Partners, supported by a clear People strategy that focuses on engaged employees in winning teams. To assist our people in the delivery of our Customer focused Vision we are making significant investment in technology with a Group-wide implementation of SAP and in several training initiatives.

With our people's support within our resilient business model, we aim to continue to attract Customers by offering the most appealing brands in each market and delivering them via leading service levels.

I am certain that the Inchcape formula for profitable growth will drive our performance further in 2008 and beyond as the world's leading car retailer.

Like for like sales

£4,618.4m
+2.5%

Like for like trading profit

£248.1m
+4.8%

Applying our focused growth strategy to our robust business model gives us a successful formula for profitable growth

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a clear strategy for growth
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a formula for success
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3 **Future prospects:**
strong base supporting further growth in 2008 and beyond
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1 **Strategy:** a clear strategy for growth

Vision

To be the world's most Customer-centric automotive Retail group

Strategic priorities

- Strengthen existing core businesses
  - > By focusing on execution of our strategy in every site in every market
- Expand in developed and emerging markets
  - > By identifying the right growth opportunities for the Group and applying a disciplined approach to capital allocation

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A clear strategy for growth

Our Vision

Fulfilling our Vision, to be the world's most Customer-centric automotive retail group, demands a commitment across the business to achieving outstanding service levels at every point of our relationship with our Customers for all of our brand partners.

An important element of our Customer journey is therefore a long term programme of behavioural change, which will help us differentiate Inchcape from our competitors through measurably better service quality.

Our Core Purpose – Creating the Ultimate Customer Experience for our Brand Partners – and our Values: Respect for Each Other, Winning Together, Treating Every £ as Our Own, Integrity Without Compromise, Pioneering New Ideas, Passionate about Customers and Caring for our Environment, were newly launched this year. These beliefs are at the very heart of our business and guide our behaviour and our strategy.

They are inextricably linked with our two strategic priorities – to strengthen our existing business and expand in existing and Emerging Markets.

Strengthening our business

The ability to manage our information better and focus more closely on achieving value is central to creating a stronger business.

From January 2007 we introduced a global management accounts system reporting monthly statistics on all value drivers (vehicle sales, parts, service and finance and insurance (F&I)). In every operation, in every market, we aim to drive margin performance by focusing on these key factors that drive the greatest value for our business. We believe 'you are what you measure': taking this approach will enable us to improve in our strongest markets as well as those operations where performance is not yet Gold Standard.

We have also made progress with the roll-out of our Inchcape Advantage programme, unique in our industry thanks to the use of cutting edge retail metrics that enable us to measure and enhance our service levels to ultimately increase sales.

It uses global research to ensure that we are doing both the simple things in the way that Customers appreciate, and applying the emotional intelligence that ensures we treat every Customer as a valued individual.

We measure hard Customer data such as traffic, sales leads, and the number of test drives, conversion and retention rates to ensure we have the best available sales information at all times.

Moreover, we believe that we can increase the productivity of our organisation by maximising the focus on value added activities. That is why we have announced a global partnership with SAP and have started the implementation of a global IT

Achievements in 2007

- Focus on operational excellence and diversified value drivers
- Acceleration of like for like sales and profit growth

- Successful entry into China and Russia
- Transformational acquisitions in the Baltics
- Emerging Markets exposure doubled

Focus for 2008

Strengthen

- Drive like for like growth with new models and Customer service initiatives
- Accelerate growth of highly profitable aftersales
- Drive margin improvement in growth markets and protect margin in challenging markets

Expand

- Integration of recent acquisitions
- Further expansion in Emerging Markets
- Strong pipeline for future growth

infrastructure upgrade. This is a five year plan and means Inchcape will operate under a unified worldwide IT delivery model, reducing complexity and enabling greater local market flexibility through automated and streamlined sales processes, freeing up our people's time to enable delivery of our Customer focused Vision.

Equally important is our engagement programme, designed to ensure we have committed people working together in winning teams to deliver the Ultimate Customer Experience. It is based on a simple premise – that by initially selecting and attracting the right people, then providing the right learning and rewards, aspiring to a common Core Purpose and set of Values, we will create the right culture.

Expanding our scope and scale

It has been the results of our expansion that have contributed most to making 2007 a record year for Inchcape. In the UK recent acquisitions are integrating well and, despite experiencing some pressure on used car margins, we continue to outperform the market.

We are strengthening our focus on the growing premium sector, reducing our number of franchise relationships and disposing of non-core sites and businesses.

Growth in Emerging Markets has been significant and represents exciting further expansion for the Group.

Our operations are performing well in these markets, due both to strong local management and our regional brand strategy that focuses on the most appropriate marques in each market.

We have a long track record of successfully operating in multiple markets and are confident that we can apply the Inchcape model to achieve sustainable margins as these car markets mature.

In 2007 we have committed £423m of expansion investment and we have significant resources remaining. This, together with a strong pipeline of opportunities, will enable us to deliver our expansion strategy.

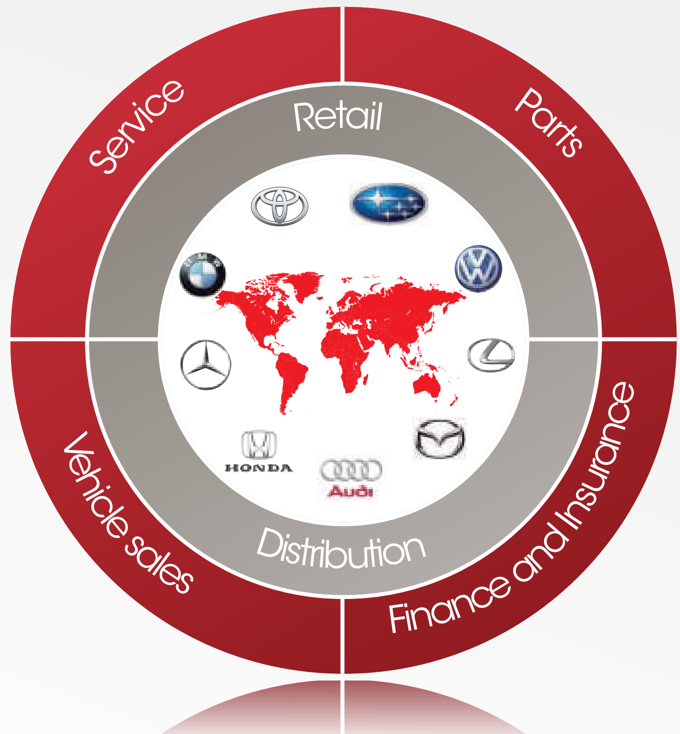
Looking ahead to 2008 and through to 2010, Emerging Markets remain a major expansion opportunity.

Expansion will be underpinned by a disciplined allocation of capital to ensure we identify those markets that will deliver the greatest return. We ensure the right strategic features of sector, location, scale opportunity and brand partner. We then look in detail at elements including Internal Rate of Return (IRR) and economic profit generated to guide our decisions.

Such activities have underpinned our excellent performance in 2007 and will continue to support our profitable growth in the future.

2 **Business model:** a formula for success

Our unique business model is based on strong portfolio diversification, giving us the flexibility to react quickly to changing market conditions



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A robust business model based on excellent portfolio diversification
Inchcape operates a four dimensional business model giving the Group excellent portfolio diversification. This diversity gives us the flexibility to react quickly to changing market conditions and maintain our focus on the most productive sources of value relevant to each market. It has enabled us to post another set of record results in 2007 and gives us confidence that this high performance formula for success will continue through 2008 and beyond.

Geographic diversity
Inchcape has a diverse geographic portfolio made up of seventeen mature and nine emerging markets. We enjoy strong scale positions in all of our mature markets: a strong base from which to expand into the high growth Emerging Markets. This portfolio approach has proven resilient during 2007, overcoming anticipated weakness in Singapore to achieve record results at Group level.

Multiple brand relationships
We have strong, long established global relationships with over twenty brand partners. Our brand strategy is market specific, enabling us to fit the right brand with the right market, Creating the Ultimate Customer Experience for our Brand Partners whilst aiming to maximise market share.

Multi-channels – Distribution
Distribution is the historic core of Inchcape. It currently represents 41% of Group sales and 70% of Group trading profits. As a distributor we manage every aspect of our partners' brands in a particular market from importing vehicles and parts and appointing the dealer network to setting sales and pricing strategies, national marketing and dealership delivery.

We employ limited capital within the Distribution segment and generate high returns, 8.2% in total for the Group. Although we have been successful in acquiring Distribution contracts this year in the Baltics, there are limited opportunities to grow this segment through further acquisitions. We will therefore be predominantly using the strong cash flows generated by the Distribution businesses to invest in the Retail segment in the high margin, high growth Emerging Markets.

In large markets where we distribute, we aim to own and manage up to 30% of the Retail network. However, in smaller markets, we are able to vertically integrate the two channels and have both exclusive Distribution and exclusive Retail. We call this Vertically Integrated Retail (VIR).

Where we operate VIR, we are able to deliver important operational efficiencies generating a good margin for our shareholders. Following acquisitions this year we now operate VIR in the Baltics, Hong Kong and Singapore, as well as other smaller Asian markets. This is included as Distribution within the accounts.

Broad geographic spread

- Weighted average market growth in 2007 was 4%
- Scale and high margin operations
- Big upside in Emerging Markets

Multiple brand relationships

- Strongest premium brands
- Long term and scale relationships
- Right brands, right markets

Multi-channels

Distribution

Stable, strong cash generation funding expansion

Retail

Continuing growth in mature markets, high growth opportunities in Emerging Markets

Growth and defensive value drivers

- Diversified revenue streams
- Growth drivers: Vehicles, F&I
- Defensive drivers: Parts, Service

Multi-channels – Retail

Retail is a growing segment within the Group. It currently represents 59% of Group sales and 30% of trading profits and is the main area of expansion for the Group. Where we retail, we aim to build scale, both within a region and with our brand partners. We build scale regionally in our markets by channelling investment into specific geographic areas to provide economic and operational advantage. We build scale with our core brand partners to provide marketing efficiencies and we operate a dedicated brand management structure to ensure a better understanding of our partners' brand values.

Our approach to retailing is totally Customer-centric. By building on our brand partners' Customer programmes, we aim to Create the Ultimate Customer Experience and deliver a real competitive advantage.

Growth and defensive revenue streams

We benefit from multiple revenue streams enabling us to perform well in both growing and more challenging markets. In a growth market, vehicles and F&I drive performance. However, when vehicle sales and therefore F&I are slower, our more defensive value drivers are the sale of parts and service, which are also higher margin segments.

In Distribution, our value drivers are the sales of vehicles and parts. We have four main priorities in maximising our returns from them, comprising improved quality of revenues, operational excellence with positive sales to trading profit flow through, excellent working capital management and a continuous focus on the quality of our network, including our Customer service standards.

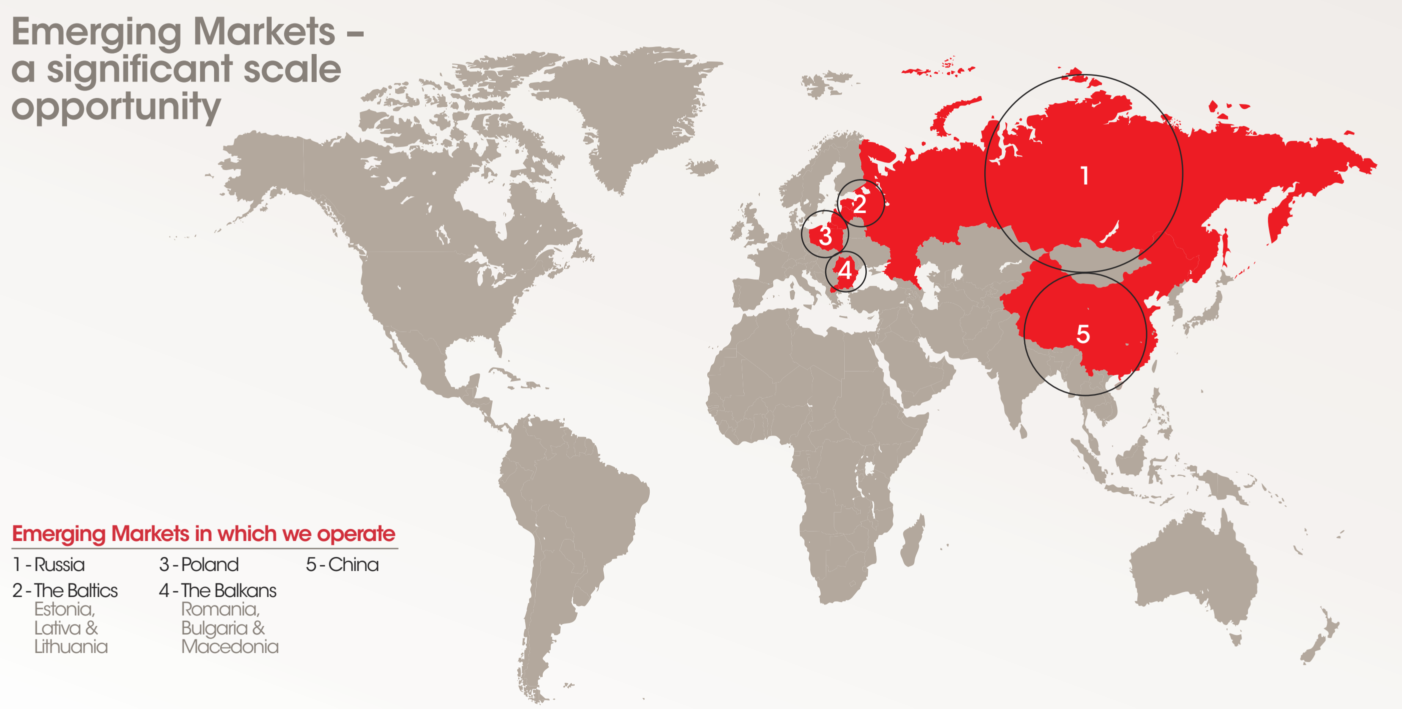
Our Retail value drivers are vehicles, parts, service and F&I. For each one, we have a specific set of continuous improvement targets which are driving performance in the three key areas of revenue quality, sales flow and working capital.

Performance measurement

This business model has proven a robust formula for success in 2007 and gives us confidence in continued strong performance in 2008 and beyond.

Details of our key performance indicators are shown within the Operating review, along with sales and trading profit results for each region.

3 **Future prospects:** strong base supporting further growth in 2008 and beyond



2008 and beyond

From six to ten core markets

In 2005 we said we would increase our six core markets to ten over the next five years. In 2007 we named Russia and China as two additional core markets for the Group. We are committed to integrating these markets into the Group and are taking a measured approach to new market entry. At the same time we continue to evaluate additional markets with a view to selecting two further core markets. A new market is selected for both its scale and its potential. The strong relationships we have developed with our brand partners globally, and our significant financial capacity, are key enablers of this strategy. We have a proven track record of successfully entering new markets and are, as a result, very excited by this growth opportunity.

Significant future growth

The unique business model we follow allows for significant future growth. Inchcape's growth strategy takes advantage of the strong cash flow generated from our robust base of existing businesses to expand in exciting new markets whilst also continually strengthening the base.

Strengthening the base

In mature markets the continuous focus on process improvements and operational excellence has helped the Group to post record results in 2007. In 2008 we will aim to drive like for like growth ahead of the market in order to gain market share, taking advantage of new model launches in our markets and employing effective marketing strategies to drive traffic. We will continue to improve the Customer experience through our Inchcape Advantage programme and will extend our focus to accelerate growth in the highly profitable aftersales segment. We will also aim for margin improvements in growth markets whilst protecting margins in more challenging markets through tight mix and cost management.

The Group-wide SAP implementation will also provide key operational support. It will strengthen our existing businesses around the world through greater productivity, freeing up our people to spend more time with Customers. It will also be a platform for the fast and efficient integration of new businesses as we execute our expansion strategy in developed and Emerging Markets around the world.

Expansion strategy

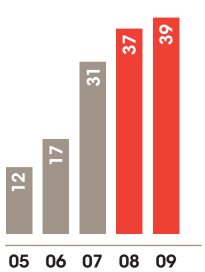
The expansion of our business into Emerging Markets is the major growth opportunity for the Group. By our definition, these markets are those countries in which we operate that have started to grow but have yet to reach a mature stage of development and accordingly are in the growth phase of the development cycle. These currently comprise Russia, China, the Balkans, the Baltics and Poland.

In 2007 our growth strategy saw us gain market leadership through

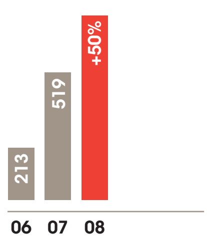
Emerging Markets

In 2008 we will continue our expansion into the Emerging Markets. As each market matures, the development of higher margin value drivers, such as used car sales, service, parts, finance and insurance, enables a sustainability of margins.

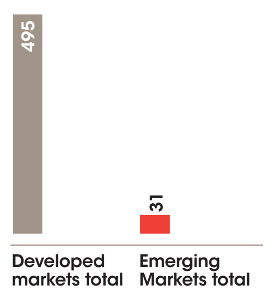
Number of retail centres



Emerging Markets revenue



Car market penetration 2007
(car parc/'000 population)



Market growth forecast

20%
in 2008

Emerging Markets continue to grow at a rapid rate. Inchcape Emerging Markets are forecast to grow 20% in 2008 at a CAGR of 15% to 2011

acquisition in the Baltics, continue the process of building scale in Russia and enter the vast Chinese market for the first time. We are expanding our presence with our multi-brand Retail or Vertically Integrated Retail (VIR) strategy as appropriate in each market.

In 2008 we will continue our expansion in these markets, focusing on building scale operations with several brands in Russia and China and maximising economies of scale with our multi-country operations in the Baltics and Balkans.

We are confident that our Emerging Markets model gives us a sound strategic base for expansion. This is based on four core factors – rapid market growth, the ability to sustain a strong retail margin, a capital-efficient footprint enabling us to reach the greatest number of Customers through the most effective investment selection, and attractive unit economics that drive higher revenues per square metre.

Car penetration in these markets was sixteen times lower than developed markets in 2006, with car sales expected to grow at a compound annual growth rate (CAGR) of 15% to 2011. We have identified the markets we believe have the strongest growth potential over the coming years.

Under our market entry strategy we have a different approach between the largest countries, such as China and Russia, and smaller nations like Latvia and Lithuania.

For larger markets, we aim to retail 30,000 to 50,000 units within five years of entry, building scale in targeted regions through acquisition or greenfield development. In smaller nations, we target a market leading position through Distribution and Retail.

In Emerging Markets, as each market matures, the development of higher margin value drivers, such as used car sales, service, parts and F&I, enables a sustainability of margins.

With this focused twin-track growth strategy, allied to our robust business model, we are confident that we have a winning formula for success. We are therefore committed to growing Inchcape's scale and profitability throughout 2008 and beyond.

André Lacroix
Group Chief Executive
26 February 2008

Operating review

A year of record performance and delivery against our goals

Key Performance Indicators (KPIs)

The Inchcape plc Board of Directors and the Executive Management monitor the Group's progress against its strategic objectives and the financial performance of the Group's operations on a regular basis. Performance is assessed against the strategy, budgets and forecasts.

To enhance comparability, we review the results in a form that isolates the impact of currency movements from period to period by applying a constant currency. Unless otherwise stated, all sales and trading profit figures quoted in the Operating review are provided in constant currency.

We also measure the quality of revenues through the mix of revenue streams, and the flow through of value from sales revenue to trading profit.

Financial KPIs

Vehicle market size
Defined as total new vehicle registrations by international brands.

Vehicle market share
Derived from Inchcape's registrations as a percentage of the overall market size.

Sales
The consideration receivable from the sale of goods and services. It is stated net of rebates and any discounts and excludes sales related taxes.

Trading profit
Defined as operating profit excluding the impact of exceptional items and central costs.

Trading margins (return on sales)
Calculated by dividing trading profit by sales.

Like for like sales and like for like trading profit growth
Excludes the impact of acquisitions from the date of acquisition until the thirteenth month of ownership and businesses that are sold or closed. It further removes the impact of retail centres that are relocated. This is from the date of opening until the thirteenth month of trading in the new location.

Profit before tax
The profit made after operating and interest expense but before tax is paid.

Working capital
Defined as inventory, debtors, creditors, and supplier related credit.

Economic profit
Defined as trading profit less tax less a notional charge for capital.

Non-financial KPIs
We are establishing several non-financial KPIs, particularly relating to Customer service. For example, net promoter score is a measure being used to measure Customer satisfaction across the Group, in line with the Company's Vision to be the most Customer-centric automotive retailer.

Group overview

Key performance indicators*

	Year ended 31.12.2007 £m	Year ended 31.12.2006 £m
Sales	**6,056.8**	4,842.1
Like for like sales growth (%)	**2.5**	2.1
Trading profit	**292.5**	238.8
Like for like trading profit growth(%)	**4.8**	10.3
Trading margins (%)	**4.8**	4.9

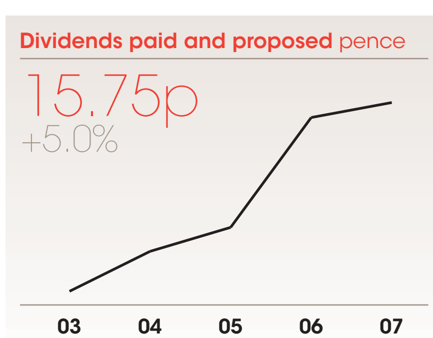
Regional analysis*

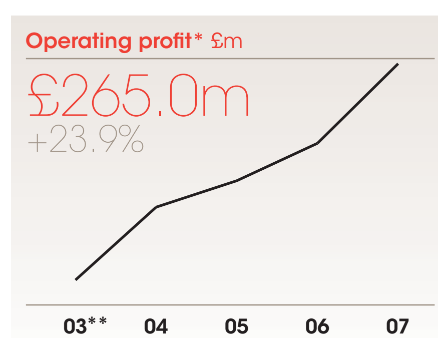
	2007 Operating profit £m	**2007 Exceptional items £m**	**2007 Trading profit £m**	2006 Operating profit £m	2006 Exceptional items £m	2006 Trading profit £m
Australia	**43.8**	–	**43.8**	38.5	–	38.5
Europe	**50.1**	–	**50.1**	39.3	–	39.3
Hong Kong	**40.3**	**(12.0)**	**28.3**	24.0	–	24.0
Singapore	**46.0**	–	**46.0**	58.6	–	58.6
United Kingdom	**62.5**	**7.1**	**69.6**	45.9	–	45.9
Emerging Markets	**29.6**	–	**29.6**	10.6	–	10.6
Rest of World	**25.1**	–	**25.1**	21.9	–	21.9
Central Costs	**(27.5)**	–	–	(24.9)	–	–
Operating profit	**269.9**	–	–	213.9	–	–

* At actual exchange rates

Foreign currency translation

	Average rates		Year end rates	
	2007	2006	**2007**	2006
Euro	**1.46**	1.46	**1.36**	1.48
Hong Kong dollar	**15.63**	14.28	**15.52**	15.22
Singapore dollar	**3.02**	2.92	**2.87**	3.00
Australian dollar	**2.39**	2.44	**2.27**	2.48
US dollar	**2.00**	1.84	**1.99**	1.96





* Before exceptional items
** Pro forma to adjust UK GAAP for main IFRS differences (stock holding interest and pensions).

Group

2007 has been an outstanding year for Inchcape, delivering a record performance, with operating profit before exceptional items up 27% to £270.7m, from sales which grew by 26% to £6.1bn. All of Inchcape's core businesses contributed to this growth, with the exception of Singapore. We saw significant growth in the European Emerging Markets, Hong Kong was boosted by strong market growth from changes in the tax regime around engine emissions, and our European Retail and Distribution businesses continued to post strong growth.

Our continued focus on improving Customer service and operational excellence has underpinned like for like sales growth of 3.4% and like for like trading profit growth of 7%.

The strength of performance in 2007 once again demonstrates the strategic strength of our broad geographical base.

We continue to reflect our management structure in our reporting by separately providing an analysis of the two segments of our business, Retail and Distribution, by geographical region. We have also clearly articulated our expansion into Emerging Markets and so report results in Emerging Markets separately to give shareholders specific information on our growth in these markets. We define Emerging Markets as those countries in which we operate that have started to grow but have yet to reach a mature stage of development and accordingly are in the growth phase of the development cycle. These currently comprise Russia, China, the Balkans, the Baltics and Poland. For the first time we are including Poland as an Emerging Market.

Emerging Markets

We continue to enjoy outstanding growth in the Emerging Markets in both Retail and Distribution. The car market in the Baltics grew by 34%, the Romanian market by 25%, Bulgaria by 12.1%, Russia by 65% and China by 24%. Growth in the Polish market reached 18.5% in 2007.

Our sales in these markets grew by 145% in total and 49% on a like for like basis. Trading profits were up 181% in total and 77% on a like for like basis.

The performance of our first full year of trading at our Russia business in St Petersburg has been excellent, contributing £149m to sales and generating £9.8m of trading profit from trading margins of 6.6%. This performance will be further enhanced in 2008 following the purchase of the Audi and Peugeot retail centres in December 2007.

We have expanded further in China, opening a second retail centre in Shaoxing in January 2008 and our business in the Baltics continues to grow with the acquisition of Baltic Motors Corporation and SIA BM Auto in Latvia and UAB Vitvela in Lithuania in July 2007.

Retail business

The performance in our Retail businesses was very strong with sales up 53% in total, primarily benefiting from eleven months of trading from European Motor Holdings plc in the UK, but also from the relentless drive on implementation of our Customer-centric operational excellence programmes.

In the UK we delivered total sales growth of 64%. Our like for like sales growth of 5.2% delivered like for like trading margins which declined by 0.3ppts to 2.5% but outperformed the market. Across Europe our Retail turnaround strategy is delivering results with like for like sales growth of 4.8% delivering a like for like trading profit of £0.8m versus a loss of £0.8m in 2006.

Distribution business

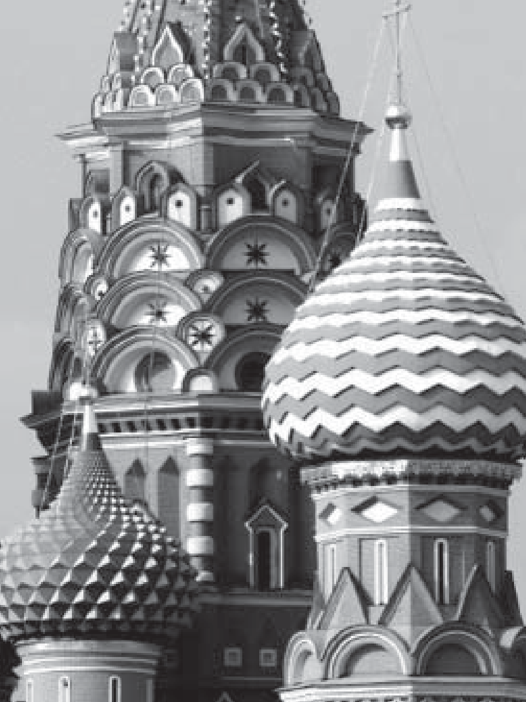
Overall our Distribution businesses posted a solid performance. Like for like sales were in line with last year but, with gross margins and good cost management, like for like trading profit grew by 8.4% to £200.4m.

The markets in Asia continued to be very competitive with the market in Hong Kong growing 16.5%, boosted by new Government tax incentives for low emission vehicles.

In Singapore market conditions were challenging, as expected, with significant growth of the parallel imports segment in an overall market which declined by 9.6%. This resulted in some market share erosion although we retained our market leadership and improved our trading margin to 9.6% from 8.9%.

Across Europe, we delivered good results in competitive markets. The Greek Toyota/Lexus business strengthened its market leadership position to deliver trading profit growth of 26%. The Belgian market grew just 1.3% in the absence of the biennial motor show. Despite this, we grew like for like sales by 4.2% and delivered trading profit growth of 17%.

In Finland we saw a significant change in the market with the announcement of new tax rules around engine emissions timed for January 2008, which caused a slowdown of the market from November. Despite this, we were able to grow trading profit by 6.6%.



Delivering global growth

2007 has been another outstanding year for Inchcape, delivering a record performance for the sixth year in a row.

Our performance in 2007 once again demonstrates the strength of our unique business model with a broad geographical base, multiple brands, multi-channels and multiple value drivers.

UK

- The UK car market grew 2.5% in 2007.
- The premium car segment grew faster than the overall market and is expected to continue to outperform in 2008.
- Market pricing was more competitive in 2007, with used car margins declining overall.

Outperforming the market

Inchcape in the UK

Inchcape Retail UK performed well throughout 2007 despite difficult market conditions and interest rate rises that have negatively affected the UK economy. Inchcape delivered sales growth in the Retail business of 64% in 2007 and on a like for like basis outperformed the market with a 5.2% increase. In line with our strategy to focus on achieving scale relationships with our core premium brand partners, the Company has successfully integrated the acquired UK businesses of Lind and European Motor Holdings plc and made significant progress on strategic disposals.

Kevin Ball
BMW Technician

Find further information online
www.inchcape.co.uk

Russia

- Russia's car market is the largest in Central and Eastern Europe and is continuing to experience rapid growth.
- Foreign brand car sales continue to see significant growth and now represent nearly 60% of all vehicles sales.
- Growth is being driven by the rapid emergence of a large middle class with significant disposable income.

Strong growth potential

Inchcape has established two strong anchor-points in Russia. In St Petersburg, Inchcape now retails Toyota/Lexus, Audi and Peugeot and in Moscow two Toyota retail and service centres are under construction. There are opportunities for attractive and sustainable margins from strong unit economics based on scale facilities and the growth of used car sales and aftersales. Trading in Russia in the first full year has delivered a return on sales of 6.6%, the highest in the Group for Retail, which contributed £9.8m of trading profit on sales of £149m.

Ekaterina Razuminina
Marketing Manager

Find further information online
www.inchcape.com

China

- China is one of the fastest growing markets for automotive sales; the market grew by 24% in 2007.
- China has overtaken Japan as the second largest car market in the world.
- Inchcape aims to build scale within the three biggest regional markets of Shanghai, Beijing and Guangzhou and exploit greenfield and acquisition opportunities.

First retail centre opens in Shaoxing

Inchcape first entered the exciting Chinese market in January 2007 with the opening of the Shaoxing Toyota retail centre, built from a greenfield site in an unprecedented 100 days. The move into China reinforces the ongoing implementation of Inchcape's global strategy to expand into the Emerging Markets while building on and strengthening our relationships with our core brand partners. During 2008, we will expand further into the Shaoxing regional market with the opening of a Lexus retail centre and a further Lexus retail centre in Shanghai.

Li Shun
Sales Consultant

Find further information online
www.inchcape.com

Australia

Strategy

In our Subaru Distribution business we aim to be Australia's premium Japanese automotive brand and to leverage that position in our Retail business to become Australia's most Customer-centric automotive retail group. We focus on building scale both with our brand partners and geographically in major markets along the East coast.

Market

The Australian vehicle market grew by 9.1% in 2007, reaching an all time record volume for the industry. Market conditions were however very competitive, fuelled by record levels of sales support and marketing expenditure with consumers particularly sensitive to fuel consumption.

Performance

Our Distribution business achieved sales growth of 2.1%, delivering a market share of 3.7%. During the first half of the year we saw the run out of the old Impreza model, with the launch of the new model in the third quarter. We also saw the run out of the current Forester model in the second half of the year, ready for a new launch in 2008. As a result, our share was slightly below 2006 but our trading margin grew to 8.4% (2006 – 7.1%).

Our Retail business saw lower trading profits (down 16.9%) on higher sales due to competitive market conditions, particularly on used cars. As we were in a run out year for the Impreza and Forester, we also experienced lower margins on Subaru new cars. We did, however, continue to build scale through the acquisition of a new Subaru site.

Our AutoNexus business had another successful year, winning several new contracts.

Core brand partners

Key financial highlights

	Year ended 31.12.2007 £m	Year ended 31.12.2006 £m	% change	% change in constant currency
Sales	**657.5**	616.6	6.6	4.4
Retail	**240.9**	216.9	11.1	8.8
Distribution	**416.6**	399.7	4.2	2.1
Like for like sales	**643.7**	616.6	4.4	2.3
Retail	**227.1**	216.9	4.7	2.6
Distribution	**416.6**	399.7	4.2	2.1
Trading profit	**43.8**	38.5	13.8	11.3
Retail	**8.8**	10.3	(14.6)	(16.9)
Distribution	**35.0**	28.2	24.1	21.7
Like for like trading profit	**44.1**	38.5	14.5	12.1
Retail	**9.1**	10.3	(11.7)	(14.0)
Distribution	**35.0**	28.2	24.1	21.7
Trading margin	**6.7**	6.2	0.5ppt	0.5ppt
Retail	**3.7**	4.7	(1.0)ppt	(1.0)ppt
Distribution	**8.4**	7.1	1.3ppt	1.3ppt

Outlook

We expect the competitive nature of the market to continue into 2008. However, with the marketing investment behind the new Impreza model in the first quarter of the year and the launch of the new Forester model and Tribeca facelift in the first half, we will be well placed to compete strongly.

Europe

Strategy

In Europe, we aim to drive organic growth in our Distribution business and to pursue our turnaround plan for Retail. In Distribution, growth will continue to be driven by new model launches and a focus on operational excellence, supported by tight overhead cost control. In Retail, the turnaround plan continues to focus on operational excellence and improvements in capture rate (the proportion of Customer traffic converted to orders), through our Inchcape Advantage programme, and the disposal of loss-making sites where required.

Market

In Greece, the market continues to perform well, growing by 4.2% in 2007 with the 4x4 segment growing at the expense of small and medium sized cars.

In Belgium, the overall new car market was up by 1.3%. This exceeded our expectations following the record year for registrations in 2006 resulting from the biennial motor show.

In November, the Finnish government announced changes in the tax system relating to engine emissions, effectively reducing new car tax from January 2008. The market faced a significant slowdown in the fourth quarter as consumers waited for better pricing. As a result, the full year Finnish market was down by 13.8%.

Performance

Our Distribution business delivered record results in 2007, with trading profits up £8.2m (20%) on sales which were up 5.9% to £824m. The Retail business performed well, delivering trading profit of £0.8m compared to losses last year of £1.8m.

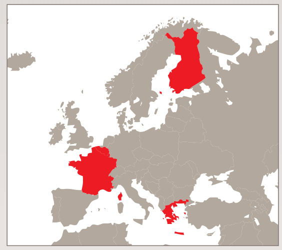
In Greece, our Distribution business continues to lead the market with a 0.9 percentage point increase in share to 10.7%. Like for like sales grew by 10.4% and with tight control on overheads, like for like trading profits were up by 26%. In the Retail business, our focus on implementation of Inchcape Advantage and restructuring of the business, as outlined in the turnaround plan, is delivering results. Like for like sales grew by 20% compared to 2006 and like for like trading losses have been reduced by 1.8% year on year.

In Belgium, our Distribution business maintained our share in a market which was 1.3% up. Like for like sales grew by 4.2% compared to 2006 and with good overhead control trading profits were improved 17%. The Retail business was impacted by the flat market with like for like sales down by 2.9%, however a 1% growth in gross margins and good overhead controls resulted in trading profits growing by 18.5%.

In Finland, despite the impact of car tax changes announced in the fourth quarter, trading profits in our Distribution business grew by 6.6%. The tax changes affected the Retail business significantly in the fourth quarter, resulting in like for like sales being down for the full year by 7.7%. However, as a result of good overhead controls, the launch of the Mazda6 and the sale of two loss-making sites outside Helsinki, trading losses were only 3.8% down on 2006.

Outlook

We expect a good year from our Distribution and Retail businesses in 2008. In Greece, the market is expected to continue to grow and with Toyota's market leadership position, we expect growth in trading profits from Distribution and to continue to drive sales and reduce losses from Retail. In Belgium, the biennial motor show is expected to stimulate growth in the market and in Finland the car tax changes will provide a good boost to the new car segment throughout the year. Given our model range in both markets we are well placed to benefit from the market growth.



Core brand partners

Key financial highlights

	Year ended 31.12.2007 £m	Year ended 31.12.2006 £m	% change	% change in constant currency
Sales	**1,203.9**	1,191.1	1.1	1.1
Retail	**379.8**	412.8	(8.0)	(8.0)
Distribution	**824.1**	778.3	5.9	5.9
Like for like sales	**1,198.4**	1,135.2	5.6	5.6
Retail	**377.9**	360.5	4.8	4.8
Distribution	**820.5**	774.7	5.9	5.9
Trading profit	**50.1**	39.3	27.5	27.5
Retail	**0.8**	(1.8)	144.4	144.4
Distribution	**49.3**	41.1	20.0	20.0
Like for like trading profit	**50.0**	40.2	24.4	24.4
Retail	**0.8**	(0.8)	200.0	200.0
Distribution	**49.2**	41.0	20.0	20.0
Trading margin	**4.2**	3.3	0.9ppt	0.9ppt
Retail	**0.2**	(0.4)	0.6ppt	0.6ppt
Distribution	**6.0**	5.3	0.7ppt	0.7ppt

Hong Kong

Strategy

We continue to progress in Hong Kong with a particular focus on the luxury segment through our Lexus range. We will also look to expand in the growing multi-passenger vehicle (MPV) segment with the launch of new models in 2008. Aftersales will be a key element of growth and we will target operational efficiencies in this area.

Market

As a result of the new car tax system the Hong Kong vehicle market grew strongly, by 16.5%, in 2007. The MPV segment was the largest contributor to growth, increasing by 22% compared to 2006, and now represents the largest segment of the passenger car market with 28% share.

Performance

We saw an excellent recovery in Hong Kong with like for like sales up by 18.9%. We benefited from the new government tax regime which incentivised sales of low emission vehicles and as a result sales of Toyota and Lexus hybrid cars grew significantly. The launch of the Lexus LS600h, in June 2007, was well received and we further benefited from the launch of the new Corolla in the fourth quarter. Trading profits were up 29% which included a one off profit of £2.9m related to property.

Outlook

We expect positive market momentum to continue based on the strength of the Hong Kong economy and on the tax incentives for low emission vehicles. We do not expect significant taxi volume until 2009, the beginning of the replacement cycle. The opportunity for hybrid engine cars will continue to grow and we will exploit this with the Toyota/Lexus range.

Core brand partners

Key financial highlights

	Year ended 31.12.2007 £m	Year ended 31.12.2006 £m	% change	% change in constant currency
Sales	**241.5**	224.8	7.4	17.6
Distribution	**241.5**	224.8	7.4	17.6
Like for like sales	**195.0**	179.5	8.6	18.9
Distribution	**195.0**	179.5	8.6	18.9
Trading profit	**28.3**	24.0	17.9	29.2
Distribution	**28.3**	24.0	17.9	29.2
Like for like trading profit	**20.7**	20.5	1.0	10.9
Distribution	**20.7**	20.5	1.0	10.9
Trading margin	**11.7**	10.7	1.0ppt	1.0ppt
Distribution	**11.7**	10.7	1.0ppt	1.0ppt

Singapore

Strategy
The strategy focuses on retaining market leadership with healthy margins in an overall declining and highly competitive market. Revenue generation is focused on stabilising new vehicle sales by new model launches where possible and developing special editions of existing models to drive differentiation and margin. We continue to further develop other revenue streams, specifically in aftersales and finance penetration and will support these initiatives through cost and organisational structure reorganisation.

Market
The pace of deregistrations continued to slow as expected and led to an overall market decline of 9.6% compared to 2006. Competition from parallel imports increased significantly in 2007, driven by importers selling new models from Japan and the aggressive pricing from local distributors buying in Yen.

Performance
Sales in Singapore were down by 25% but this was partly mitigated by better trading margins, which grew by 0.7ppts, resulting in trading profits down by 18.6%. A number of factors contributed to the results. A very competitive environment, together with a significant increase in parallel imports, led to a decline in our market share of 6.3ppts to 18.2%, in a market which overall declined by 9.6% compared to 2006.

Our share of the taxi market was also significantly impacted by changes in the government requirements for Euro IV engines. We achieved strong growth in commercial vehicles with sales up 45%, in part due to the lack of new models from our competitors. Suzuki sales were up 19.3% with a strong performance in Suzuki service and body shop with an increase in sales of 35%. Overhead and working capital were also tightly managed, which led to a return on sales growth of 0.7ppts compared to 2006.

Core brand partners

Key financial highlights

	Year ended 31.12.2007 £m	Year ended 31.12.2006 £m	% change	% change in constant currency
Sales	**480.3**	659.5	(27.2)	(24.7)
Distribution	**480.3**	659.5	(27.2)	(24.7)
Like for like sales	**479.6**	658.5	(27.2)	(24.7)
Distribution	**479.6**	658.5	(27.2)	(24.7)
Trading profit	**46.0**	58.6	(21.5)	(18.6)
Distribution	**46.0**	58.6	(21.5)	(18.6)
Like for like trading profit	**45.8**	58.3	(21.4)	(18.5)
Distribution	**45.8**	58.3	(21.4)	(18.5)
Trading margin	**9.6**	8.9	0.7ppt	0.7ppt
Distribution	**9.6**	8.9	0.7ppt	0.7ppt

Outlook
We expect the market to continue to decline in 2008 driven overall by lower Certificate of Entitlement (COE) quotas and, with the Yen/S$ rate unlikely to improve significantly, parallel imports will continue to be a major competitor. We will benefit from two significant launches in the passenger car segment and we are actively working with Toyota in the development of a new taxi model.

UK

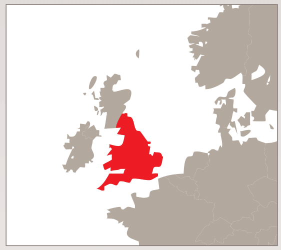
Strategy
The strategy in the UK will continue to focus efforts on the premium car segment with a smaller number of key brand partners. We will improve Customer service through Inchcape Advantage and will drive growth in aftersales and finance penetration.

Market
We saw some recovery in the UK market which grew by 2.5% in 2007. The new car premium segment grew much faster, with Inchcape's premium brands increasing 5.5% year on year. There has also been significant growth in Diesel engines as fuel prices and car tax increase. Market pricing was more competitive and, in particular, used car margins declined overall.

Performance
Inchcape delivered total sales growth in the Retail business of 64% in 2007 and on a like for like basis outperformed the market with growth of 5.2%. However, due to pressure on used car volumes and margins, the like for like margin declined from 2.8% to 2.5%. Total trading profits were up 54%, driven by the integration of the Lind and EMH businesses, which is progressing well. In total our return on sales declined from 2.6% to 2.4% in 2007 as the benefits of the acquisitions of Lind and EMH helped offset the margin pressure on used cars.

Our UK Distribution segment, comprising Inchcape Fleet Solutions, saw like for like trading profits decline £0.8m due to investment in new contract hire business, the benefit of which will be seen in future years.

Outlook
The overall market is expected to decline by 2.5% based on the official Society of Motor Manufacturers and Traders (SMMT) data, but we expect the premium sector to outperform the market based on the strong pipeline of new products. We expect the pressure on margins to continue into 2008 as there will be a need to stimulate demand with strong promotional activity based on decreasing consumer confidence.



Core brand partners

Key financial highlights

	Year ended 31.12.2007 £m	Year ended 31.12.2006 £m	% change	% change in constant currency
Sales	**2,713.5**	1,711.9	58.5	58.5
Retail	**2,646.0**	1,614.1	63.9	63.9
Distribution	**67.5**	97.8	(31.0)	(31.0)
Like for like sales	**1,546.3**	1,476.0	4.8	4.8
Retail	**1,509.9**	1,434.9	5.2	5.2
Distribution	**36.4**	41.1	(11.4)	(11.4)
Trading profit	**69.6**	45.9	51.6	51.6
Retail	**64.7**	42.1	53.7	53.7
Distribution	**4.9**	3.8	28.9	28.9
Like for like trading profit	**43.0**	46.3	(7.1)	(7.1)
Retail	**38.1**	40.6	(6.2)	(6.2)
Distribution	**4.9**	5.7	(14.0)	(14.0)
Trading margin	**2.6**	2.7	(0.1)ppt	(0.1)ppt
Retail	**2.4**	2.6	(0.2)ppt	(0.2)ppt
Distribution	**7.3**	3.9	3.4ppt	3.4ppt

Emerging markets

Strategy

In Russia, the key objectives are to build scale Retail operations in St Petersburg and Moscow and to exploit regional opportunities. In China, we will build scale within the three biggest regional markets, Shanghai (which includes Shaoxing), Beijing and Guangzhou, and exploit greenfield and acquisition opportunities. In the Balkans, we will accelerate growth and increase share in Romania and increase our Retail presence in Bulgaria. In the Baltics, we will build scale with Retail and VIR and capitalise on our market leading position with our multi-brand model.

Market

We continue to see outstanding growth in the Emerging Markets. The car market in the Baltics grew by 34% versus last year, whilst in the Balkans, Romania grew by 25% and Bulgaria by 12.1%. In Russia, the market grew by 65% and in China grew by 24%.

Performance

In China, the performance of our first Toyota site in Shaoxing has exceeded expectations and we are continuing the momentum with the opening of a Lexus site, also in Shaoxing, in January 2008. Trading in Russia in the first full year has delivered a return on sales of 6.6%, the highest in the Group for Retail, which contributed £9.8m of trading profit on sales of £149m. In the Baltics, performance was in line with expectations, with our new acquisitions in Lithuania and Latvia performing well. Our businesses in the Balkans delivered sales growth of 57% with trading margins which have grown by 0.1ppts compared to 2006.

Outlook

We continue to see the Emerging Markets as a key source of growth for the Group and expect them to represent an increasing proportion of the Group's earnings. In 2008 we will also have a full year contribution from the recently acquired Audi and Peugeot retail centres in Russia and the two acquisitions made in the Baltics. In China, growth will continue in our current sites and will be added to with new site openings. In the Balkans we will leverage our market leadership position and we expect to see continued growth in Romania and Bulgaria with three sites under construction.

Core brand partners

Key financial highlights

	Year ended 31.12.2007 £m	Year ended 31.12.2006 £m	% change	% change in constant currency
Sales	**518.6**	212.8	143.7	144.5
Retail	**276.6**	79.8	246.6	251.4
Distribution	**242.0**	133.0	82.0	80.6
Like for like sales	**318.0**	212.8	49.4	49.3
Retail	**125.2**	79.8	56.9	56.6
Distribution	**192.8**	133.0	45.0	45.0
Trading profit	**29.6**	10.6	179.2	180.8
Retail	**13.2**	1.1	1,100.0	1,118.5
Distribution	**16.4**	9.5	72.6	71.6
Like for like trading profit	**19.7**	11.1	77.5	77.3
Retail	**5.0**	1.6	212.5	212.5
Distribution	**14.7**	9.5	54.7	54.7
Trading margin	**5.7**	5.0	0.7ppt	0.7ppt
Retail	**4.8**	1.4	3.4ppt	3.4ppt
Distribution	**6.8**	7.1	(0.3)ppt	(0.3)ppt

Rest of world

Strategy
We will continue to focus on operational excellence and will drive organisational efficiencies through tight cost controls. We will develop differentiation in our brand portfolio and will seek to develop scale through acquisition where opportunities arise.

Market
We saw good market growth across most markets in which we trade. In South America, the market in Chile was up 13.3% and in Peru was up by 49%. In Brunei, Guam and New Zealand, markets recorded more modest growth, up 1.5%, 6.4% and 0.8% respectively. The only exception was Saipan, where the market contracted by 37%, due to a slowdown in the economy.

Performance
We continue to maintain a market leadership position in Guam, Saipan and Brunei and in 2007 these markets delivered like for like trading profit growth of 15.7%.

Our business in Ethiopia delivered record results in 2007, with trading profit growth of 36% on sales which grew by 43%.

We delivered a strong performance in South America, which was boosted by growth in the market and better than expected returns from the acquisition of our new Honda retail site. Trading profits were up 46% compared to 2006 in total and 43% on a like for like basis.

In New Zealand, pressure on used car margins and a reduction in the used car market contributed to a decline in trading profits.

Outlook
We remain confident of a good performance from these markets in 2008. The markets in Chile and Peru are expected to continue to grow, but at a slower pace and will be led by the luxury car segment. We will look to develop the scale of the business there through additional acquisitions.

Core brand partners

Key financial highlights

	Year ended 31.12.2007 £m	Year ended 31.12.2006 £m	% change	% change in constant currency
Sales	**241.5**	225.4	7.1	14.2
Retail	**4.0**	–	–	–
Distribution	**237.5**	225.4	5.4	12.3
Like for like sales	**237.5**	225.4	5.4	12.3
Retail	**–**	–	–	–
Distribution	**237.5**	225.4	5.4	12.3
Trading profit	**25.1**	21.9	14.6	24.8
Retail	**0.1**	–	–	–
Distribution	**25.0**	21.9	14.2	24.3
Like for like trading profit	**25.0**	21.9	14.2	24.3
Retail	**–**	–	–	–
Distribution	**25.0**	21.9	14.2	24.3
Trading margin	**10.4**	9.7	0.7ppt	0.7ppt
Retail	**2.5**	–	–	–
Distribution	**10.5**	9.7	0.8ppt	0.8ppt

The business in Ethiopia is expected to continue to perform ahead of the market and will benefit from capital investment projects undertaken in 2007.

A year of record performance

Inchcape has produced another year of record results. This has been achieved within a robust structure. The following Financial review details the financial implications of our operational activity and the risks which we monitor and take steps to mitigate.

Central costs
Central costs for the full year are £27.5m, £2.6m (10.4%) higher than 2006. This increase is a reflection of the continued investment in new management, processes and systems to support our growth.

Joint ventures and associates
The share of profit after tax of joint ventures has decreased by £2.4m to £3.5m in 2007. This is mainly as a result of the sale of our 50% stake in Inchroy Credit Corporation Ltd in January 2007.

Exceptional items
The exceptional items represent the net profits on the sale of a number of non-core businesses. Included within this is the sale of Inchroy (£12.0m profit), Inchcape Automotive and non-core retail centres in the UK (£7.1m loss).

Net financing costs
The net finance charge of £33.4m was £27.5m higher than in 2006 and is a reflection of our expansion strategy in 2007. The majority of the cost relates to the financing of the EMH acquisition, but also includes the acquisition of Porsche in the UK, Audi and Peugeot in Russia and our acquisitions in the Baltics.

Tax
The subsidiaries headline tax rate for the year is 25%, as expected at the half year, and compared to 21.7% in 2006. This increase arises due to the fact that the 2006 tax rate was low following the resolution of prior year issues and following the recognition of deferred tax on certain accumulated allowances. The rate is expected to continue at this level into 2008.

Following the 2007 Finance Bill, changes to the treatment of industrial buildings allowances and the reduction in the UK standard rate of corporation tax from 30% to 28%, both of which are effective in 2008, we have had to reassess our deferred tax position on our property portfolio. As a result we expect to recognise a £6m exceptional tax charge in 2008.

There has been recent court progress regarding VAT and interest claims affecting the motor retail sector. There remains insufficient certainty about the outcome of these cases to recognise the amounts we have filed claims for, so we continue to not recognise these.

Minority interests
Profits attributable to minority interests increased to £5.7m in 2007 from £2.9m in 2006 and were the result of the 25% minority shareholding by the Olimp Group in the Toyota/Lexus operation in St Petersburg, acquired in December 2006, and the 33% minority holding by UAB Vitvela resulting from the July acquisition in Lithuania.

Cash flow
The Group continues to be strongly cash generative with cash flow from operating activities of £293m, representing 111% of operating profit before exceptional items. Once again, the tight management of working capital has been a key success factor in the delivery of this result.

During the year, the Group returned nearly £90m to shareholders with £71.1m through dividend payments and £18.5m through a programme of buying shares in the market. In addition, the Group invested £408m in acquisitions and net capital expenditure, funded by additional borrowing facilities, and realised £86m from the disposal of businesses. Overall, the Group had net debt of £221.5m at 31 December 2007 compared to £19.0m at 31 December 2006.

Pensions
During the year, and in line with the funding programme agreed with the Trustees in 2006, the Group made additional cash contributions to the UK defined benefit scheme amounting to £13.2m. These payments, together with changes in the long term interest rates since the end of 2006, have resulted in a net pension surplus at 31 December 2007 of £28.5m, compared to a net deficit at the end of 2006 of £22.7m.

Acquisitions and disposals
The Group announced and completed significant expansion in 2007 and invested a total of £329.6m in acquisitions, offset by total proceeds from disposals of £86m.

The completion of the acquisition of EMH in February 2007 for £234m has been followed up through the year with disposals of non-core EMH and base businesses plus the Inchcape Automotive business for a total consideration of £38m.

In January we completed the acquisition of a Honda dealership in the fast growing Chilean market for a total consideration of £1.3m.

In the Baltics we acquired Baltic Motors Corporation and SIA BM Auto in Latvia, a retail group including five retail centres primarily in Riga, giving us representation of Ford and Land Rover as well as 70% of BMW in the country for a consideration of £48m. In Lithuania we acquired 67% of UAB Vitvela giving us representation of Ford and Mazda and a leading share of Mitsubishi and Hyundai Retail for a consideration of £14.9m.

We further developed our business in Russia with the completion in December of the acquisition of an Audi retail centre and a Peugeot retail centre from the Olimp Group for £19.1m.

Capital expenditure

The Group maintained its policy of investing to improve operating standards of its retail centres and to develop new greenfield retail centres. We also announced the long term implementation plan for a global SAP operational system platform, and agreed terms with SAP at the beginning of quarter four 2007. Capital expenditure related to this in 2007 was £6.4m.

Total capital expenditure of £80.1m was made in 2007, principally in the UK and the Emerging Markets.

Principal business risk factors

Enterprise risk identification and management

Inchcape applies an effective system of risk management in terms of identifying risks and monitoring actions to manage these risks. Further details of the Group risk management process can be found on page 56.

Risk is a part of doing business: our system of risk management aims to provide assurance to the Board on the effectiveness of our control framework in managing risk against a background of highly diverse and competitive markets.

The benefits of our rigorous approach to risk management include: maximised resource efficiency through controlled prioritisation of issues, benchmarking between business units, effective crisis management processes and a knowledge base of best practice.

The Group considers risk under the following broad risk categories: Performance; Competition; Fraud; Regulatory; Environmental; Organisation and Capability; Technology; Capital; and external factors such as changing Economic and Political Conditions.

The following provides an overview of the principal business risk areas identified by the Executive Committee and the mitigating actions in place within Inchcape.

Execution of strategic change projects

Inchcape focuses on managing strategic change and mitigating the risks of projects failing through cross functional planning and ongoing review processes, managing pace, delivery and including interim and post investment appraisal.

Execution of an integrated technology strategy

Developing, implementing and maintaining an integrated information system is paramount in successfully delivering the Group's strategic objectives.

During 2007 the Group announced its global Information Systems (IS) strategy. It has signed an agreement with SAP, the world's leading provider of business software, to design and roll out a leading edge software solution. The solution will enable efficient, effective and enduring automated operational procedures and will allow IS and process best practices to be applied globally. The solution will further enable the production of key management data to facilitate decision making across Inchcape's operations, driving its 'Gold Standard performance' management culture.

Attracting, developing and retaining talented employees

In order to deliver on the Group's strategic objectives colleagues with sufficient talent and skill are required.

Initiatives have been introduced to help identify, recruit and retain highly skilled employees. The key elements of this initiative include the implementation of a global performance assessment and talent review process. Furthermore, the Group's remuneration is externally benchmarked to ensure ongoing competitiveness and succession plans are developed for all key positions to support the achievement of both short and long term objectives.

Aligning acquisitions with Group objectives

Where we further expand our business through acquisitions, processes are in place to identify appropriate opportunities, to conduct thorough due diligence and effectively integrate new businesses.

An opportunity management and evaluation system is in place and all significant investments undergo detailed analysis and interim and post investment appraisal. Furthermore, all acquisitions are supported by expert project teams comprising staff from various business functions.

Changing economic or political conditions in key markets

As the Group operates in a number of geographically spread and unique environments the effect of changing economic or political conditions could impact on the achievement of business objectives.

This risk is effectively managed through the strength of the Inchcape portfolio of business and management focus on value added initiatives. In addition tight discipline is maintained over working capital management and a system of continuous monitoring through operational review meetings, budget, forecast and variance analysis is in place which focuses on areas of opportunity and addresses areas where we identify the need for improvement.

Corporate Social Responsibility

Inchcape acknowledges and acts on its corporate social responsibility (CSR). As highlighted elsewhere in this report, in 2007 we increased our focus on our CSR programme, engaging an independent specialist consultancy to help us redefine, benchmark and progress implementation ensuring that it provides benefits to both our employees and to our shareholders.

Brand partner relationships

The strength of relationships with our brand partners is critical to the ongoing success of the Group. In order to maintain these relationships, through constant focus on performance, delivering quality and effective communication, we ensure that our objectives are closely aligned to those of our brand partners.

Environment health and safety (EH&S)

Ensuring an appropriate structure is in place to manage EH&S risks at every level of the Group is a key element of the Group's EH&S process. Supported by the Group Risk Management function, local management are responsible for maintaining, improving and monitoring EH&S risk management processes. In order to ensure the effective management of EH&S processes, local management from each business, together with the Group Risk Manager, review EH&S compliance and closely monitor remediation activities, the outcomes of which are monitored by the Risk Management Strategy Group.

Changing Customer requirements

Inchcape is focused on achieving Customer-centric excellence and our businesses must be flexible to changing Customer preferences and trends.

As part of our Customer focused approach there are ongoing industry reviews and analysis of current and anticipated Customer preferences by market and brand. In addition, our strategic planning process incorporates known Customer trends and supports the business in developing initiatives to address them.

Effective communication with the investment community

Investor Relations and the Group Finance Director have developed a series of protocols to ensure the Group's strategic and performance related achievements are communicated consistently and clearly, and are appropriately targeted. Furthermore, the Board undertakes an annual review of investor communications and disclosure practices.

Identifying, monitoring and reacting to regulatory changes and trends

The Group's operating landscape is impacted by changes in the regulatory environment. Inchcape has implemented a mechanism of ongoing monitoring of legal and regulatory developments co-ordinated between Group and divisional management to ensure we effectively manage risk and compliance in this important area. In addition, we participate in relevant local industry bodies to ensure we are positioned to manage anticipated regulatory changes.

Fraud

Processes are in place to mitigate the risk of either internal or external fraud. These include an independent internal audit function reporting to the Audit Committee, Group-wide and local fraud risk assessment activities and the Group's system of internal control.

Corporate governance of joint ventures and third party arrangements

As part of the Group's expansion strategy, the future development of business partnerships in the form of joint ventures and minority interests is likely to continue. These relationships are key to driving financial growth and shareholder value and are appropriately managed. To ensure the Group is sufficiently protected, robust shareholder and joint venture agreements are in place and shareholder representatives are appointed with clearly defined responsibilities and delegated authorities.

Group liquidity and project funding arrangements

A key enabler to the Group's strategic objectives of growing the core business through expansion is maintaining sufficient cash flow to fund development opportunities.

To ensure the effective management of the Group's cash flow and liquidity, banking arrangements have been aligned with strategic plans. In addition, a consistent approach to cash management, forecasting and working capital management has been introduced and tax planning activities support funding requirements.

Financial risk factors

The centralised treasury department manages the key financial risks of the Group encompassing funding and liquidity risk, interest rate risk, counterparty risk and currency risk. Treasury operates as a service centre under Board approved objectives and policies and is subject to regular internal audit.

Funding and liquidity risk

Group policy is to ensure that the funding requirements forecast by the Group can be met within available committed facilities and to maintain maturity spread which is advantageous in terms of pricing and maturity risk. The Group's principal committed facility is a £500m syndicated revolving credit facility put in place in April 2007. This facility has a tenure of five years with an option to extend for an additional year on both the first and second anniversary dates. At the year end this facility was drawn by £80m. Also, in April, the Group put in place a three year £35m term loan with a relationship bank.

In May 2007, the Group issued $350m loan notes for ten years and a further $200m of twelve year notes by way of a private placement. $475m of these notes were subsequently swapped to floating rate sterling at a spread of LIBOR +87.6bps with the remaining $75m of the ten year notes remaining at the fixed dollar rate. The ten year notes were issued at a fixed rate of 5.94%. The twelve year notes were issued at a fixed rate of 6.04% and were swapped to sterling at a rate of LIBOR +90bps.

The private placement was used to refinance the bridge finance put in place for the EMH acquisition. A further c. £4.5m of loan notes were issued in February and March as part consideration for the shares of EMH. These notes mature in 2012 and have an interest rate of LIBOR less 1%.

In addition to the committed facilities, the Group has access to uncommitted borrowing lines made available by relationship banks. These facilities are used for liquidity management purposes. At the year end these facilities were drawn by £20m.

Currency risk

The Group publishes its consolidated financial statements in sterling and faces currency risk on the translation of its earnings and net assets, a significant proportion of which are in currencies other than sterling.

Net investment hedging

Consideration is given to the currency mix of debt with the primary objective that interest on such borrowings acts as a hedge on foreign currency earnings. In accordance with IFRS 39, the Group designated $75m of the private placement raised in May as a hedge against dollar related assets in Hong Kong, Saipan and Guam. Under IFRS 39 the hedge is documented and tested for hedge effectiveness on an ongoing basis.

Transaction exposure hedging

The Group has transactional currency exposures where sales or purchases by an operating unit are in currencies other than in that unit's reporting currency. For a significant proportion of the Group these exposures are removed as trading is denominated in the relevant local currency. In particular, local billing arrangements are in place for many of our businesses with our brand partners. The principal exception is for our business in Australia which purchases vehicles in Yen.

In this instance the Group seeks to hedge forecast transactional foreign exchange rate risk, using forward foreign currency exchange contracts. The effective portion of the gain or loss on the hedge is recognised in the statement of recognised income and expense to the extent it is effective and recycled into the income statement at the same time as the underlying hedged transaction affects the income statement. Under IFRS 39 hedges are documented and tested for the hedge effectiveness on an ongoing basis. Inchcape expects hedges entered into to continue to be effective and therefore does not expect the impact of ineffectiveness on the income statement to be material.

Hedge of foreign currency debt

The Group uses cross currency interest rate swaps to hedge the forward foreign currency risk associated with $475m of the $550m private placement issued in May. The effective portion on the gain or loss of the hedge is recognised in the statement of recognised income and expense to the extent it is effective and recycled into the income statement at the same time as the underlying hedged transaction affects the income statement. Under IFRS 39 hedges are documented and tested for hedge effectiveness on an ongoing basis. Inchcape expects hedges entered into to continue to be effective and therefore does not expect the impact of ineffectiveness on the income statement to be material.

Interest rate risk

The Group's interest rate policy has the objective of minimising net interest expense and protecting the Group from material adverse movements in interest rates. Throughout 2007, the Group has borrowed at floating rates only. This approach reflects the continuing benign interest rate environment.

If hedging is deemed appropriate by management in the future the Board has approved the fixing of up to 30% of gross borrowings. Instruments approved for this purpose include interest rate swaps, forward rate agreements and options.

Credit risk

The amount due from counterparties arising from cash deposits and the use of financial instruments creates credit risk. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy of limiting its exposure to any one party to ensure that they are within Board approved limits and that there are no significant concentrations of credit risk.

Group policy is to deposit cash and use financial instruments with counterparties with a long term credit rating of A or better – where available. The notional amounts of financial instruments used in interest rate and foreign exchange management do not represent the credit risk arising through the use of these instruments. The immediate credit risk of these instruments is generally estimated by the fair value of contracts with a positive value. The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

Counterparties and appropriate limits are reviewed regularly.

Insurance

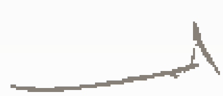
The Group purchases insurance for commercial or, where required, for legal or contractual reasons. In addition, the Group retains insurable risk where external insurance is not considered an economic means of mitigating these risks.

Market risk sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The Group is not exposed to commodity price risk. The following analysis required by IFRS 7 is intended to illustrate the sensitivity to changes in market variables, being UK interest rates and the US to sterling exchange rate.

The following assumptions were made in calculating the sensitivity analysis:

- The sensitivity to interest rates relates only to derivative financial instruments, as debt and deposits are carried at amortised cost and accordingly their carrying value does not change as interest rates change.
- Changes in the carrying value of derivative financial instruments designated as cash flow hedges from movements in interest rates are assumed to be recorded fully in equity.
- Changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates have an immaterial effect on the income statement and equity due to compensating adjustments in the carrying value of debt.
- Changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement using the spot rather than the forward translation method.
- Changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in the US dollar to sterling exchange rate are recorded directly in equity.
- Changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement.
- All other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement.



Barbara Richmond
Group Finance Director
26 February 2008

A trusted member of the international business community

Corporate Social Responsibility (CSR) is very important to us at Inchcape. It supports our Core Purpose, Creating the Ultimate Customer Experience for our Brand Partners and reflects the way we run our business. It is reinforced by our Values, and is reflected in our leadership skills.

Our brand partners and our Customers expect and demand that we are socially responsible members of the international business community. It is our understanding of and belief in the benefits of a CSR based culture that encourages us to consistently take further steps to improve the quality of life for our employees, the local communities in which we operate as well as wider society. We believe that ultimately CSR will help us to create greater value for our shareholders, attract and retain the best people within our industry, achieve our shared goals and simply become a better company.

Developing our CSR policies

Last year, we announced our commitment to integrating socially responsible behaviour into every aspect of how we operate and define ourselves. 2007 has seen our employees and specialist external consultants working together to start building the foundations of a global approach to CSR that will make responsible economic, environmental and social behaviour intrinsic to the way we work.

As an indicator of our commitment, we have engaged an external specialist CSR consulting firm to help us start the process of developing and implementing an effective CSR strategy and relevant performance management measures.

In 2007 we carried out the following:

- external benchmarking, to identify and agree issues that are core to businesses in and outside of our sector;
- internal benchmarking, based on questionnaires, comparisons and feedback throughout the business to identify our stakeholders and the issues important to them in respect of the business we operate;
- a facilitated workshop to investigate the findings of the benchmarking process and determine the issues on which we should focus;
- a review of best practice and peer activity on environmental standards and reporting;
- environmental reviews and surveys focusing on opportunities for environmental plans for our sites globally.

This work has prepared the way for 2008 and beyond.

Management of CSR

The Board is ultimately accountable to our shareholders for our CSR policy. Day to day management of CSR strategy has been delegated to the CSR Committee, comprised of the Group Chief Executive, Group HR Director, Group Communications Director and General Counsel and Group Company Secretary. Employees with both global and local responsibilities support the work of the CSR Committee across the three key strategic areas of focus: our People, our Communities and our Environment.

As part of the risk management processes embedded throughout the Group, environmental, social and governance risks are identified and mitigated appropriately.

Fundamentally, we believe it is the enthusiasm and understanding of our people that will shape and empower Inchcape's CSR culture. To this end a major employee engagement and awareness programme in 2007 has helped us to lay firm foundations on which we can build in 2008 and beyond.

Going forward, we plan to combine the local knowledge, enthusiasm and expertise of our employees worldwide with our clearly defined Values, standards and policies to enable us to contribute responsibly and sustainably to society.

2007 Review

In parallel with formalising our approach to CSR activities and reporting, during 2007 we have concentrated on three areas:

- our People: we have introduced a number of initiatives to improve the performance and prospects of our People which are outlined below;
- our Communities: we have participated in the numerous communities in which we operate and again, a selection of activities are detailed later in the report;
- our Environment: we have begun analysing our impact and are increasing the awareness of our environmental management.

Health and Safety
The safety of our employees is of paramount importance. We regularly review our Health and Safety policies and procedures.

Objectives for 2008
In the context of the early stage of our CSR journey, we have chosen a few strategically important targets for 2008.

In 2008, our objectives include:

- raising employee engagement through the various initiatives from our People strategy, including significant reward and development plans;
- extending our employee survey to our global employee base;
- extending best practice in health and safety to our operations worldwide;
- identifying and defining environmental initiatives for 2009 and beyond.

Each of these is discussed in more detail below.

Our People
Our success as a business depends on maintaining a high level of engagement of our people in every market in which we operate. We recognise that it is our people who bring our Core Purpose of Creating the Ultimate Customer Experience for our Brand Partners to life. Over the past year we have defined and agreed the global People strategy which is designed to support and achieve this goal.

The strategy aims to ensure that we have engaged employees in winning teams throughout the organisation. We are committed to:

- becoming a magnet for talented people who live our Values and enjoy working in winning teams delivering outstanding results;
- equipping our people to excel today and provide exciting development opportunities for the future, aligned to our business ambition;
- recognising, celebrating and rewarding the contribution our people and teams make to deliver our challenging business ambition;
- creating a great place to work where people choose to make a real difference and deliver the Ultimate Customer Experience.

Our employee base is diverse and reflects the different cultures and markets within which we operate. This diversity creates a range of perspectives that allows us to constantly challenge and improve the way we do things as we work towards our goal of putting the Customer at the centre of our business.

Employee communications
This year, much effort has been applied in engaging our people with our Customer-centric agenda. Employees around the globe have attended events to discuss our strategy, Core Purpose and company Values, and to understand their personal roles in delivering our Vision.

The Vision and strategy for the Group is regularly communicated through market visits, employee events and informal meetings with Inchcape employees globally. Objectives in support of the strategy are supported through the performance management process. Additionally, feedback is sought from a

Corporate and social responsibility continued

representative group of employees on specific issues. During 2007, we measured performance against the objectives set at the 2006 Management Conference to ensure that the Group's goals and objectives remained clear and well understood.

During 2008 we intend to pursue our engagement efforts through a global programme for all employees. *Customer 1st* is an innovative employee experience designed to reinforce understanding and alignment to Inchcape's differentiating Customer-centric agenda.

Employee survey

An annual survey is carried out to identify issues that need to be addressed and to identify areas where we can improve. The results of the survey are communicated to employees and actions are taken to follow up on agreed areas. In the UK we had an 84% response rate to the survey. We intend to develop our current method of feedback into a global survey in 2008.

Employment policy
Our success as a business depends on maintaining a high level of engagement of our people in every market in which we operate.

Talent and performance management

Talent and performance management is at the heart of our People strategy. In 2007 we updated our talent management process. During the year, we ran several development and assessment centres and programmes for our managers – focusing on our leadership skills. We have also conducted a thorough review of our leadership population with a view to continuously upgrading the quality and depth of our talent pool. Our analysis clearly shows us that talented people yield much higher levels of Customer satisfaction and profit.

We have also focused on our ability to attract and retain talented individuals through attractive performance based rewards and interesting and diverse career opportunities. As a global business, we are also able to provide international secondments and promotions, enabling us to give our best people constantly stimulating career paths and growth. We will seek to build on this in 2008.

Employee safety

The safety of our employees is of paramount importance. Many of our employees handle hazardous substances and work with heavy machinery. We regularly review our policies and procedures for our employees and have appropriate training programmes in place.

Inchcape and the environment

Our new corporate Values include a commitment to caring for our environment.

Our first step in delivering on this commitment is to improve our understanding of the environmental impact of our operations prior to identifying the right initiatives for the business.

Using the UK DEFRA Environmental Reporting Guidelines as a framework, we have established a global team which includes representatives from all the countries in which we operate. The team will meet quarterly to update on progress against national plans and share best practice among the Company's operations worldwide.

The team's main roles are to:

- identify Inchcape's most significant areas of environmental impact;
- identify appropriate initiatives; and
- set achievable targets for improvement.

The initial areas that the team identified are:

- greenhouse gas emissions, directly from our business and indirectly through our use of energy;
- pollution, through the accidental release to soil, air or water of potentially harmful fluids or chemicals;
- waste to landfill, mainly generated from our service and distribution activities, some of which may be a hazard if not disposed of properly.

Inchcape will create a set of guidelines for new-build and refurbishment construction projects, to ensure that the most appropriate environmental practice is integrated into our property portfolio as rapidly as possible. We are investigating the benefits from insulation of walls and roofs, plus treatments and films for windows and other glass surfaces. Where possible we will introduce solar capture and other environmentally friendly heating or cooling methods. Management of water is important and at several sites globally we are already operating fully recycled water wash processes, which collect, clean and re-use all liquid run-off.

We will investigate the potential to use recycled materials wherever possible as a Group-wide policy, and pay special attention on refurbishment projects where storage and re-use of existing materials will have the additional advantage of minimising the environmental impact of transportation of building materials.

Our sales people attend regular training sessions such that they themselves understand environmental and performance data in relation to the vehicles we sell and are able to present that information to potential Customers.

Equally, a well maintained vehicle has significantly less impact upon the environment than a poorly maintained one. Our service advisers are trained to advise motorists accordingly.

Serving our communities

With a presence in twenty six countries, the Group's broad international spread has resulted in a diverse range of people, cultures and lifestyles that enrich our Company.

By encouraging our employees to engage in the issues which affect their local environment, we can target funds and assistance more effectively as well as develop a sense of personal involvement. 'Getting involved' also helps employees gain a better understanding of the communities in which they live which in turn helps us to better serve our local Customers.

Our Values

In 2007, we committed ourselves to a new set of corporate Values across our worldwide operations. These Values are central to the way we work and are fundamental to our relationship with Customers, brand partners and employees.

Respect for Each Other	People are at the heart of who we are, how we think and how we act; Inchcape is successful because of 'us'. We celebrate diversity, we value and learn from each other and feel proud to be working with the best. We have faith in each other and show each other real loyalty.
Winning Together	We are strong as individuals, but we're even stronger as a team. We are part of a rich global network and together we achieve great things. We enjoy working with each other and always achieve more when we do.
Treating Every £ as Our Own	This is our Company and we feel proud to be part of it. We see cost as a good thing, as long as it creates value. What we hate is waste, so we think before we spend.
Integrity Without Compromise	We have no 'hidden agendas'. We have an uncompromising commitment to transparency and ethical principles. We believe in a straight-talking, human approach. We take personal responsibility for what we say and do. In an industry not famed for trust, Customers choose us for our clarity, honesty and realism.
Pioneering New Ideas	An intrepid spirit is the essence of Inchcape. We lead our industry by example. We liberate talent and prize initiative. We are prepared to take risks drawing on our powerful global resources of creativity and insight.
Passionate about Customers	We are committed to putting the Customer first every day, every time, everywhere. We are energised by making our Customers feel special, which we do by delivering brilliant basics and creating magic moments.
Caring for Our Environment	Each one of us plays our part in addressing global concerns through our local, everyday actions. We integrate an awareness of our environmental impact with responsible business decision making and advance opportunities to reduce our industry's bearing upon our planet.

With our extensive international interests, Inchcape firmly believes in supporting the many different communities and cultures within which we operate, often through sponsorship and support of local charities for local people

Since 2004 MOENCO, our Distribution business in Ethiopia, has been a major supporter of Africa's biggest road race that aims to raise the profile of Ethiopian athletes and 'bring the world to Ethiopia'. The Toyota Great Ethiopian 10K Run was held in Addis Ababa in November 2007, attracting a record 30,000 participants.

Inchcape Fleet Solutions, the Portsmouth based vehicle leasing and fleet management company, provided vehicle aid to the British Red Cross by presenting a Lexus RX 400h to the charity for its UK emergency response vehicle fleet.

Inchcape Retail UK supports BEN, the motor industry benevolent fund. This support is shown through financial commitment, employee time commitment and various fundraising initiatives over the year. Employees also contribute to a number of charities and trusts throughout the year that are of personal interest.

Inchcape Poland has been participating in a charity programme called 'Hot-Meal-A-Day'. To each BMW Service invoice we add, with our Customers' consent, 5 zł (approximately £1), equivalent to two hot meals. Money collected is transferred to the Polish Foundation for CSR, which feeds children in the poorest regions of the country.

Inchcape's Head Office donates to one nominated charity each year through a variety of fundraising events and employee collections. The charity-of-the-year in 2007 was St Christopher's Hospice, a charity established to provide skilled and compassionate palliative care of the highest quality. St Christopher's received over £7,500 in 2007 from employee initiatives and fundraising activities.

Inchcape
www.inchcape.com/csr

Since its introduction in 2001, our business in Brunei, NBT Sdn Bhd has sponsored Projek Ikan Pusu (PIP) the Brunei Darussalam National Football Development Program which aims to educate children through football. Co-organised by the Ministry of Education Brunei and the Football Association of Brunei Darussalam (BAFA), it is supported by the Ministry of Culture, Youth and Sports.

Toyota Hellas, Greece, supports the 'Papammakaristos' Institution. The organisation provides protection and training for children with intellectual and cognitive disabilities such as autism and for those with communication and behavioural problems. Toyota Hellas purchased equipment for the development of a special care unit dedicated to the children's therapy, relaxation and general health.

For several years, Crown Motors Limited (CML) in Hong Kong has organised the Lexus Club's popular Lexus Charity Golf Days to raise funds for the China Literacy Foundation Limited (CLFL), which seeks to provide schooling for very poor children in rural China. Donations by Lexus owners, matched by CML, have contributed towards the construction of the Cuihua Centre Primary School in Kunming, in China's southwest Yunnan Province.

Board of Directors

An experienced team committed to delivering strong results


1. Peter Johnson


2. André Lacroix


3. Barbara Richmond


4. Will Samuel


5. Raymond Ch'ien


6. Karen Guerra


7. Ken Hanna


8. David Scotland


9. Michael Wemms

Members of the audit committee
Dates of appointment/resignation:

Ken Hanna **Chairman**
(Member – 27 September 2001)
Chairman – 16 May 2002
Will Samuel – 26 January 2005
Michael Wemms – 29 January 2004
David Scotland – 24 February 2005

Members of the remuneration committee
Dates of appointment/resignation:

Michael Wemms **Chairman**
(Member – 29 January 2004)
Chairman – 13 May 2004
Will Samuel – 26 January 2005
Ken Hanna – 27 September 2001
David Scotland – 24 February 2005
Karen Guerra – 1 January 2006

Members of the nominations committee
Dates of appointment/resignation:

Peter Johnson **Chairman**
(Member – 1 July 1999)
Chairman – 1 January 2006
Will Samuel – 1 April 2005
Ken Hanna – 26 February 2004
Michael Wemms – 29 July 2004
David Scotland – 29 November 2005
André Lacroix – 1 January 2006

1. Peter Johnson
Position: Non-executive Chairman

Appointment to Board: January 1998

Age: 60

Committee Membership(s): Nominations Committee (1 July 1999)

Experience: Peter Johnson was Group Chief Executive of Inchcape plc, Chief Executive of Inchcape Motors International and Inchcape Motors Retail. He is Chairman of Rank Group plc, a Non-executive Director of Bunzl plc and Vice President of the Institute of the Motor Industry. He was previously Sales and Marketing Director of the Rover Group, and Chief Executive of the Marshall Group.

2. André Lacroix
Position: Group Chief Executive

Appointment to Board: September 2005

Age: 48

Committee Membership(s): Nominations Committee (1 January 2006)

Experience: André Lacroix is Chairman of Good Restaurants AG. He was previously Chairman and Chief Executive Officer of Euro Disney S.C.A. Prior to this he was the President of Burger King International, previously Diageo.

3. Barbara Richmond
Position: Group Finance Director

Appointment to Board: April 2006

Age: 47

Committee Membership(s): None

Experience: Barbara Richmond is a Non-executive Director of the Scarborough Building Society. She was previously Group Finance Director of Croda International Plc and Whessoe plc.

4. Will Samuel
Position: Deputy Chairman and Senior Independent Non-executive Director

Appointment to Board: January 2005

Age: 56

Committee Membership(s): Audit Committee (26 January 2005), Remuneration Committee (26 January 2005) and Nominations Committee (1 April 2005).

Experience: Will Samuel is Chairman of Galiform plc (previously known as MFI Group) and Vice Chairman of Lazard & Co. Ltd. He is a Non-executive Director of the Edinburgh Investment Trust plc and Ecclesiastical Insurance Group. He was previously a Director of Schroders plc, Co-Chief Executive Officer of Schroder Salomon Smith Barney (a division of Citigroup Inc.) and Vice Chairman, European Investment Bank of Citigroup Inc and Chairman of H.P. Bulmer plc.

5. Raymond Ch'ien
Position: Non-executive Director

Appointment to Board: July 1997

Age: 56

Committee Membership(s): None

External Appointments: Raymond Ch'ien is Chairman of CDC Corporation and its subsidiary, China.com Inc. He is Non-executive Chairman of MTR Corporation Limited, Hang Seng Bank Limited and HSBC Private Equity (Asia) Limited. He is a Non-executive Director of the Hong Kong and Shanghai Banking Corporation Limited, Convenience Retail Asia Limited, VTech Holdings Ltd and The Wharf (Holdings) Limited. He is also a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference.

6. Karen Guerra
Position: Non-executive Director

Appointment to Board: January 2006

Age: 51

Committee Membership(s): Remuneration Committee (1 January 2006)

Experience: Karen Guerra was President of Colgate Palmolive SAS and General Manager of the French Branch of CPI LLC. She was previously Chairman and Managing Director of Colgate Palmolive UK Limited and a Non-executive Director of More Group plc.

7. Ken Hanna
Position: Non-executive Director

Appointment to Board: September 2001

Age: 54

Committee Membership(s): Audit Committee (27 September 2001), Remuneration Committee (27 September 2001) and Nominations Committee (26 February 2005)

Experience: Ken Hanna is an Executive Director and Chief Financial Officer of Cadbury Schweppes plc. He was previously a Partner of Compass Partners International and Group Finance Director and Chief Executive of Dalgety (now Sygen Group plc). He has previous experience with Guinness plc (now Diageo plc), Avis Europe and Black & Decker.

8. David Scotland
Position: Non-executive Director

Appointment to Board: February 2005

Age: 60

Committee Membership(s): Audit Committee (24 February 2005), Remuneration Committee (24 February 2005) and Nominations Committee (29 November 2005)

Experience: David Scotland is a Non-executive Director of Brixton plc and Chairman of Wine Intelligence. He is a Trustee and Director of Winston's Wish, a child bereavement registered charity. He was previously an Executive Director of Allied Domecq plc, a Non-executive Director of Photo-Me International plc, and Thompson Travel Group plc.

9. Michael Wemms
Position: Non-executive Director

Appointment to Board: January 2004

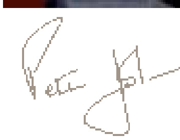
Age: 68

Committee Membership(s): Audit Committee (29 January 2004), Remuneration Committee (29 January 2004) and Nominations Committee (29 July 2004)

Experience: Michael Wemms is a Non-executive Director of AD Pharma, Galiform plc, Majid Al Futtaim Group and Moneysupermarket.com Group plc. He was previously Chairman of the British Retail Consortium and House of Fraser plc. He held various positions with Tesco plc including Executive Director and Personnel Director.

Directors' report

We are committed to ensuring high standards of governance are maintained



Peter Johnson
Chairman

Directors' report

The Directors present the Annual Report and Accounts and audited Financial statements for the year ended 31 December 2007. For the purposes of this report 'Company' means Inchcape plc and 'Group' means the Company and its subsidiary and associated undertakings.

Principal activities

A description of the principal activities of the Group and likely future developments and important events occurring since the end of the year is given on pages 8 to 37.

Business review

The information that fulfils the requirements of the business review can be found in the operating and financial review on pages 8 to 37, which are incorporated in this Report by reference. Information on employees is given on pages 39 to 41.

Results and dividends

The Group's audited Financial statements for the year ended 31 December 2007 are shown on pages 66 to 119. The Board recommends a final ordinary dividend of 10.5p per ordinary share. If approved at the 2008 Annual General Meeting (AGM), the final ordinary dividend will be paid on 17 June 2008 to shareholders registered in the books of the Company at the close of business on 23 May 2008. Together with the interim ordinary dividend of 5.25p per ordinary share paid on 10 September 2007, this makes a total ordinary dividend for the year of 15.75p (2006 – 15.0p).

Authority to purchase shares

At the Company's AGM on 10 May 2007, the Company was authorised to make market purchases of up to 46,536,694 ordinary shares (representing approximately 10.0% of its issued share capital). Pursuant to that authority, the Company purchased into Treasury 4,535,000 ordinary shares (representing 0.93% of the Company's issued share capital) at a cost of £18.4m. The authority granted in 2007 now covers a total of 42,001,694 ordinary shares (representing 9.1% of the Company's issued share capital on 31 December 2007). All purchases were made through the market.

Share capital and control

The following details are given pursuant to section 992 of the Companies Act 2006.

As at 31 December 2007, the Company's authorised share capital comprised £196,500,000.00 divided into 786,000,000 ordinary shares of 25.0p of which 486,188,977 ordinary shares were in issue.

Shareholders are entitled to receive the Company's Report and Accounts; to attend and speak at General Meetings and to appoint proxies and exercise voting rights. The shares do not carry any special rights with regard to control of the Company. There are no restrictions or limitations on the holding of ordinary shares and no requirements for prior approval of any transfers.

There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting.

Shares acquired through the Company share schemes rank pari passu with the shares in issue and have no special rights.

As far as the Company is aware there are no persons with significant direct or indirect holdings in the Company.

The appointment and replacement of Directors are governed by the Company's Articles of Association. Any changes to the Articles must be approved by the shareholders in accordance with the legislation in force from time to time.

The Directors have authority to issue and allot ordinary shares pursuant to article 11 of the Articles of Association. The Directors have authority to make market purchases of ordinary shares. This authority is renewed annually at the Annual General Meeting.

The Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control of the Company following a takeover bid.

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

Directors' indemnity

A qualifying third party indemnity (QTPI), as permitted by the Company's Articles of Association and sections 309A to 309C of the Companies Act 2006, has been granted by the Company to each of the Directors of the Company. Under the provisions of the QTPI the Company undertakes to indemnify each Director against liability to third parties (excluding criminal and regulatory penalties) and to pay Directors' costs as incurred, provided that they are reimbursed to the Company if the Director is found guilty or, in an action brought by the Company, judgement is given against the Director.

Significant shareholdings

As at 25 February 2008, the following notifications of substantial interests in the Company's issued ordinary share capital had been received pursuant to the provisions of the Companies Act 2006:

Holding	No of shares	Total %
Aviva plc	45,901,960	10.0%
F&C Asset Management	35,317,838	7.7%
Barclays plc	26,873,972	5.9%
Toyota Motor Corporation	25,239,081	5.5%

Directors

The names of the Directors, plus brief biographical details, including those Directors offering themselves for election or re-election, are given on pages 44 and 45. Each Director held office throughout the year.

Will Samuel, André Lacroix and Barbara Richmond will retire by rotation at the AGM and offer themselves for re-election in accordance with the Articles of Association. Raymond Ch'ien, who was appointed a Non-executive Director in July 1997 and completed 10 years service on the Board in July 2007, offers himself for re-election in accordance with the Combined Code.

Directors' interests

The table below shows the beneficial interests, other than share options, including family interests, on the dates indicated, in the ordinary shares of the Company of the persons who were Directors at 31 December 2007.

	Ordinary shares of 25.0p each	
	31 Dec 2007	01 Jan 2007
Peter Johnson	**205,972**	201,996
André Lacroix	**317,254**	213,133
Barbara Richmond	**98,314**	55,000
Raymond Ch'ien	**130,000**	130,000
Karen Guerra	**0**	11,640
Ken Hanna	**37,000**	12,000
Will Samuel	**12,000**	12,000
David Scotland	**11,298**	11,298
Michael Wemms	**7,210**	7,000

Notes:

(a) The Executive Directors of the Company, together with other employees of the Group, are potential beneficiaries of the Inchcape Employee Trust (Trust) and, as such, are deemed by the Companies Act 1985 to be interested in any ordinary shares held by the Trust. At 31 December 2007, the Trust's shareholding totalled 1,696,685 ordinary shares (1 January 2007 – 1,715,739 ordinary shares).

(b) No Director had any beneficial interest in the subsidiaries of the Company.

Between 1 January and 26 February the Trustees of the Trust made the following transfers of ordinary shares to satisfy the exercise of awards under the Inchcape Deferred Bonus Plan. Neither transfer by the Trust related to an exercise of award by either of the Executive Directors.

Employee trust shares

Date	Ordinary shares of 25.0p each
29 January 2008	26,637

Details of share options held by Directors, including under the Inchcape 1999 Share Option Plan and the Inchcape SAYE Share Option Scheme, together with details of awards under the Inchcape Deferred Bonus Plan, are shown in notes 3, 4 and 5 on pages 63 to 64.

Transactions with directors

No transaction, arrangement or agreement required to be disclosed in terms of the Companies Act 1985 and IAS 24 was outstanding at 31 December 2007, or occurred during the year for any Director and/or connected person (2006 – none).

Related party transactions

The Company through certain of its subsidiaries, entered into the following Related Party Transactions which require disclosure in accordance with Listing Rule 11.1.10 (2) (c):

1. Sale of Michael Powles Limited, Perodua UK Limited and the freehold of Craigmore House, Remenham Hill, Henley-on-Thames to Henley Motor Holdings Limited, a company owned by Ann Wilson and Richard Palmer on 27 April 2007. Ann Wilson and Richard Palmer were directors of European Motor Holdings plc (and subsidiaries) prior to its acquisition by Inchcape plc. The consideration paid was £4.58 million.

2. Sale of Wilcomatic Limited, European Motor Services Limited and J&S Components Limited to Comprehensive Service Facilities Limited, a company owned by Selwyn Rodrigues and Kevin Pay on 10 October 2007. Selwyn Rodrigues and Kevin Pay were directors of Wilcomatic Limited both prior to and at the point of the transaction. The consideration paid was £4.15 million.

Creditor payment policy

The Company has no trade creditors (2006 – nil). The Group is responsible for agreeing the terms and conditions including terms of payment under which business transactions with the Group's suppliers are conducted. Whilst the Group does not follow any single external code or standard, in line with Inchcape Group policy, payments to suppliers are made in accordance with agreed terms and conditions.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Charitable and political donations

The Group's policy on charitable and political donations, including the amounts, is shown on pages 42 and 43.

Environment

The Group's policy on environment, health and safety is shown on pages 39 to 40.

Events after the balance sheet date

See note 32 on page 119.

Auditors and disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware.

The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The Annual General Meeting will be held at 11.00 a.m. on Thursday 15 May 2008 at The Royal Automobile Club, 89-91 Pall Mall, London SW1Y 5HS. The notice convening the meeting and the resolutions to be put to the meeting, together with the explanatory notes, are given in the Circular to all shareholders which accompanies the Annual Report and Accounts.

The business of the meeting will include proposals to renew:

(i) existing authorities for Directors to allot securities in the Company; and

(ii) the Company's authority to purchase up to 10.0% of its own ordinary shares (the Company currently has authority to purchase up to 42,001,694 ordinary shares of 25.0p each, approximately 9.1% of its current issued ordinary share capital). This authority will include the purchase of ordinary shares into Treasury.

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

By order of the Board

P Claire Chapman

Claire Chapman
General Counsel and Group Company Secretary
Inchcape plc

Executive committee

William Tsui
Position: Chairman, Inchcape Asia-Pacific Limited

Appointment to Executive Committee: February 2006

Age: 65

Skills & Experience: William has held various positions within Capitol Oldsmobile, Sunrise Chrysler, Plymouth and Mitsubishi in Sacramento, California. He was also General Manager of Jefferson Motors Inc. in Concord, California and Vice President of Marketing for Ford Motors in San Francisco, California. William joined Crown Motors Limited in Hong Kong in 1991 as General Manager of Sales and Marketing and became Managing Director in 1994. Between 2000 and 2007, he was Chief Executive Officer of Borneo Motors Limited in Singapore, Chairman and Chief Executive Officer of Crown Motors Limited and subsequently became Chairman and Chief Executive Officer of Inchcape Asia-Pacific Limited. Upon his retirement in 2007, he was appointed as Chairman and Chief Executive Officer for Inchcape China and Chairman of Inchcape Asia-Pacific Limited.

Martin Taylor
Position: CEO Europe Distribution, Africa, South America & Russia

Appointment to Executive Committee: February 2006

Age: 53

Skills & Experience: Martin joined the Group in 1984 in the Finance Division having been a Senior Manager in Coopers & Lybrand. He became Managing Director of Toyota Hellas Greece in 1987. In 1991 he moved to the position of Chairman of Toyota Belgium and from 2000 he took on wider regional responsibilities including Europe Distribution in 2006. Martin is a qualified Chartered Accountant.

Claire Chapman
Position: General Counsel and Group Company Secretary

Appointment to Executive Committee: March 2007

Age: 40

Skills & Experience: Claire joined the Group on 12 March 2007. Formerly General Counsel, Europe, Middle East and Africa, Reuters PLC, Claire is a qualified Solicitor, England and Wales and Attorney, New York and has her Masters in International Law.

Dale Butcher
Position: Group Business Development Director

Appointment to Executive Committee: February 2006

Age: 51

Skills & Experience: Dale joined British Timken, a subsidiary of the Timken Company, in 1980 and moved to Kuwait to work for the Alghanim Company from 1982. Dale joined Inchcape in 1985 initially in Group Finance and then as a Divisional Director for Inchcape Testing and Business Machines. In 1996, Dale was appointed Group Business Development Director. He is also a Member of London Regional CBI Council.

Tony George
Position: Group HR Director

Appointment to the Executive Committee: February 2007

Age: 43

Skills & Experience: Tony joined the Group on 1 February 2007. He has over 20 years of experience in Human Resources and General Management in International FMCG and retail companies. In his prior roles he was HR Director, Corporate Functions for Vodafone plc and before that, Senior Vice President International Partner Resources for Starbucks Coffee Company based in the US. He has also worked with ICI in India and Diageo in the UK.

John McConnell
Position: Chief Executive Officer, Inchcape Australia/New Zealand

Appointment to the Executive Committee: February 2006

Age: 46

Skills & Experience: John worked for Reckitt & Colman (now Reckitt Benckiser) for 13 years in various senior financial roles in Australia, Germany and the UK. He joined Inchcape Australia in May 1999 as Finance Director and in 2003 moved into the role of Managing Director for Sydney Retail, AutoNexus and Inchcape Motors before becoming CEO for Australia and New Zealand in May 2005. John holds a B Ec and MBA.

Trevor Amery
Position: Chairman, Subaru Australia
Director, Inchcape Australia

Appointment to the Executive Committee: February 2006

Age: 54

Skills & Experience: Trevor has 26 years' automotive experience with senior roles in accounting, marketing and operations. He was the Managing Director of Subaru Australia for 13 years. (Awarded Australian Market of the Year in 1995.) Trevor is also a Director of a software development company and the Federal Chambers of Automotive Industries.

Spencer Lock
Position: Chief Executive, Inchcape Retail UK

Appointment to Executive Committee: February 2006

Age: 41

Skills & Experience: Spencer joined Inchcape Retail as Finance and Insurance Director in 1998. In 1999 he was appointed Franchise Director for the Toyota/Lexus Division and subsequently for other franchises, including the Premier Automotive Group and Mercedes-Benz. He took up the newly-created position of Operations Director in February 2004 before being appointed Managing Director in September of that year. In April 2007 he was appointed as Chief Executive.

George Ashford
Position: Managing Director European Retail

Appointment to Executive Committee: October 2006

Age: 39

Skills & Experience: George joined Kingfisher Plc in 1994 in the Business Development Department and then moved to Yum Restaurants International (previously Pepsi Restaurants International) in 1996. George spent 10 years with Yum holding several senior management positions culminating with board positions in Yum's two UK based operating businesses. George was Product Excellence Director for KFC (GB) from 2000 to 2003 and Operations Director for Pizza Hut (UK) from 2003 to 2006. George joined Inchcape in March 2006 as Director of Implementation, Inchcape Advantage.

Executive Committee continued

Ken Lee

Position: Group Communications Director

Appointment to Executive Committee: November 2006

Age: 51

Skills & Experience: Ken held the position of Group Marketing Director for the RAC from 1999 to 2003, being part of the team that acquired and then led the business post-demutualisation. During his tenure, the company successfully moved from a car breakdown organisation to a customer-focused motoring services group. Prior to the RAC, Ken worked for Lex Service plc for five years, where, as Marketing Director, he successfully established the Hyundai brand in the UK. Ken joined Inchcape UK as Marketing Director in September 2003 where he led the development of a pioneering customer experience programme.

Patrick S Lee

Position: Managing Director – Inchcape North Asia

Appointment to Executive Committee: November 2006

Age: 46

Skills & Experience: Before joining Inchcape, Patrick was the Group General Manager, Sales and Marketing of Kerry Beverages Ltd from 1998 to mid 2006. Patrick's experience in auto retailing came from a Toronto Honda dealership where he worked for 3 years and was awarded the highest honour "Sales Master" by Honda Canada for two consecutive years (1991 and 1992). Patrick started his career in brand marketing with Procter & Gamble, and he has worked in various locations including Geneva, Thailand and Hong Kong. Patrick is a SAP Global Programme Board Member and received academic achievement in his MBA.

Immo Rupf

Position: Group Strategy Director

Appointment to Executive Committee: March 2006

Age: 42

Skills & Experience: Immo was a Partner and Vice President of the Boston Consulting Group (BCG) in Munich, Shanghai and Paris from 1989 to 2003 and Group CFO for Alcoa Asia and Latin America from 2004 to 2006. His main focus at BCG and Alcoa was on business strategy, corporate development and performance management for automotive and consumer businesses.

Corporate governance report

The following sections explain how the Company applies the main and supporting principles of the Combined Code on Corporate Governance (the Code).

Corporate governance framework

The Board's overriding objective is to ensure that the Group delivers long term sustainable growth. The Board is accountable to the Company's shareholders for the good conduct of the Company's affairs. Throughout the year, the Company has complied with the provisions of the Code. The Company's internal procedures are regularly reviewed and updated by the Board and the relevant Committees.

The Board continues to review corporate governance matters, monitoring policies and guidelines issued by the main institutional bodies, such as the Association of British Insurers and adopting changes and recommendations of relevant bodies such as the Institute of Chartered Secretaries and Administrators. The Company continues to review the changes being introduced by the ongoing implementation of the Companies Act 2006 and to take advantage of such changes, where required and where beneficial to its members.

The Board

The Board is chaired by Peter Johnson. During 2007, the Board consisted of two Executive Directors, André Lacroix, the Group Chief Executive and Barbara Richmond, the Group Finance Director, and six Non-executive Directors. Will Samuel is the Deputy Chairman and Senior Independent Non-executive Director. The names of all the Non-executive Directors and biographical details of the Board members are set out at pages 44 and 45.

There is a schedule of matters reserved to the Board, which is reviewed annually, and which identifies those matters that the Board does not delegate to management.

Specific responsibilities have been delegated to Board Committees, as discussed at pages 54 and 55.

The Non-executive Directors also met during the year without the Executive Directors being present.

The Board held 9 scheduled meetings during 2007, including an overseas meeting at the Company's facilities in Bucharest, Romania. The Board met on several occasions outside of the formal schedule mainly to discuss specific strategic projects.

Role of the Board

The Board is collectively responsible for promoting the success of the Company and for providing strong leadership within a framework of prudent and effective controls that enable risks to be assessed and managed. Its principal focus is the Company's strategic aims, developments and controls of the Group and it ensures that necessary financial and human resources are in place to enable these objectives to be met. It reviews management performance and succession, sets the Company's values and standards and ensures that its obligations to shareholders and to others are understood and met, in particular in relation to:

- Group strategy and operating plans;
- corporate governance;
- compliance with laws, regulations and the Company's code of business conduct;
- business development, including major investments, acquisitions and disposals;
- financing and treasury;
- appointment and removal of Directors;
- succession planning for senior management roles;
- financial reporting, audit and monitoring of internal controls;
- corporate social responsibility, ethics and the environment;
- external corporate communications; and
- pensions.

Name	Position	No. of years on the Board	Independent (as determined by the Board)	Audit Committee	Nominations Committee	Remuneration Committee
P Johnson	Company Chairman and Chairman of the Nominations Committee	9	No	No	Yes (Chairman)	No
A Lacroix	Group Chief Executive	2	No	No	Yes	No
B Richmond	Group Finance Director	1	No	No	No	No
R Ch'ien	Non-executive Director	10	No	No	No	No
K Guerra	Non-executive Director	1	Yes	No	No	Yes
K Hanna	Non-executive Director	6	Yes	Yes (Chairman)	Yes	Yes
W Samuel	Non-executive Director	2	Yes	Yes	Yes	Yes
D Scotland	Non-executive Director	2	Yes	Yes	Yes	Yes
M Wemms	Non-executive Director and Chairman of Remuneration Committee	3	Yes	Yes	Yes	Yes (Chairman)

Information and development

The Board receives detailed financial information and presentations in addition to items for decision and minutes of Board Committees in advance of each Board meeting from members of the Executive Committee, operational and functional heads and updates on developments in the business, legislative and regulatory environments. Regular items for Board meetings include the Group Chief Executive's report on key issues affecting the Group, the Group Finance Director's report and operational performance and strategy updates from the main business functions and operating divisions.

This enables Directors to make informed decisions on corporate and business issues under consideration.

Each year an offsite meeting is held with members of the Executive Committee at which the Company's strategy is reviewed in depth. This meeting took place in July 2007. Following this meeting, the Board and the Executive Committee agree on an annual basis the strategic agenda for the year, which included the reporting period updates from the operating businesses including Hong Kong, Singapore, Australia, the Balkans and the UK; from the European Retail and Distribution businesses; IT; Business Development; Legal and HR.

In addition, Board members are invited to visit operational and functional areas of the business.

All Directors have access to the services of the Company Secretary. The Company Secretary is responsible for ensuring that Board processes and procedures are effectively followed and supporting effective decision making and governance. She is also responsible for ensuring that Directors receive appropriate training and, for new Directors, induction to the Company. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Directors may take independent professional advice at the Company's expense. None of the Directors sought to do so during 2007. The Company provides insurance cover and indemnities for its Directors and officers.

Appointment and training

The Non-executive Directors are appointed for an initial three year term, subject to election by shareholders at the first AGM after appointment. After which, their appointment may be extended by further three year periods. The re-appointment of any Non-executive Director who holds office for more than six years is subject to a specific and rigorous review process. Any Non-executive Director who has served for more than nine years is subject to annual re-election. Raymond Ch'ien is now subject to annual re-election (see page 53).

At the 2008 AGM, André Lacroix, Barbara Richmond and Will Samuel will retire by notation and offer themselves for re-election in addition to Raymond Ch'ien.

There is a formal and transparent procedure for the appointment of new Directors, the prime responsibility for which is delegated to the Nominations Committee. Newly appointed Directors take part in an induction process. This may include advice from external consultants. In particular, it provides information on the business, including site visits, to ensure awareness of responsibilities and full appraisal of the Group's activities and strategic direction.

Throughout a Director's time in office, each Director is continually updated on the Group's businesses, the competitive and regulatory environments in which they operate, corporate responsibility matters, and other changes affecting the Group and the markets in which it operates with briefings from the Company's external advisers, where appropriate. These arrangements are designed to ensure that Directors' skills, knowledge and familiarity with the Company are kept up to date to enable them to fulfil their role both on the Board and on its Committees.

The terms and conditions of appointment of each Director will be available at each AGM and are also available at the Company's registered office during normal business hours.

Attendance and committee membership

During the year, the Directors attended the following number of scheduled meetings of the Board and its Committees. Non-attendance is rare. Where a Director is unable to make a meeting, he/she is advised in advance of the matters to be discussed and given an opportunity to make his/her views known to the Chairman, Committee Chairman or Company Secretary before the meeting.

	Board		Audit Committee		Remuneration Committee		Nominations Committee	
Number of Meetings	Number	Attended	Number	Attended	Number	Attended	Number	Attended
Peter Johnson	9	9	–	–	–	–	2	2
André Lacroix	9	9	–	–	–	–	2	2
Barbara Richmond	9	9	–	–	–	–	–	–
Raymond Ch'ien	9	9	–	–	–	–	–	–
Karen Guerra	9	9	–	–	2	2	–	–
Ken Hanna	9	9	3	3	2	2	2	2
Will Samuel	9	9	3	3	2	2	2	2
David Scotland*	9	8	3	2	2	1	2	2
Michael Wemms	9	9	3	3	2	2	2	2

* David Scotland was absent for each meeting, held on the same day, due to illness.

Division of responsibilities

There is a clear division of responsibilities between the Chairman and Group Chief Executive, which is set out in writing and approved by the Board.

Peter Johnson, as Chairman, is responsible for creating the conditions to achieve overall Board and individual Director's effectiveness and, in particular, for the effective operation and chairing of the Board and ensuring that the information it receives is sufficient to make informed judgements with good co-operation between the Board and the Executive Committee.

The Board has delegated authority for the day to day management of the Company's business to the Group Chief Executive, André Lacroix. The Group Chief Executive is responsible for the operational implementation of the strategy and policies agreed by the Board. He is supported by the Executive Committee. The biographical details of the Executive Committee are detailed at pages 49 and 50.

Independence/non-executive directors

Peter Johnson was appointed Chairman on 1 January 2006 for a three year term, having previously been the Group Chief Executive. As previously reported, the Board recognised the benefit to the Company and its shareholders of Peter Johnson's ongoing involvement because of his deep and broad experience of the automotive industry as a whole and the contrasting international markets in which Inchcape operates. The Board also recognised the pivotal role which he has played in the development and continuity of the Company's relationships with its major international brand partners, which in many cases are founded upon associations built up over many years.

All Directors bring an independent judgement to bear on issues of strategy, performance, resources (including key appointments) and standards of conduct. The Non-executive Directors share responsibility for the execution of the Board's duties, taking into account their specific responsibilities. They comprise the principal external presence in the governance of the Company and provide a strong independent element coupled with strong company experience, required for the execution of the Company's strategy. The key elements of the role and responsibilities of the Non-executive Directors are:

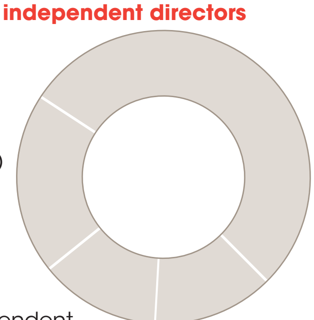
- guidance and advice to the CEO;
- development of strategy with the CEO;
- scrutiny of performance;
- controls;
- reporting of performance;
- remuneration of and succession planning for Executive Directors; and
- governance and compliance.

In addition to the Chairman, the Board currently has six Non-executive Directors who bring to the Group a wide diversity of experience and expertise. Raymond Ch'ien is not regarded as independent because he previously had a service contract with Crown Motors Limited, a subsidiary of the Company incorporated in Hong Kong and has now served for 10 years on the Board.

The other five Non-executive Directors are considered by the Board to be independent in accordance with the Code, namely, as being independent in character and judgement and having no relationships which are likely to affect, or could appear to affect, the Directors' judgement. Will Samuel and Michael Wemms are both non-executive directors of Galiform PLC. Having regard to all the circumstances, including the independence they have demonstrated as Directors of the Company and the fact that there are no cross-shareholdings or business relationships between Galiform and Inchcape, the Board is satisfied and has determined that they are both independent.

Matters are referred to the Board as a whole and no one individual or small group of individuals has unfettered powers of decision making.

Balance of independent directors



If any Director were to have any concerns regarding the running of the Company or a proposed action, these would be recorded in the Board minutes. If a Director were to resign over an unresolved issue, the Chairman would bring the issue to the attention of the Board. No such issues or concerns arose during the year.

Performance evaluation

The Board undertook a formal evaluation of its own and each Board Committee's performance, roles and terms of reference. The Board reviewed the process in October 2007 and determined that an external facilitation was not necessary. This decision was based on the fact that the composition of the Board had not changed during 2007 and the Board had successfully implemented recommended changes from the prior year's external evaluation process.

However, the Board considers that an evaluation of its performance is key to ensuring an effective Board, which in turn is vital to the success of the Company. Led by the Chairman and supported by the Company Secretary, a performance evaluation questionnaire was used for the performance evaluation process. This questionnaire covered the effectiveness of the Board, each Committee's performance against objectives, preparation for and performance at meetings and corporate governance matters. It addressed issues raised by the Higgs Review of the role and effectiveness of Non-executive Directors published in January 2003. The Board members concluded that appropriate actions have been identified to address areas that could be improved and that overall the Board and Committees continued to perform effectively.

The Chairman evaluates the performance of each Non-executive Director and met with each Non-executive Director to discuss performance. The Non-executive Directors, chaired by the Senior Independent Non-executive Director, met without the presence of the Chairman to evaluate the Chairman's performance.

Following the performance evaluation process, the Chairman has confirmed that the Non-executive Directors standing for re-election at this year's AGM continue to perform effectively and demonstrate commitment to their roles. The Board will continue to review performance annually.

Board committees

The Board delegates certain responsibilities to its principal Committees. Formal terms of reference for each Committee have been approved by the Board and are available at www.inchcape.com. All Committee and Chairmen report verbally on the proceedings of the Committee at the next Board meeting. The Company Secretary acts as Secretary to all of the Board Committees.

Audit committee

Members

The membership of the Committee is shown on page 44. During the year, the Committee comprised wholly of Independent Non-executive Directors and continues to do so. The Chairman of the Audit Committee is Ken Hanna who will be present at the Company's Annual General Meeting to answer questions on this Report and matters within the scope of the Audit Committee's responsibilities.

In light of Ken Hanna's qualifications as a Chartered Accountant and his experience with Coopers & Lybrand, Compass Partners and Cadbury Schweppes, and Will Samuel's qualifications as a Chartered Accountant and his experience with Lazard and Edinburgh Investment Trust, the Board has determined that they have recent and relevant financial experience.

The Non-executive Directors on the Committee have the opportunity at each meeting to review any issues with the external auditors and with the Group Audit and Risk Management Director without members of the executive management being present.

Responsibilities

The Committee's responsibilities, which are set out in its terms of reference, include:

- monitoring the integrity of the Financial statements of the Company and any formal announcement relating to its financial performance;
- reviewing internal financial controls and internal control and risk management systems;
- monitoring and reviewing the effectiveness of the internal audit function;
- making recommendations to the Board in relation to the appointment and removal of the external auditor;
- reviewing the external auditor's independence and objectivity and the effectiveness of the audit process;
- reviewing and implementing the policy on the engagement of the external auditor to supply non-audit services; and
- reviewing the Company's arrangements for employees to raise concerns confidentially about possible improprieties in relation to financial reporting or other matters.

In order to fulfil its duties, the Committee receives and challenges presentations or reports from the Group's senior management, consulting as necessary with the external auditor.

The Company has a policy, which is regularly reviewed by the Committee, regarding the scope and extent of any non-audit services provided to it by its auditors. The purpose of the policy is to ensure that the auditors remain objective and independent in their audit work. A system of checks is in place, which must be complied with prior to the auditors being engaged in non-audit work, with clear divisions of responsibility between audit and non-audit staff. The Committee has acted in compliance with this policy. Financial limits are imposed on permitted areas of non-audit work, such as tax advice.

For 2007, the ratio of audit to non-audit work was 1:1. The Committee has reviewed the level of non-audit fees and the approach taken and confirmed that this is acceptable.

A full statement of the fees paid for audit and non-audit services is provided in note 3 on page 87.

Activities

The Committee meets at least three times a year and has an agenda linked to events in the Company's financial calendar. No one, other than the Committee Chairman and the members, is entitled to be present at meetings of the Committee, although others, including the Chairman, the Group Chief Executive, the Group Finance Director, the Group Audit and Risk Management Director and the external auditors attend by invitation of the Committee.

The external auditor has unrestricted access to the Committee.

During 2007, the Committee discharged its responsibilities set out in its Terms of Reference, including:

- monitoring and reviewing the integrity of the Financial statements of the Company, including its Annual and Interim Reports, Interim and Preliminary Results announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain;

- reviewing the Company's internal financial controls and the Company's internal control and risk management systems;
- monitoring and reviewing the effectiveness of the internal audit function and external auditor, including reviewing the external auditor's findings and the report of the Group Audit and Risk Management Director;
- reviewing and assessing the annual internal audit plan and the results of the internal auditor's work, including reviewing and monitoring management's responsiveness to the findings and recommendations;
- reviewing the compliance programme, including whistle blowing provisions;
- considering the Directors' duties under the Companies Act regarding disclosure of information to the Company's auditors; and
- considering and making recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor.

The Committee may engage, at the Company's expense, independent counsel and other advisers as it deems necessary to carry out its duties. None was engaged during 2007.

The Committee has recommended to the Board that the external auditor is re-appointed.

The Company's whistle blowing policy is communicated to employees on a global basis. The policy, which is monitored by the Audit Committee, is aimed at enabling employees to raise concerns with the disclosure response team in cases where conduct is deemed to be contrary to our Values.

Disclosure of information to the auditors

So far as each Director is aware, there is no relevant audit information of which the auditors are unaware; and each Director has taken all steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given pursuant to the Companies Act 1985.

Nominations committee

Members

Membership of the Nominations Committee is shown at page 44. It is chaired by the Chairman and the majority of members continue to be independent Non-executive Directors. The Committee meets at least once each year.

Only the Committee Chairman and its members are entitled to be present at meetings of the Committee, although others, including the Group Human Resources Director, attend by invitation of the Committee. The Committee engages external consultants to assist it with its work.

Responsibilities

The Nominations Committee is responsible for leading the process for Board appointments. The Committee makes recommendations to the Board, having evaluated the balance of skills, knowledge and experience of the Board. In light of this evaluation, the Nominations Committee prepares a description of the role and capabilities required for a particular appointment. Candidates from a range of backgrounds are considered. The Nominations Committee uses external advisers to facilitate searches for potential candidates.

The Nominations Committee keeps the extent of any Director's other interests under review to ensure that the effectiveness of the Board is not compromised. The Board is satisfied that the Chairman and each Non-executive Director commits sufficient time to the fulfilment of their duties as Chairman and Directors of the Company respectively. The Board believes, in principle, in the benefit of Executive Directors accepting non-executive directorships of other companies as noted on page 61.

Activities

The principal activities of the Nominations Committee during the year were the review of succession planning in respect of Executive Directors and Executive Committee members and the consideration of current and potential Non-executive Directors. In addition, the Committee made recommendations for the election and re-election of Directors retiring at the 2008 AGM. No Director participated in the meeting when recommendations regarding his or her election or re-election were considered. In particular, the Nominations Committee specifically reviewed the continued service of any Non-executive Director who has served 6 or more years on the Board to ensure that Board members continue to possess the skills deemed appropriate for the needs of the Company and its shareholders.

The Nominations Committee reviews annually the re-election of any Board member who has served for longer than nine years on the Board.

Remuneration committee

Details in respect of the Remuneration Committee are set out in the Remuneration Report at pages 58 to 61.

Relations with shareholders

The Company is committed to maintaining good communications with investors. Contact with shareholders is normally the responsibility of the Group Chief Executive, Group Finance Director and Head of Investor Relations. The Chairman, Deputy Chairman and Senior Independent Non-executive Director and other Board members are available to shareholders.

There is an established investor relations programme and regular meetings are held with major shareholders to update them on the Company's progress and to discuss any issues that investors may have. The Chairman, Deputy Chairman and Senior Independent Non-executive Director and other Board members are available to the significant shareholders in the Group. The Company maintains an ongoing dialogue with institutional shareholders and analysts who are invited to presentations by the Company immediately following the announcements of the Company's results and other trading statements. In addition, the Company held a meeting with its analysts in St Petersburg in October 2007 to specifically discuss the Company's Emerging Markets strategy.

The Board receives regular updates on the views of major shareholders and analysts.

The Board is equally interested in the concerns of private shareholders and on its behalf, the Company's investor relations department and Company Secretary manage the day to day communications with these investors and act in close consultation with the Board. A Disclosure Committee, consisting of the Chairman, Group Chief Executive, Group Finance Director, one other Director of the Company and the Company Secretary, ensures that all appropriate communications are made to the London Stock Exchange and shareholders. All material information reported to the regulatory news service is simultaneously published on the Company's website affording all shareholders access to Company announcements.

The Company's AGM provides an opportunity for the Board to communicate with private investors. At the meeting, the Company complies with the Code as it relates to voting, the separation of resolutions and the attendance of Committee chairmen. All shareholders are invited to raise any Company matters of interest to them at the Company's AGM to the Chairman, Group Chief Executive, Committee Chairman and other members of the Board. In line with the Code, details of proxy voting by shareholders, including votes withheld, are made available on the Company's website following the meeting. Private shareholders are also encouraged to write to the Chairman or any Board member to express views on any matters of concern.

Following approval given by shareholders at the last annual meeting, shareholders may elect to receive email notification that shareholder documentation, including the Annual Report, is available on the company's website, as an alternative to receiving any such documentation by post.

To facilitate the ability of our shareholders to buy additional shares in a cost effective way, in 2007 the Company introduced a Dividend Reinvestment Plan (DRIP). The DRIP is available to all shareholders either online or through our Registrars.

Operational and compliance controls

The Board is responsible for the establishment and review of the Company's internal operational and compliance control system, which is designed to ensure effective and efficient operations, quality of internal and external reporting, internal control and compliance with appropriate laws and regulations. The Board has ensured compliance with the Revised Guidance for Directors on the Combined Code. The Directors acknowledge their responsibility for the Company's system of internal controls and confirm they have reviewed the system's effectiveness. The Board, advised by the Committee, takes note of the Guidance on Internal Control (the Turnbull Guidance) in the Code. In particular the Board has ensured that a process for managing significant risks has been in place for the year and up to the date of the accounts and is regularly reviewed. However, such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. In establishing and reviewing the system of internal controls the Directors have regard to the nature and extent of relevant risks, the likelihood of a loss being incurred and the costs of control. Therefore, the system can only provide a reasonable but not absolute assurance against any material mis-statement or loss and cannot eliminate business risk.

The Group operates a Risk Management Strategy Group (RMSG) which is chaired by the Group Chief Executive and includes the Group Finance Director, General Counsel and Group Company Secretary, Group Information Systems Director, Group Treasury Director, Group Audit Director and the Group Risk Manager.

The RMSG meets quarterly to consider what changes to risk management and control processes should be recommended. Its review covers matters such as responses to significant risks that have been identified, output from monitoring processes, including internal audit reports, and changes to be made to the internal control system. It also follows up on areas that require improvement and reports back to the Audit Committee.

The Group Chief Executive also reports to the Board, on behalf of executive management, significant changes in the Group's business and the external environment in which it operates.

In addition, the Group Finance Director provides the Board with monthly financial information, which includes key performance and risk indicators. The Group's key internal control and monitoring procedures include the following:

The Board, through itself and its Committees ensures that any items requiring further investigation and follow up are further reviewed and actions are put in place to remedy any significant failings or weaknesses, should any be discovered.

Financial reporting

There is a comprehensive budgeting system with an annual budget approved by the Directors. Monthly actual results are reviewed and reported against the budget and, where appropriate, revised forecasts at each of the Board's scheduled meetings.

Monitoring systems

Internal Audit reports to the Audit Committee on its examination and evaluation of the adequacy and effectiveness of the Group's systems of internal control. Internal Audit also works closely with management and the external auditor.

Operating unit controls

The overall control framework for the Group is detailed in the Group Finance and Information Systems manuals and is supplemented by risk management policies. Compliance with Group policies and the effectiveness of internal controls are regularly assessed through the audit process and through a process of self certification, which requires business unit management to assess annually the quality of internal controls in their businesses.

Risk management

The Group's management operates a risk management process, which identifies the key risks facing each business unit. A risk register, which identifies the key risks, the impact should they occur and actions being taken to manage those risks to the desired level, is produced for each business unit. In addition, actions to be taken in the event that such risks crystallise and proposed improvements to the way they are managed are also included. This information is passed up the organisation, culminating in the production of a Group Risk Register, which is approved by the Risk Management Strategy Group and the Executive Committee. In addition, it is provided to and discussed with the Audit Committee. Internal audit continuously review financial, commercial and systems developments in the Group's business units to ensure appropriate audit focus in the major risk areas.

Investment appraisal

The Group has clearly defined policies for capital expenditure. These include annual budgets and detailed appraisal and review procedures.

The Board has reviewed the effectiveness of internal control systems in operation during the financial year in accordance with the guidance set out in the Turnbull Guidance, through the processes set out above.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the Financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial statements for each financial year. Under that law the Directors have prepared the Group Financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the parent company Financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and parent company Financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and the profit or loss of the Group for that period.

In preparing those Financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group Financial statements comply with IFRS as adopted by the European Union, and with regard to the Company Financial statements that, applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial statements;
- prepare the Group and Company Financial statements on a going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the Financial statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Group Financial statements comply with the Companies Act and Article 4 of the IAS Regulation and the Company Financial statements and the Directors' Remuneration Report comply with the Companies Act and Directors' Remuneration Report Regulations 2002. They are also responsible for safeguarding the assets of the Company and 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 Company's website. The work carried out by the auditors does not involve consideration of these matters, and accordingly the auditors accept no responsibility for any changes that may have occurred to the Financial statements since they were initially presented on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of Financial statements may differ from legislation in other jurisdictions.

Remuneration report

This Report to shareholders demonstrates how the principles of the Combined Code relating to Directors' remuneration are applied.

Compliance

The Report complies with the Directors' Remuneration Report Regulations 2002 and the relevant requirements of the FSA Listing Rules. The Remuneration Committee believes that the Company has complied with the provisions regarding remuneration matters contained within the Combined Code.

Remuneration committee

The Remuneration Committee operates under formal terms of reference and under delegated responsibility from the Board. These are reviewed annually to ensure that the Remuneration Committee remains up to date with best practices appropriate to the Company's strategy and the business environment in which it operates.

Its duties include:

- determining and agreeing the Company's policy and framework for executive remuneration with the Board;
- setting all elements of the remuneration of Executive Directors and for certain other senior executives;
- determining the remuneration of the Chairman; and
- determining any other remuneration issues which affect the interests of shareholders, in particular overseeing the administration of the Company's share plans and the provision of benefits and settlement for Executive Directors and certain other executives where these are stated as being at the discretion of the Board.

The Remuneration Committee's terms of reference are available on the Company's website.

The members of the Remuneration Committee during 2007 were Michael Wemms (Chairman), Ken Hanna, Will Samuel, Karen Guerra and David Scotland. Throughout the year, the Remuneration Committee comprised wholly Independent Non-executive Directors and continues to do so.

Remuneration committee operation

The Remuneration Committee holds at least two meetings a year. It has an annual meeting to review the compensation arrangements for each Executive Director and certain senior executives in advance of the annual salary review on 1 April. It also holds a further meeting to consider policy issues, and developments in market best practice, including the monitoring of award levels and consequent Company liabilities. In addition, ad hoc meetings are held as required. The number of meetings held and details of members' attendance are shown in the table on page 52.

To ensure that the Remuneration Committee receives independent advice, Towers Perrin was appointed by the Remuneration Committee as its external advisor. Towers Perrin also provided advice to the Board on Non-executive Directors' fees, and to the Group in connection with International Financial Reporting Standard 2, Share-based Payments. It does not have any other connection with the Company other than as Remuneration Consultants.

During the year, the Remuneration Committee has been advised internally by the Chairman, the Group Chief Executive, the Group Human Resources Director and the General Counsel and Group Company Secretary.

Neither the Chairman, nor any executive, is involved in deciding his/her own remuneration. These external and internal sources of advice and data available to the Remuneration Committee, together with consideration of the levels of pay increases for other employees and the remuneration policy outlined below, provide a framework for the decision making process.

Remuneration policy

The overriding objective of the remuneration policy is to reward the achievement of corporate and individual goals by linking success in those areas to the Group strategy.

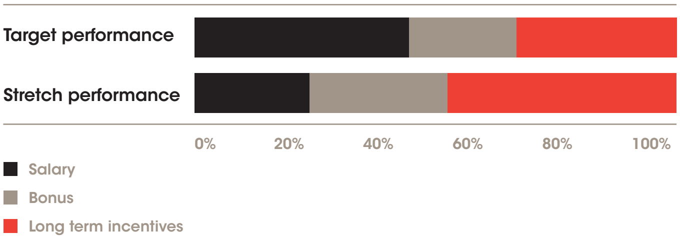
In establishing its remuneration policy and practice, the Remuneration Committee has regard to the need to continue to align with and support the Company's business strategy, to allow the Company to attract, retain and motivate high calibre executive management whilst having regard to pay and conditions throughout the Group. The Remuneration Committee was also guided by the following principles:

- the package should be competitive (i.e. at or around median) when compared with those in organisations of similar size, complexity and type;
- there should be a clear link between the level of remuneration and the performance of the Group and the individual, to the extent that performance-related elements should form a significant part of executives' total remuneration package;
- the interests of the shareholders should be safeguarded by aligning the remuneration package of the executives with shareholders' interests;
- the package as a whole should be easy to understand and motivating for the individual; and
- the composition of the package should reflect best practice among comparable companies.

Consistent with its policy, the Remuneration Committee places considerable emphasis on the performance-linked elements, including annual bonus and long term incentives.

Based on the details set out in this Report, the relative importance of fixed and performance-related remuneration for each of the Directors in respect of 2007 is as follows:

Inchcape pay mix



Long term incentives include both option grants of 200% of salary and participation in the Co-Investment Plan at a level of 50% of salary. Expected values have been calculated consistent with the Towers Perrin methodology used for recent benchmarking exercises. Compound share price growth of 10% p.a. has been assumed in the max performance scenario.

The Remuneration Committee will continue to review the mix of fixed and performance-linked remuneration on an annual basis.

The remuneration packages of the Executive Directors are explained in detail below as they apply to 2007 and, as far as possible, for subsequent years.

Base salary

Base salaries are set by the Remuneration Committee, taking into account the individual's level of responsibility, experience, and performance. Base salary is the only element of remuneration which is pensionable.

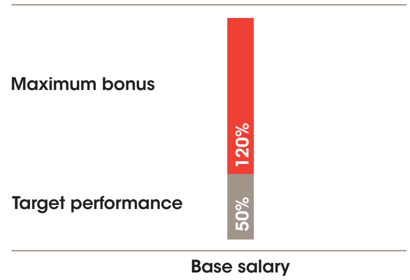
In setting base salary, the Remuneration Committee also takes account of salary levels in comparable companies. To ensure its continuing relevance to Inchcape, the Remuneration Committee made a number of revisions to the comparator group as communicated in last year's report. The revised comparator group has a greater retail focus and includes companies with strong consumer emphasis, in line with the Company's strategic aims and its desire to attract retail talent.

Annual bonus

The Remuneration Committee sets the annual bonus plans for the Executive Directors including performance measures, targets and the maximum levels of individual bonus opportunities. In 2007, the bonus plan was based 70% on Economic Profit, 20% on Net Promoter Score and 10% on achievement of personal objectives. Economic Profit was chosen as the Remuneration Committee believes that this is the measure most aligned with shareholder value. Net Promoter Score is a measure being used to measure customer satisfaction across the Group and is in line with the Company's business strategy of being the most customer-centric automotive retailer.

The 2007 bonus plan for both André Lacroix and Barbara Richmond is as follows:

André Lacroix and Barbara Richmond bonus plan 2007



In 2007, the Company met its performance targets set at the start of the year for Economic Profit and Net Promoter Score. Both André Lacroix and Barbara Richmond had different individual personal objectives relating to the development and implementation of the Company's strategy. The goals are based on relevant quantitative non-financial metrics, the achievement of strategic milestones and the demonstration of appropriate leadership behaviours. They both fully achieved their personal objectives in 2007. The resultant bonuses for André Lacroix and Barbara Richmond are shown in the remuneration table on page 62.

For 2008, there are no changes to the Executive Directors' individual bonus opportunities, namely a payment of 50% of base salary if target performance is achieved and higher payments for performance above target to a maximum of 120% of base salary.

Co-investment plan

At the Annual General Meeting in May 2007, shareholders approved the Co-Investment Plan, where Executive Directors can invest up to 50% of their post tax annual salary to acquire ordinary shares in the Company (In exceptional circumstances the Remuneration Committee may determine that circumstances justify that up to 100% of post tax annual salary may be invested. No such exceptional circumstances have arisen to date). These shares will then be matched at the end of a three year period. The match will be determined by performance against a cumulative Economic Profit target. For the first operation of the Plan, if the target level of RPI + 3% per annum is achieved, then a one for one share match will occur. A maximum two for one match will occur if cumulative Economic Profit exceeds cumulative RPI by 12% per annum. At points between these two levels, matching will take place on a straight line basis. Economic Profit was chosen because the Remuneration Committee believes this is a key driver of the Company's new business strategy.

The Co-Investment Plan was operated for the first time in September 2007. It will be extended on a broadly similar basis to certain other senior executives below the Board.

Executive share option plan

Under the Plan, share options are granted to Executive Directors and certain other senior executives throughout the Group. Options are normally made following the announcement of preliminary annual or half-yearly results. Details of share options granted to Executive Directors in 2007 are shown in note 3 on page 63.

Options will vest according to the following sliding scale:

EPS growth per annum	Vesting percentage
Less than RPI + 3%	0%
RPI + 3%	25%
RPI + 8%	100%
Between RPI + 3% and RPI + 8%	Straight line basis

There will be no retesting.

The Remuneration Committee has retained EPS as the performance measure for the Executive Share Option Plan to ensure that Executive Directors only receive rewards under it if there is significant and sustained improvement in the underlying financial performance of the Company. EPS will continue to be the headline earnings per ordinary share, which excludes volatile one-off matters such as exceptional items. In exceptional circumstances, the Remuneration Committee has the right to adjust the published EPS, as it considers appropriate. If this were to be the case, any adjustment would be disclosed in this Report. In light of changes to accounting standards, the Remuneration Committee has continued to make necessary adjustments to ensure a consistent basis in respect of the EPS measure used to evaluate performance.

During the year, the Remuneration Committee made annual grants of two times base salary taking into account the Executive Directors' and the Company's performance. This grant level is necessary to keep the Company's long term incentive provision in line with the market. Grants in excess of the two times limit may be considered in the future in the event of new hires or developments in market practice. In this regard, the Remuneration Committee has the flexibility under the Plan rules to increase the maximum allowable annual grant level to four times base salary if required.

Deferred bonus plan

The Deferred Bonus Plan was a voluntary plan available to Executive Directors and certain other senior executives.

Participants were able to invest a minimum of 10% and a maximum of 75% of any net of tax bonus award to acquire ordinary shares in the Company. These shares would then be matched with a one for one matching share at the end of a three year period. For Executive Directors, there was a performance condition attached to the vesting of their matching shares. That test was EPS growth of RPI + 3% per annum, with no retesting. Subject to that performance condition being met (for Executive Directors only), the participants' shares being held in the Trust for three years and them remaining an employee of the Group, he/she would become entitled to be awarded shares to an amount equal to the gross amount of the bonus used to acquire ordinary shares in the Company.

Final awards made under this Plan were made to Executive Directors in 2007. Details of these awards are shown in note 4 on page 64.

SAYE share option scheme

Executive Directors are eligible to participate in the Company's SAYE Share Option Scheme on the same terms as other employees. Participants make monthly savings for a three year period. At the end of the savings period share options become exercisable for a six month period. The acquisition of shares under this plan is not subject to the satisfaction of a performance target.

Executive share ownership

To emphasise the importance, the Remuneration Committee places on executive share ownership, Executive Directors are required to hold a fixed number of shares equivalent to 200% of base salary. Each Executive Director has up to five years from 2007, or date of appointment as an Executive Director (if later), to reach this shareholding target.

At the end of the year, by reference to the share price at that date, Executive Directors' share ownership levels are as follows:

Name of Director	Share Ownership (expressed as percentage against base salary)
André Lacroix	172%
Barbara Richmond	89%

Retirement benefits

The Inchcape Group (UK) Pension Scheme provides benefits for Executive Directors and certain other senior executives at the normal retirement age of sixty-five, equal to a maximum of two-thirds of final base salary where salary has a scheme-specific ceiling of £112,800 in the 07/08 tax year, subject to completion of between twenty years' and forty years' service. Pensions in payment are guaranteed to increase in line with the lesser of 5% and the increase in the RPI.

The Scheme requires members who join after March 2005 to contribute 7% of base pay up to the scheme specific ceiling of £112,800 in the 07/08 tax year.

Executive Directors, whose base salary is higher than £112,800 are paid a monthly cash supplement to enable them to make additional pension arrangements. Barbara Richmond received such supplements in 2007. Details of the amounts paid are shown in note 1 on page 62. André Lacroix received a cash supplement of 40% of his base salary in lieu of formal pension provision. He is not a member of the Inchcape Group (UK) Management Pension Scheme except in respect of the life assurance benefit for death in service.

A lump sum life assurance benefit of four times full base salary is provided on death in service. For pension scheme members, a spouse's pension of either half or two-thirds of the prospective member's pension may also be payable. Children's pensions may also be payable, up to one-third of the member's pension.

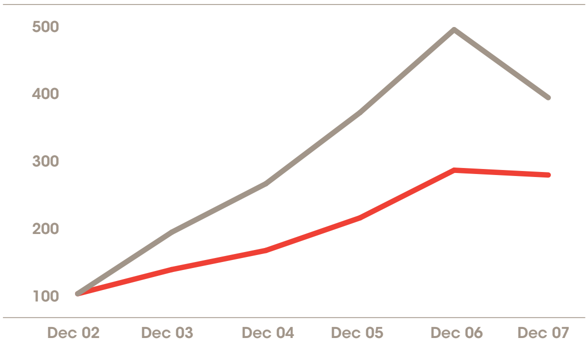
Taxable and other benefits

These include items such as company car, medical care and life assurance premiums. These benefits are in line with the remuneration policy framework outlined above. These benefits are non-pensionable.

Performance graph

The following graph illustrates the Group's Total Shareholder Return (TSR) over a five year period, relative to the performance of the total return index of the FTSE mid 250 group of companies. TSR is essentially share price growth plus reinvested dividends. The FTSE mid 250 has been chosen as the most suitable comparator as it is the general market index in which Inchcape plc appears.

Historical TSR performance



A comparison of the growth in the value of a hypothetical £100 holding over five years against the FTSE 250 (excluding investment companies) based on 30 trading day average values.

- Inchcape
- FTSE mid 250 excl Investment Trust

Chairman's remuneration

The Chairman's remuneration was determined by the Remuneration Committee, taking advice from Towers Perrin on best practice and competitive levels and, taking into account responsibilities and time commitment. Life assurance is provided under the Group (UK) Pension Scheme but the appointment is not pensionable, nor is the Chairman eligible for pension scheme membership or participation in any of the Company's bonus, share option or other incentive schemes.

Non-executive directors' remuneration

The remuneration of Non-executive Directors consists of fees for their services in connection with Board and Committee meetings. Fees for Non-executive Directors are determined by the Board, within the restrictions contained in the Articles of Association. Non-executive Directors' fees are reviewed annually, taking advice from Towers Perrin on best practice and competitive levels. The Non-executive Directors are not involved in deciding their fees.

Non-executive Directors are not eligible for pension scheme membership or participation in any of the Company's bonus, share option or other incentive schemes.

Service contracts

The Company's policy is for Executive Directors' service contract notice periods to be no longer than 12 months, except in exceptional circumstances. All current contracts contain notice periods of 12 months. In the event of termination, the Company will seek fair mitigation of contractual rights. Within legal constraints, the Remuneration Committee tailors its approach, in cases of early termination, to the circumstances of each individual case.

Normal retirement age is sixty-five for André Lacroix and Barbara Richmond.

Directors' service contract table

Name of director	Date of agreement	Notice period	Unexpired term
André Lacroix	01 September 05	12 months from the director; 12 months from the Company	To normal retirement age
Barbara Richmond	03 April 06	12 months from the director; 12 months from the Company	To normal retirement age

Non-executive Directors are appointed for an initial period of three years, which may be extended by agreement with the Board. None of them are engaged on a service contract with the Company.

Policy on external appointments

Inchcape recognises that its Executive Directors may be invited to become non-executive directors of other companies and that this additional experience is likely to benefit the Company. Executive Directors are, therefore, allowed to accept one Non-executive appointment as long as it is not likely to lead to conflicts of interest or undue time commitments. The policy in respect of the Executive Directors' other commitments is kept under review by the Nominations Committee. Any fees received for these duties may be retained by the Executive Director.

André Lacroix, the Group Chief Executive Officer, is a non-executive chairman of Good Restaurants AG for which he did not receive a fee. Barbara Richmond, the Group Finance Director is a non-executive director of the Scarborough Building Society for which she received a fee of £35,500.

By order of the Board

Michael Wemms
Chairman of the Remuneration Committee
26 February 2008

Notes to the Board report on remuneration

1 Individual emoluments for the year

The table below shows a breakdown of remuneration, including taxable and other benefits of each Director. Details of pension entitlements, share options and deferred bonus plan awards held are shown in notes 1, 2 and 3 on pages 62 and 63.

	Base salary/fees (e)		Bonus		Taxable and other benefits (f)		Company contributions paid in year in respect of pension arrangements		Total remuneration	
	2007 £000	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000
Chairman										
Peter Johnson	**285.0**	275.0	**–**	–	**1.6**	1.4	**–**	–	**286.6**	276.4
Executive Directors										
André Lacroix (a)	**687.5**	630.0	**535.5**	650.0	**54.2**	151.9	**275.0**	252.0	**1552.2**	1683.9
Barbara Richmond (b)	**408.1**	288.7	**318.1**	231.0	**19.4**	144.6	**88.9**	62.2	**834.5**	726.5
Non-executive Directors										
Raymond Ch'ien (d)	**36.0**	30.0	**–**	–	**13.5**	12.9	**–**	–	**49.5**	42.9
Karen Guerra (c)	**40.0**	37.0	**–**	–	**–**	–	**–**	–	**40.0**	37.0
Ken Hanna (c)	**54.0**	51.0	**–**	–	**–**	–	**–**	–	**54.0**	51.0
William Samuel (c)	**70.0**	70.0	**–**	–	**–**	–	**–**	–	**70.0**	70.0
David Scotland (c)	**48.0**	45.0	**–**	–	**–**	–	**–**	–	**48.0**	45.0
Michael Wemms (c)	**54.0**	51.0	**–**	–	**–**	–	**–**	–	**54.0**	51.0
Total	**1682.6**	1477.7	**853.6**	881.0	**88.7**	310.8	**363.9**	314.2	**2988.8**	2983.7

Notes on directors' emoluments:

a) The payment of £275,003 (2006 – £252,000) was paid directly to André Lacroix to allow him to make his own pension arrangements outside the Company's plan. Such payment was subject to tax.

b) The payment of £88,905 (2006 – £62,190) was paid to Barbara Richmond to allow her to make her own pension arrangements outside the Company's plan. Such payment was subject to tax.

c) The details shown include fees at the rate of £10,000 per annum for the Audit and Remuneration Committee Chairmanships and at the rate of £4,000 per annum for each of the Audit and Remuneration Committee memberships.

d) The emoluments shown for Raymond Ch'ien include those in respect of services provided in Asia Pacific.

e) No Directors waived emoluments in respect of the year ended 31 December 2007 (2006 – none).

f) Taxable and other benefits comprise items such as company car, medical care, life assurance premiums, petrol allowance and relocation expenses. All Executive Directors are entitled to such benefits.

2 Directors' pension entitlements

Accrued annual pension under defined benefit schemes:

	Increase in accrued pension during the year £'000	Increase in accrued pension during the year (net of inflation)	Accumulated total of accrued pension at 31.12.06	Accumulated total of accrued pension at 31.12.07	Transfer value (less Director's contributions) of the increase in accrued benefit net of inflation	Transfer value of accrued benefits at 31.12.07	Transfer value of accrued benefits at 01.01.07	Difference in transfer value less any contributions made in the year
Barbara Richmond	3.8	3.7	2.4	6.3	24.5	54.0	20.8	25.4

The transfer value has been calculated in accordance with Retirement Benefits Schemes Transfer Values (GN 11), 6 April 2002.

The transfer values of the accrued benefits represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Director's pension benefits. The transfer values do not represent sums payable or due to the individual Directors and therefore, cannot be added meaningfully to annual remuneration.

No Directors made any contribution to their pension in respect of the above during the year.

3 Directors' share options

	Held at 31.12.07	Lapsed during year	Exercised during the year	Granted during the year	Held at 01.01.06 (or date of appointment if later)	Exercise price (c)	Exercise period
André Lacroix	346,362 (a)	–	–	–	346,362 (a)	358.0p	Sept 2008 - Sept 2015
	278,442 (a)	–	–	–	278,442 (a)	445.3p	Mar 2009 - Mar 2016
	2,706 (b)	–	–	–	2,706 (b)	345.3p	Jun 2009 - Dec 2009
	242,634 (a)	–	–	242,634	–	577.0p	Apr 2010 - Apr 2017
Barbara Richmond	347,629 (a)	–	–	–	347,629 (a)	443.0p	May 2009 - May 2016
	2,540 (b)	–	–	–	2,540 (b)	368.0p	Nov 2009 - May 2016
	144,124 (a)	–	–	144,124	–	577.0p	Apr 2010 - Apr 2017
Total	1,364,437	–	–	386,758	–	–	–

Notes on share options:

a) Under the Inchcape 1999 Share Option Plan.

b) Under the Inchcape SAYE Share Option Scheme.

c) Exercise prices are determined in accordance with the rules of the relevant share option scheme.

- All options were granted for nil consideration.
- The table shows Directors' options over ordinary shares of 25.0p at 1 January 2007 or date of appointment and 31 December 2007. The mid market price for shares at the close of business on 31 December 2007 was 378.5p. The price range during 2007 was 363.3p to 593.5p.
- Options under the Inchcape 1999 Share Option Plan are granted on a discretionary basis to certain full time senior executives based within and outside the UK including Executive Directors of the Company. Such options are normally exercisable between three and ten years of grant.
- Options may normally only be exercised if the performance target had been met. For all options granted between 1999 and 2003 under the Inchcape 1999 Share Option Plan, growth in the Company's earnings per share over a three year period must exceed the increase on the UK Retail Price Index (RPI) over the same period by 3.0% per annum. Options granted after the 2004 AGM vest according to a sliding scale: 25.0% of the shares will vest if EPS growth of RPI + 3.0% per annum is achieved over the initial three year period, with all of the shares vesting if EPS growth is RPI + 8.0% per annum. Shares will vest on a straight line basis between these points and there is no opportunity to retest.
- The Inchcape SAYE Share Option Scheme is open to employees in the UK with at least three months' service. Participants make monthly savings for a three year period. At the end of the savings period options become exercisable within a six month period.

Notes to the Board report on remuneration continued

4 Deferred Bonus Plan

The number of ordinary shares awarded to Executive Directors under the Inchcape Deferred Bonus Plan are:

	Award ordinary shares 31.12.07	Ordinary shares lapsed during the year	Ordinary shares exercised during the year	Ordinary shares awarded during the year	Award ordinary shares 01.01.07	Market value of shares awarded	Exercise period
André Lacroix	13,825	–	–	–	13,825	434.0p	Jan 2009 – Jun 2009
	88,636	–	–	88,636	–	578.0p	Jan 2010 – Jun 2010
Barbara Richmond	30,303	–	–	30,303	–	578.0p	Jan 2010 – Jun 2010
Total	132,164	–	–	118,939	13,825	–	–

Notes on Deferred Bonus Plan:

- Directors will become entitled to the Award Shares if they remain employed by the Inchcape Group for three years and retain the shares purchased with their bonus throughout that period. The awards made will normally vest within three years of award. Special rules apply on termination of employment and change of control. For awards made after the 2004 AGM to vest, growth in the Company's earnings per shares over a three year period must exceed the increase on the UK Retail Price Index over the same period by 3.0% per annum with no opportunity to retest.
- Executive Directors may elect to invest up to 75% of their annual bonus in the Deferred Bonus Plan. The invested monies are grossed up by the Company to remove the effect of tax on that portion of the Executive's bonus and the grossed up amount is used by the Company to purchase ordinary shares (Award Shares) which are held in trust for the Executives. Provided certain conditions are met, the Award Shares will vest and the Executive may exercise his rights under the Plan at any time during the six month exercise period.

5 Incentive Plans

	Award ordinary shares 31.12.07	Award ordinary shares exercised during the year	Award ordinary shares 01.01.07	Market value of shares awarded	Vesting period
André Lacroix	78,000	39,000	117,000	357.5p	2007 – 2008
Barbara Richmond	81,608	21,996	103,604	428.7p	2007 – 2008
Total	159,608	60,996	220,604	–	–

- As reported last year, André Lacroix is the sole participant in the AL Incentive Plan, subject to his continuing employment and the percentage growth in the Company's earnings per share over the relevant performance period exceeding the rate of inflation over the same period by at least 3% per annum. He will be eligible to receive a final tranche of 39,000 Inchcape plc shares, which are due to vest at the end of 2008.
- Barbara Richmond is the sole participant in the BR Incentive Plan. Under the terms of her plan, subject to her continuing employment and the percentage growth in the Company's earnings per share over the relevant performance period exceeding the rate of inflation over the same period by at least 3% per annum, she will be eligible to receive a final tranche of 59,612 Inchcape plc shares, which are due to vest at the end of 2008.

By order of the Board

Michael Wemms
Chairman of the Remuneration Committee
26 February 2008

Report of the Auditors

Independent Auditors' report to the members of Inchcape plc
We have audited the Group Financial statements of Inchcape plc for the year ended 31 December 2007 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These Group Financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Inchcape plc for the year ended 31 December 2007 and on the information in the Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the Annual Report and the Group Financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group Financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group Financial statements give a true and fair view and whether the Group Financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group Financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial reviews that are cross referred from the Business review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group Financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement, the Corporate social responsibility section, the Board of Directors, the unaudited part of the Remuneration Report, the Directors' responsibilities, and the Company details. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group Financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group Financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group Financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group Financial statements.

Opinion
In our opinion:

- the Group Financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the Group Financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group Financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

26 February 2008

Consolidated income statement

For the year ended 31 December 2007

	Notes	Before exceptional items 2007 £m	Exceptional items 2007 £m	Total 2007 £m	Before exceptional items 2006 £m	Exceptional items 2006 £m	Total 2006 £m
Revenue	1, 3	6,056.8	–	6,056.8	4,842.1	–	4,842.1
Cost of sales		(5,174.3)	–	(5,174.3)	(4,132.3)	–	(4,132.3)
Gross profit		882.5	–	882.5	709.8	–	709.8
Net operating expenses	2, 3	(617.5)	4.9	(612.6)	(495.9)	–	(495.9)
Operating profit		265.0	4.9	269.9	213.9	–	213.9
Share of profit after tax of joint ventures and associates	13	3.5	–	3.5	5.9	–	5.9
Profit before finance and tax		268.5	4.9	273.4	219.8	–	219.8
Finance income	6	57.3	–	57.3	49.0	–	49.0
Finance costs	7	(90.7)	–	(90.7)	(54.9)	–	(54.9)
Profit before tax		235.1	4.9	240.0	213.9	–	213.9
Tax	8	(57.9)	–	(57.9)	(45.1)	8.0	(37.1)
Profit for the year		177.2	4.9	182.1	168.8	8.0	176.8
Attributable to:							
– Equity holders of the parent				176.4			173.9
– Minority interests				5.7			2.9
				182.1			176.8
Basic earnings per share (pence)	9			38.0p			37.5p
Diluted earnings per share (pence)	9			37.8p			37.1p

Consolidated statement of recognised income and expense

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Cash flow hedges		**33.0**	(21.8)
Fair value losses on available for sale financial assets		**(0.2)**	(1.9)
Effect of foreign exchange rate changes		**30.3**	(34.2)
Actuarial gains on defined benefit pension schemes		**32.1**	5.3
Tax recognised directly in shareholders' equity	25a	**(22.2)**	18.7
Net gains (losses) recognised directly in shareholders' equity		**73.0**	(33.9)
Profit for the year		**182.1**	176.8
Total recognised income and expense for the year	25a	**255.1**	142.9
Attributable to:			
– Equity holders of the parent		**248.4**	140.5
– Minority interests		**6.7**	2.4
		255.1	142.9

Consolidated balance sheet
As at 31 December 2007

	Notes	2007 £m	2006 £m
Non-current assets			
Intangible assets	11	**400.5**	147.9
Property, plant and equipment	12	**519.3**	427.0
Investments in joint ventures and associates	13	**15.3**	15.1
Available for sale financial assets	14	**15.6**	12.2
Trade and other receivables	15	**24.2**	23.2
Deferred tax assets	16	**10.2**	40.6
Retirement benefit asset	5	**51.9**	–
		1,037.0	666.0
Current assets			
Inventories	17	**797.5**	704.6
Trade and other receivables	15	**262.6**	211.4
Available for sale financial assets	14	**1.1**	52.8
Derivative financial instruments	23	**12.9**	0.6
Current tax assets		**2.9**	2.2
Cash and cash equivalents	18	**343.4**	335.2
		1,420.4	1,306.8
Assets held for sale and disposal group	19	**168.6**	30.8
		1,589.0	1,337.6
Total assets		**2,626.0**	2,003.6
Current liabilities			
Trade and other payables	20	**(940.2)**	(791.5)
Derivative financial instruments	23	**(8.3)**	(40.2)
Current tax liabilities		**(42.2)**	(33.7)
Provisions	21	**(31.3)**	(20.7)
Borrowings	22	**(155.3)**	(183.5)
		(1,177.3)	(1,069.6)
Non-current liabilities			
Trade and other payables	20	**(41.4)**	(39.4)
Provisions	21	**(39.4)**	(35.5)
Deferred tax liabilities	16	**(18.5)**	(14.7)
Borrowings	22	**(409.6)**	(170.7)
Retirement benefit liability	5	**(23.4)**	(22.7)
		(532.3)	(283.0)
Liabilities directly associated with the disposal group	19	**(78.6)**	–
Total liabilities		**(1,788.2)**	(1,352.6)
Net assets		**837.8**	651.0
Shareholders' equity			
Share capital	24, 25	**121.6**	120.6
Share premium	25	**123.4**	115.9
Capital redemption reserve	25	**16.4**	16.4
Other reserves	25	**12.7**	(37.7)
Retained earnings	25	**539.5**	428.6
Equity attributable to equity holders of the parent		**813.6**	643.8
Minority interests	25	**24.2**	7.2
Total shareholders' equity		**837.8**	651.0

The Financial statements on pages 66 to 119 were approved by the Board of Directors on 26 February 2008 and were signed on its behalf by: **André Lacroix,** Director **Barbara Richmond,** Director

Consolidated cash flow statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Cash flows from operating activities			
Cash generated from operations	26a	**293.0**	236.8
Tax paid		**(49.8)**	(50.2)
Interest received		**12.4**	10.7
Interest paid		**(49.5)**	(18.2)
Net cash generated from operating activities		**206.1**	179.1
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired		**(329.6)**	(147.9)
Net cash inflow from sale of businesses		**85.5**	5.4
Purchase of property, plant and equipment		**(72.0)**	(50.7)
Purchase of intangible assets		**(8.1)**	(3.1)
Proceeds from disposal of property, plant and equipment		**47.3**	11.4
Net purchase of available for sale financial assets		**–**	(49.9)
Dividends received from joint ventures and associates		**2.6**	0.4
Net cash used in investing activities		**(274.3)**	(234.4)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**8.5**	3.9
Share buy back programme		**(18.5)**	(34.0)
Net purchase of own shares by ESOP Trust		**(2.0)**	(0.2)
Cash inflow from Private Placement		**277.1**	–
Net cash (outflow) inflow from borrowings other than Private Placement		**(95.5)**	158.7
Payment of capital element of finance leases		**(0.6)**	(0.3)
Settlement of derivatives		**(4.3)**	(6.8)
Equity dividends paid		**(71.1)**	(52.6)
Minority dividends paid		**(1.8)**	(3.9)
Net cash from financing activities		**91.8**	64.8
Net increase in cash and cash equivalents	26b	**23.6**	9.5
Cash and cash equivalents at the beginning of the year		**166.2**	165.9
Effect of foreign exchange rate changes		**8.8**	(9.2)
Cash and cash equivalents at the end of the year		**198.6**	166.2
Cash and cash equivalents consist of:			
– Cash at bank and in hand		**273.0**	262.8
– Short term bank deposits		**70.4**	72.4
– Bank overdrafts		**(144.8)**	(169.0)
		198.6	166.2

Accounting policies

The Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and with those parts of the Companies Act 1985, applicable to companies reporting under IFRS.

Accounting convention
The Financial statements have been prepared on the historical cost basis, except for the retention of some freehold properties and leasehold buildings at previously revalued amounts (which were treated as deemed cost on transition to IFRS) and the measurement of certain balances at fair value as disclosed in the accounting policies below.

Changes in accounting standards
A number of new standards, amendments and interpretations are effective for the first time for 2007. The Group has adopted IFRS 7, Financial instruments: Disclosures, and the complementary amendment to IAS 1, Presentation of financial statements – Capital disclosures. These standards have no effect on the classification and valuation of the Group's financial instruments but have introduced new disclosures relating to financial instruments.

In addition, the Group has adopted new interpretations, where relevant, however such adoption has not had a material impact on the Group's financial statements.

At the balance sheet date a number of IFRSs and IFRIC interpretations were in issue but not yet effective. These include IFRS 8 – Operating Segments, IAS 23 (Amendment) – Borrowing Costs and IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

IFRS 8 replaces IAS 14 – Segmental Reporting and requires operating segments to be disclosed on the same basis as that used for internal reporting. It is required to be implemented by the Group from 1 January 2009 and will not have an impact on the results or net assets of the Group.

IAS 23 (Amendment) removes the option of immediately expensing borrowing costs that are directly attributable to a qualifying asset and requires such costs to be capitalised. It is required to be implemented by the Group from 1 January 2009 but is not expected to have a material impact on the results or net assets of the Group.

IFRIC 14 is effective from 1 January 2008. This interpretation provides guidance on the extent to which a pension scheme surplus should be recognised as an asset. Based on current assessments, this interpretation is not expected to reduce the assets recognised at 31 December 2008 in respect of pension schemes.

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

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

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

Foreign currency translation
Items included in the results of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated Financial statements are presented in sterling, which is Inchcape plc's functional and presentational currency.

In the individual entities, transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the individual transactions. Monetary assets and liabilities denominated in foreign currencies are subsequently retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except those arising on long term foreign currency borrowings used to finance or hedge foreign currency investments which on consolidation are taken directly to shareholders' equity.

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

Financial instruments

The Group classifies its financial instruments in the following categories: loans and receivables; available for sale; held at fair value; and amortised cost. The classification is determined at initial recognition and depends on the purpose for which the financial instruments are required.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except where the maturity date is more than 12 months after the balance sheet date.

Held at fair value includes derivative financial assets and liabilities, which are further explained below. They are included within current assets and liabilities respectively.

Available for sale financial assets are non-derivative financial assets, and comprise bonds and equity investments. They are classified as non-current assets unless management intends to dispose of them within 12 months of the balance sheet date.

Amortised cost is the residual category and includes non-derivative financial assets and liabilities which are held at original cost, less amortisation or provision raised.

Derivative financial instruments

An outline of the objectives, policies and strategies pursued by the Group in relation to its financial instruments is set out in the Financial risk factors section of the Financial review.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Cash flow hedge

For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that are determined to be an effective hedge are recognised directly in shareholders' equity and the ineffective portion is recognised in the income statement. When the hedged firm commitment results in the recognition of a non-financial asset or liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in shareholders' equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in shareholders' equity are transferred to the income statement in the same period in which the hedged firm commitment affects the income statement.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings (on its cross currency interest rate swaps). The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings and changes in the fair value of those borrowings are recognised in the income statement within finance costs. The gain or loss relating to the ineffective portion is also recognised in the income statement within finance costs.

Hedge of net investment

The Group uses borrowings denominated in foreign currency to hedge net investments in foreign operations. These are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in

Accounting policies continued

equity; the gain or loss relating to any ineffective portion is recognised immediately in the income statement in net operating expenses. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised or no longer qualifies for hedge accounting. At that point in time any cumulative gains or losses on the hedging instrument which have been recognised in shareholders' equity are kept in shareholders' equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the cumulative gains or losses that have been recognised in shareholders' equity are transferred to the income statement for the period.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and directly attributable costs of the asset. Depreciation is based on cost less estimated residual value and is provided, except for freehold land which is not depreciated, on a straight line basis over the estimated useful life of the asset. For the following categories, the annual rates used are:

Freehold buildings and long leasehold buildings	2.0%
Short leasehold buildings	shorter of lease term or useful life
Plant, machinery and equipment	5.0% – 33.3%
Vehicles subject to residual value commitments	over the lease term

The assets' residual values and useful lives are reviewed at least at each balance sheet date.

Goodwill
Goodwill represents the excess of the cost of acquisition of a business combination over the Group's share of the fair value of identifiable net assets of the business acquired at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At the date of acquisition the goodwill is allocated to cash generating units for the purpose of impairment testing and is tested at least annually for impairment.

Gains and losses on disposal of a business include the carrying amount of goodwill relating to the business sold in determining the gain or loss on disposal, except for goodwill arising on business combinations on or before 31 December 1997 which has been deducted from shareholders' equity and remains indefinitely in shareholders' equity.

Other intangible assets
Intangible assets, when acquired separately from a business (including computer software), are carried at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer software is three to five years.

Intangible assets acquired as part of a business combination (including back orders and customer contracts) are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. These intangible assets are amortised over their estimated useful life, which is generally less than a year.

Impairment
Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

In addition, goodwill is tested at least annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within net operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against net operating expenses in the income statement.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure incurred in bringing inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Used vehicles are carried at the lower of cost or fair value less costs to sell, generally based on external market data available for used vehicles.

Vehicles held on consignment which are deemed in substance to be assets of the Group are included within inventories with the corresponding liability included within trade and other payables.

Stock holding costs are charged to finance costs.

Investments
The Group's investments are classified as available for sale or held to maturity (where management has a positive intention and ability to hold the asset to maturity).

Gains and losses on available for sale financial assets are recognised in shareholders' equity, until the investment is sold or is considered to be impaired, at which time the cumulative gain or loss previously reported in shareholders' equity is included in the income statement as part of net operating expenses.

Held to maturity financial assets are carried at amortised cost.

Pensions and other post-retirement benefits
The Group operates a number of retirement benefit schemes.

The major schemes are defined benefit pension funds with assets held separately from the Group. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in cost of sales or net operating expenses in the income statement. Past service costs are similarly included where the benefits have vested otherwise they are amortised on a straight line basis over the vesting period. The expected return on assets of funded defined benefit pension plans and the imputed interest on pension plan liabilities comprise the post-retirement benefit element of finance costs and finance income in the income statement.

Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of recognised income and expense in full in the period in which they arise.

The Group's contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

The Group also has a liability in respect of past employees under post-retirement healthcare schemes which have been closed to new entrants. These schemes are accounted for on a similar basis to that for defined benefit pension plans in accordance with the advice of independent qualified actuaries.

Share-based payments
The Group operates various share-based award schemes. The fair value at the date at which the share-based awards are granted is recognised in the income statement (together with a corresponding increase in shareholders' equity) on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. For equity settled share-based awards, the services received from employees are measured by reference to the fair value of the awards granted. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Leases
Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the Group does not retain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rental payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Accounting policies continued

Revenue and cost of sales
Revenue from the sale of goods and services sold is measured at the fair value of consideration receivable, net of rebates and any discounts and includes lease rentals and finance and insurance commission. It excludes sales related taxes and intra–Group transactions.

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. In practice this means that revenue is recognised when vehicles or parts are invoiced and physically dispatched or when the service has been undertaken. Revenue from commission is recognised when receipt of payment can be assured.

Profits arising on the sale of vehicles to a leasing company, sourced from within the Group, for which a Group company retains a residual value commitment to the leasing company, are recognised over the period of the lease. These vehicles are retained on the balance sheet within property, plant and equipment on the basis that the significant risks and rewards of ownership have not been transferred to the purchaser. The vehicles are written down to their residual value over the term of the lease with the corresponding deferred income included in trade and other payables and released to the income statement over the same period.

Dividend income is recognised when the right to receive payment is established.

Cost of sales includes the expense relating to the estimated cost of self–insured warranties offered to customers. These warranties form part of the package of goods and services provided to the customer when purchasing a vehicle and are not a separable product.

Income tax
The charge for current income tax is based on the results for the period as adjusted for items which are not taxed or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is accounted for using the liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the Financial statements.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference is due to goodwill arising on a business combination, or to an asset or liability, the initial recognition of which does not affect either taxable or accounting income.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to shareholders' equity, in which case the deferred tax is also dealt with in shareholders' equity.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle balances net.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprises cash at bank and in hand and short term bank deposits.

In the consolidated cash flow statement, cash and cash equivalents comprises cash and cash equivalents, as defined above, net of bank overdrafts.

Offsetting
Balance sheet netting only occurs to the extent that there is the legal ability and intention to settle net. As such, bank overdrafts are presented in current liabilities to the extent that there is no intention to offset with the cash balance.

Disposal group and assets held for sale
Where the Group is actively marketing the disposal of a business within one year of the balance sheet date, the assets and liabilities of the associated businesses are separately disclosed on the balance sheet as a disposal group. Assets are classified as assets held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Both disposal groups and assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

Provisions
Provisions are recognised when the Group has a present obligation in respect of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered to be material, using an appropriate risk free rate on government bonds.

Exceptional items
Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Examples of events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, restructuring of businesses, litigation, asset impairments and exceptional tax related matters.

Share capital
Ordinary shares are classified as equity. Where the Group purchases the Group's equity share capital (treasury shares), the consideration paid is deducted from shareholders' equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Dividends
Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the Financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

Significant accounting judgements and estimates
Judgements
In the process of applying the Group's accounting policies, the Directors have made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial statements.

(i) Revenue recognition on vehicles subject to residual value commitments
Where the Group sells vehicles, sourced from within the Group, and retains a residual value commitment, the sale is not recognised on the basis that the Group has determined that it retains the significant risks and rewards of ownership of these vehicles.

(ii) Consignment stock
Vehicles held on consignment have been included in finished goods inventories on the basis that the Group has determined that it holds the significant risks and rewards attached to these vehicles.

Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Product warranty provision
The product warranty provision requires an estimation of the number of expected warranty claims, and the expected cost of labour and parts necessary to satisfy these warranty claims.

(ii) Pensions and other post-retirement benefits
The net retirement benefit asset or liability is calculated based on a number of actuarial assumptions as detailed in note 5. A number of these assumptions involve a considerable degree of estimation, including the rate of inflation and expected mortality rates.

(iii) Tax
The Group is subject to income taxes in a number of jurisdictions. Some degree of estimation is required in determining the worldwide provision for income taxes. There are a number of transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

In addition, the recognition of deferred tax assets is dependent upon an estimation of future taxable profits that will be available against which deductible temporary differences can be utilised. In the event that actual taxable profits are different, such differences may impact the carrying value of such deferred tax assets in future periods.

(iv) Goodwill
Goodwill is tested at least annually for impairment in accordance with the accounting policy set out above. The recoverable amount of cash generating units is determined based on value in use calculations. These calculations require the use of estimates including projected future cash flows.

Notes to the accounts

1 Segmental analysis

Primary reporting format – geographical segments

The Group's primary reporting format is by geographical segments.

The geographical segments disclosed align them with the risks and returns associated with different territories. Emerging Markets, which is defined as those countries in which the Group operates that have started to grow but have yet to reach a mature stage of development and accordingly are in the growth phase of the development cycle. These currently comprise Russia, China, Balkans, Baltics and Poland. Comparative information has been reclassified accordingly.

The Group's geographical 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.

Transfer prices between geographical segments are set on an arm's length basis.

2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre Central £m	Central £m	Total £m
Revenue										
Total revenue	657.5	1,436.5	241.5	480.3	2,713.5	518.6	241.5	6,289.4	–	6,289.4
Inter–segment revenue	–	(232.6)	–	–	–	–	–	(232.6)	–	(232.6)
Revenue from third parties	657.5	1,203.9	241.5	480.3	2,713.5	518.6	241.5	6,056.8	–	6,056.8
Results										
Operating profit before exceptional items	43.8	50.1	28.3	46.0	69.6	29.6	25.1	292.5	(27.5)	265.0
Exceptional items	–	–	12.0	–	(7.1)	–	–	4.9	–	4.9
Segment result	43.8	50.1	40.3	46.0	62.5	29.6	25.1	297.4	(27.5)	269.9
Share of profit after tax of joint ventures and associates	–	1.8	0.2	–	0.9	–	0.6	3.5	–	3.5
Profit before finance and tax	43.8	51.9	40.5	46.0	63.4	29.6	25.7	300.9	(27.5)	273.4
Finance income										57.3
Finance costs										(90.7)
Profit before tax										240.0
Tax										(57.9)
Profit for the year										182.1

2006 Reclassified	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre Central £m	Central £m	Total £m
Revenue										
Total revenue	616.6	1,335.7	224.8	659.5	1,711.9	212.8	225.4	4,986.7	–	4,986.7
Inter-segment revenue	–	(144.6)	–	–	–	–	–	(144.6)	–	(144.6)
Revenue from third parties	616.6	1,191.1	224.8	659.5	1,711.9	212.8	225.4	4,842.1	–	4,842.1
Results										
Operating profit before exceptional items	38.5	39.3	24.0	58.6	45.9	10.6	21.9	238.8	(24.9)	213.9
Exceptional items	–	–	–	–	–	–	–	–	–	–
Segment result	38.5	39.3	24.0	58.6	45.9	10.6	21.9	238.8	(24.9)	213.9
Share of profit after tax of joint ventures and associates	–	1.8	2.8	–	0.9	–	0.4	5.9	–	5.9
Profit before finance and tax	38.5	41.1	26.8	58.6	46.8	10.6	22.3	244.7	(24.9)	219.8
Finance income										49.0
Finance costs										(54.9)
Profit before tax										213.9
Tax										(37.1)
Profit for the year										176.8

Notes to the accounts continued

1 Segmental analysis continued

2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre unallocated £m	Unallocated £m	Total £m
Segment assets and liabilities										
Segment assets	189.1	361.6	61.2	80.9	948.3	311.8	70.8	2,023.7	–	2,023.7
Investment in joint ventures and associates	–	7.6	–	–	4.0	3.0	0.7	15.3	–	15.3
Assets held for sale	1.1	4.0	–	–	163.5	–	–	168.6	–	168.6
Cash and cash equivalents	–	–	–	–	–	–	–	–	343.4	343.4
Other unallocated assets*	–	–	–	–	–	–	–	–	75.0	75.0
Total assets	190.2	373.2	61.2	80.9	1,115.8	314.8	71.5	2,207.6	418.4	2,626.0
Segment liabilities	(178.2)	(310.4)	(18.4)	(25.8)	(334.7)	(64.8)	(32.9)	(965.2)	–	(965.2)
External borrowings	–	–	–	–	–	–	–	–	(564.9)	(564.9)
Liabilities directly associated with the disposal group	–	–	–	–	(78.6)	–	–	(78.6)	–	(78.6)
Other unallocated liabilities*	–	–	–	–	–	–	–	–	(179.5)	(179.5)
Total liabilities	(178.2)	(310.4)	(18.4)	(25.8)	(413.3)	(64.8)	(32.9)	(1,043.8)	(744.4)	(1,788.2)

* Other unallocated assets and liabilities include central provisions, tax, dividends and assets and liabilities not directly related to operating activities.

2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre Central £m	Central £m	Total £m
Other segment items										
Capital expenditure:										
– Property, plant and equipment	2.6	6.4	2.4	1.1	44.4	10.6	3.4	70.9	1.1	72.0
– Vehicles subject to residual value commitments	18.3	9.9	–	–	19.0	–	–	47.2	–	47.2
– Intangible assets	0.2	0.4	–	–	0.9	0.3	–	1.8	6.3	8.1
Depreciation:										
– Property, plant and equipment	2.0	3.4	1.5	1.6	12.7	3.6	2.0	26.8	0.4	27.2
– Vehicles subject to residual value commitments	1.0	4.3	–	–	7.2	–	–	12.5	–	12.5
Amortisation of intangible assets	0.2	0.6	–	0.1	4.5	0.9	–	6.3	0.2	6.5
Net provisions charged (released) to the income statement	4.4	3.4	1.5	2.5	5.3	(0.2)	1.0	17.9	5.6	23.5

2006 Reclassified	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre unallocated £m	Unallocated £m	Total £m
Segment assets and liabilities										
Segment assets	154.3	335.8	55.4	104.5	719.5	88.4	60.3	1,518.2	–	1,518.2
Investment in joint ventures and associates	–	8.6	–	–	5.5	0.6	0.4	15.1	–	15.1
Assets held for sale	–	–	30.8	–	–	–	–	30.8	–	30.8
Cash and cash equivalents	–	–	–	–	–	–	–	–	335.2	335.2
Other unallocated assets*	–	–	–	–	–	–	–	–	104.3	104.3
Total assets	154.3	344.4	86.2	104.5	725.0	89.0	60.7	1,564.1	439.5	2,003.6
Segment liabilities	(196.7)	(281.3)	(18.6)	(47.2)	(303.7)	(19.2)	(31.7)	(898.4)	–	(898.4)
External borrowings	–	–	–	–	–	–	–	–	(354.2)	(354.2)
Liabilities directly associated with the disposal group	–	–	–	–	–	–	–	–	–	–
Other unallocated liabilities*	–	–	–	–	–	–	–	–	(100.0)	(100.0)
Total liabilities	(196.7)	(281.3)	(18.6)	(47.2)	(303.7)	(19.2)	(31.7)	(898.4)	(454.2)	(1,352.6)

* Other unallocated assets and liabilities include central provisions, tax, dividends and assets and liabilities not directly related to operating activities.

2006 Reclassified	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre Central £m	Central £m	Total £m
Other segment items										
Capital expenditure:										
– Property, plant and equipment	4.4	4.8	1.8	1.1	29.3	4.6	3.9	49.9	0.8	50.7
– Vehicles subject to residual value commitments	14.0	12.0	–	–	10.5	–	–	36.5	–	36.5
– Intangible assets	0.2	0.3	–	–	2.3	0.1	–	2.9	0.2	3.1
Depreciation:										
– Property, plant and equipment	2.3	3.5	1.5	1.6	10.9	1.0	2.2	23.0	0.3	23.3
– Vehicles subject to residual value commitments	0.2	4.6	–	–	9.3	–	–	14.1	–	14.1
Amortisation of intangible assets	0.4	0.6	–	0.1	2.8	–	–	3.9	0.1	4.0
Net provisions charged (released) to the income statement	6.2	8.2	0.1	4.1	8.5	–	1.2	28.3	(0.4)	27.9

Notes to the accounts continued

1 Segmental analysis continued

Secondary reporting format – business segments

The Group's secondary reporting format is by business segments.

The disclosures comprise two key business segments – Distribution and Retail. Distribution comprises Vertically integrated import, distribution and retail as well as Import and distribution. In addition, Distribution includes Financial Services and Other businesses.

The secondary disclosures below analyse Distribution and Retail by geographical region. Additional disclosure has also been provided on the segmentation of profitability and operating assets and liabilities.

Transfer prices between business segments are set on an arm's length basis.

								Distribution
2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total Distribution £m
Revenue								
Total revenue	538.7	1,018.8	241.5	480.3	67.5	319.3	237.5	2,903.6
Inter-segment revenue	(122.1)	(194.7)	–	–	–	(77.3)	–	(394.1)
Revenue from third parties	416.6	824.1	241.5	480.3	67.5	242.0	237.5	2,509.5
Results								
Operating profit before exceptional items	35.0	49.3	28.3	46.0	4.9	16.4	25.0	204.9
Exceptional items	–	–	12.0	–	(8.8)	–	–	3.2
Segment result	35.0	49.3	40.3	46.0	(3.9)	16.4	25.0	208.1
Share of profit after tax of joint ventures and associates	–	1.8	0.2	–	0.9	–	0.6	3.5
Profit before finance and tax	35.0	51.1	40.5	46.0	(3.0)	16.4	25.6	211.6
Finance income								
Finance costs								
Profit before tax								
Tax								
Profit for the year								

2007	Australia £m	Europe £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Retail Total Retail £m	Total pre Central £m	Central £m	Total £m
Revenue									
Total revenue	240.9	379.8	2,646.0	276.6	4.0	3,547.3	6,450.9	–	6,450.9
Inter-segment revenue	–	–	–	–	–	–	(394.1)	–	(394.1)
Revenue from third parties	240.9	379.8	2,646.0	276.6	4.0	3,547.3	6,056.8	–	6,056.8
Results									
Operating profit before exceptional items	8.8	0.8	64.7	13.2	0.1	87.6	292.5	(27.5)	265.0
Exceptional items	–	–	1.7	–	–	1.7	4.9	–	4.9
Segment result	8.8	0.8	66.4	13.2	0.1	89.3	297.4	(27.5)	269.9
Share of profit after tax of joint ventures and associates	–	–	–	–	–	–	3.5	–	3.5
Profit before finance and tax	8.8	0.8	66.4	13.2	0.1	89.3	300.9	(27.5)	273.4
Finance income									57.3
Finance costs									(90.7)
Profit before tax									240.0
Tax									(57.9)
Profit for the year									182.1

Notes to the accounts continued

1 Segmental analysis continued

2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Segment assets and liabilities								
Segment assets	102.5	272.7	61.2	80.9	67.7	180.4	68.6	834.0
Investment in joint ventures and associates	–	7.6	–	–	1.9	–	0.7	10.2
Assets held for sale	1.1	4.0	–	–	–	–	–	5.1
Cash and cash equivalents	–	–	–	–	–	–	–	–
Other unallocated assets*	–	–	–	–	–	–	–	–
Total assets	103.6	284.3	61.2	80.9	69.6	180.4	69.3	849.3
Segment liabilities	(146.8)	(276.2)	(18.4)	(25.8)	(49.0)	(48.5)	(32.5)	(597.2)
External borrowings	–	–	–	–	–	–	–	–
Liabilities directly associated with the disposal group	–	–	–	–	–	–	–	–
Other unallocated liabilities*	–	–	–	–	–	–	–	–
Total liabilities	(146.8)	(276.2)	(18.4)	(25.8)	(49.0)	(48.5)	(32.5)	(597.2)

* Other unallocated assets and liabilities include central provisions, tax, dividends and assets and liabilities not directly related to operating activities.

2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Other segment items								
Capital expenditure:								
– Property, plant and equipment	1.8	1.8	2.4	1.1	5.0	1.3	3.3	16.7
– Vehicles subject to residual value commitments	16.0	8.9	–	–	19.0	–	–	43.9
– Intangible assets	0.2	0.3	–	–	0.4	0.3	–	1.2

2007	Australia £m	Europe £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Retail Total Retail £m	Total pre unallocated £m	Unallocated £m	Total £m
Segment assets and liabilities									
Segment assets	86.6	88.9	880.6	131.4	2.2	1,189.7	2,023.7	–	2,023.7
Investment in joint ventures and associates	–	–	2.1	3.0	–	5.1	15.3	–	15.3
Assets held for sale	–	–	163.5	–	–	163.5	168.6	–	168.6
Cash and cash equivalents	–	–	–	–	–	–	–	343.4	343.4
Other unallocated assets*	–	–	–	–	–	–	–	75.0	75.0
Total assets	86.6	88.9	1,046.2	134.4	2.2	1,358.3	2,207.6	418.4	2,626.0
Segment liabilities	(31.4)	(34.2)	(285.7)	(16.3)	(0.4)	(368.0)	(965.2)	–	(965.2)
External borrowings	–	–	–	–	–	–	–	(564.9)	(564.9)
Liabilities directly associated with the disposal group	–	–	(78.6)	–	–	(78.6)	(78.6)	–	(78.6)
Other unallocated liabilities*	–	–	–	–	–	–	–	(179.5)	(179.5)
Total liabilities	(31.4)	(34.2)	(364.3)	(16.3)	(0.4)	(446.6)	(1,043.8)	(744.4)	(1,788.2)

* Other unallocated assets and liabilities include central provisions, tax, dividends and assets and liabilities not directly related to operating activities.

2007	Australia £m	Europe £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Retail Total Retail £m	Total pre Central £m	Central £m	Total £m
Other segment items									
Capital expenditure:									
– Property, plant and equipment	0.8	4.6	39.4	9.3	0.1	54.2	70.9	1.1	72.0
– Vehicles subject to residual value commitments	2.3	1.0	–	–	–	3.3	47.2	–	47.2
– Intangible assets	–	0.1	0.5	–	–	0.6	1.8	6.3	8.1

Notes to the accounts continued

1 Segmental analysis continued

2006 Reclassified	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Revenue								
Total revenue	511.2	944.0	224.8	659.5	100.3	185.4	225.4	2,850.6
Inter–segment revenue	(111.5)	(165.7)	–	–	(2.5)	(52.4)	–	(332.1)
Revenue from third parties	399.7	778.3	224.8	659.5	97.8	133.0	225.4	2,518.5
Results								
Operating profit before exceptional items	28.2	41.1	24.0	58.6	3.8	9.5	21.9	187.1
Exceptional items	–	–	–	–	–	–	–	–
Segment result	28.2	41.1	24.0	58.6	3.8	9.5	21.9	187.1
Share of profit after tax of joint ventures and associates	–	1.8	2.8	–	0.9	–	0.4	5.9
Profit before finance and tax	28.2	42.9	26.8	58.6	4.7	9.5	22.3	193.0
Finance income								
Finance costs								
Profit before tax								
Tax								
Profit for the year								

2006 Reclassified	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Segment assets and liabilities								
Segment assets	90.7	255.3	55.4	104.5	85.7	28.2	60.3	680.1
Investment in joint ventures and associates	–	8.6	–	–	5.5	–	0.4	14.5
Assets held for sale	–	–	30.8	–	–	–	–	30.8
Cash and cash equivalents	–	–	–	–	–	–	–	–
Other unallocated assets*	–	–	–	–	–	–	–	–
Total assets	90.7	263.9	86.2	104.5	91.2	28.2	60.7	725.4
Segment liabilities	(173.0)	(252.9)	(18.6)	(47.2)	(44.5)	(11.3)	(31.7)	(579.2)
External borrowings	–	–	–	–	–	–	–	–
Other unallocated liabilities*	–	–	–	–	–	–	–	–
Total liabilities	(173.0)	(252.9)	(18.6)	(47.2)	(44.5)	(11.3)	(31.7)	(579.2)

* Other unallocated assets and liabilities include central provisions, tax, dividends and assets and liabilities not directly related to operating activities.

2006 Reclassified	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Other segment items								
Capital expenditure:								
– Property, plant and equipment	3.2	0.5	1.8	1.1	6.2	4.4	3.9	21.1
– Vehicles subject to residual value commitments	14.0	11.2	–	–	10.5	–	–	35.7
– Intangible assets	0.2	0.3	–	–	0.2	–	–	0.7

2006 Reclassified	Retail Australia £m	Retail Europe £m	Retail United Kingdom £m	Retail Emerging Markets £m	Retail Total Retail £m	Total pre Central £m	Central £m	Total £m
Revenue								
Total revenue	216.9	412.8	1,614.1	79.8	2,323.6	5,174.2	–	5,174.2
Inter-segment revenue	–	–	–	–	–	(332.1)	–	(332.1)
Revenue from third parties	216.9	412.8	1,614.1	79.8	2,323.6	4,842.1	–	4,842.1
Results								
Operating profit before exceptional items	10.3	(1.8)	42.1	1.1	51.7	238.8	(24.9)	213.9
Exceptional items	–	–	–	–	–	–	–	–
Segment result	10.3	(1.8)	42.1	1.1	51.7	238.8	(24.9)	213.9
Share of profit after tax of joint ventures and associates	–	–	–	–	–	5.9	–	5.9
Profit before finance and tax	10.3	(1.8)	42.1	1.1	51.7	244.7	(24.9)	219.8
Finance income								49.0
Finance costs								(54.9)
Profit before tax								213.9
Tax								(37.1)
Profit for the year								176.8

2006 Reclassified	Retail Australia £m	Retail Europe £m	Retail United Kingdom £m	Retail Emerging Markets £m	Retail Total Retail £m	Total pre unallocated £m	Unallocated £m	Total £m
Segment assets and liabilities								
Segment assets	63.6	80.5	633.8	60.2	838.1	1,518.2	–	1,518.2
Investment in joint ventures and associates	–	–	–	0.6	0.6	15.1	–	15.1
Assets held for sale	–	–	–	–	–	30.8	–	30.8
Cash and cash equivalents	–	–	–	–	–	–	335.2	335.2
Other unallocated assets*	–	–	–	–	–	–	104.3	104.3
Total assets	63.6	80.5	633.8	60.8	838.7	1,564.1	439.5	2,003.6
Segment liabilities	(23.7)	(28.4)	(259.2)	(7.9)	(319.2)	(898.4)	–	(898.4)
External borrowings	–	–	–	–	–	–	(354.2)	(354.2)
Other unallocated liabilities*	–	–	–	–	–	–	(100.0)	(100.0)
Total liabilities	(23.7)	(28.4)	(259.2)	(7.9)	(319.2)	(898.4)	(454.2)	(1,352.6)

* Other unallocated assets and liabilities include central provisions, tax, dividends and assets and liabilities not directly related to operating activities.

2006 Reclassified	Retail Australia £m	Retail Europe £m	Retail United Kingdom £m	Retail Emerging Markets £m	Retail Total Retail £m	Total pre Central £m	Central £m	Total £m
Other segment items								
Capital expenditure:								
– Property, plant and equipment	1.2	4.3	23.1	0.2	28.8	49.9	0.8	50.7
– Vehicles subject to residual value commitments	–	0.8	–	–	0.8	36.5	–	36.5
– Intangible assets	–	–	2.1	0.1	2.2	2.9	0.2	3.1

Notes to the accounts

2 Exceptional items

	2007 £m	2006 £m
Profit on disposal of Inchroy joint venture	**12.0**	–
Loss on disposal of Inchcape Automotive Limited	**(5.8)**	–
Loss on disposal of other UK businesses	**(1.3)**	–
Operating exceptional items	**4.9**	–
Exceptional tax	**–**	8.0
Total exceptional items	**4.9**	8.0

Exceptional tax in the prior year relates to the release of tax provided against the VAT recoveries in 2003 and 2004 following the favourable settlement of the corporation tax treatment in 2006.

3 Revenue and expenses

a. Revenue

An analysis of the Group's revenue for the year is as follows:	2007 £m	2006 £m
Sale of goods	**5,493.6**	4,462.2
Rendering of services	**563.2**	379.9
	6,056.8	4,842.1

b. Analysis of net operating expenses

	Net operating expenses before exceptional items 2007 £m	Exceptional items 2007 £m	Net operating expenses 2007 £m	Net operating expenses before exceptional items 2006 £m	Exceptional items 2006 £m	Net operating expenses 2006 £m
Distribution costs	**370.7**	**–**	**370.7**	273.9	–	273.9
Administrative expenses	**247.9**	**–**	**247.9**	224.2	–	224.2
Other operating income	**(1.1)**	**(4.9)**	**(6.0)**	(2.2)	–	(2.2)
	617.5	**(4.9)**	**612.6**	495.9	–	495.9

c. Profit before tax is stated after the following charges (credits):

	2007 £m	2006 £m
Depreciation of property, plant and equipment:		
– Owned assets	**26.9**	22.7
– Assets held under finance leases	**0.3**	0.6
– Vehicles subject to residual value commitments	**12.5**	14.1
Amortisation of intangible assets	**6.5**	4.0
Profit on sale of property, plant and equipment	**(9.0)**	(0.6)
Operating lease rentals	**33.6**	35.3

3 Revenue and expenses continued

d. Auditors' remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	2007 £m	2006 £m
Audit services		
Fees payable for the audit of the parent Company and the consolidated accounts	**0.4**	0.4
Non–audit services		
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	**1.4**	1.2
– Other services supplied pursuant to such legislation	**0.1**	0.1
– Services relating to taxation	**0.8**	0.5
– Services related to Corporate Financial Services	**0.8**	–
– All other services	**0.2**	0.2
	3.3	2.0
Total fees payable to PricewaterhouseCoopers LLP	**3.7**	2.4
Audit fees – firms other than PricewaterhouseCoopers LLP	**0.1**	0.1

e. Staff costs	2007 £m	2006 £m
Wages and salaries	**327.2**	266.9
Social security costs	**38.1**	32.7
Other pension costs	**11.0**	10.1
Share based payment costs	**4.5**	4.5
	380.8	314.2

Information on Directors' emoluments and interests, which forms part of these audited financial statements, is given in the Board report on remuneration (the auditable part).

The average number of employees are as follows:

By geographical segment	2007 number	2006 number
Australia	**1,131**	1,023
Europe	**1,355**	1,495
Hong Kong	**1,141**	1,158
Singapore	**846**	821
UK	**6,592**	5,287
Emerging Markets	**1,712**	518
Rest of World	**1,195**	1,053
Total operational	**13,972**	11,355
Central	**149**	77
	14,121	11,432

By business segment	2007 number	2006 number
Distribution	**4,635**	5,068
Retail	**9,337**	6,287
Total operational	**13,972**	11,355
Central	**149**	77
	14,121	11,432

Notes to the accounts continued

4 Share-based payments

The terms and conditions of the Group's share-based payment plans are detailed in the Board report on remuneration.

The expense arising from share-based payment transactions during the year is £4.5m (2006 – £4.5m), all of which is equity-settled.

The Deferred Bonus Plan disclosures below includes incentive plans for senior executives.

The following table sets out the movements in the number of share options and awards during the year:

	Weighted average exercise price*		Executive Share Option Plan		Save As You Earn Plan		Deferred Bonus Plan	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Outstanding at 1 January	**£3.06**	£2.33	**9,779,147**	9,612,390	**2,730,595**	2,842,980	**919,408**	1,122,786
Granted during the year	**£5.18**	£4.29	**2,586,648**	3,198,896	**1,294,691**	983,119	**434,920**	350,560
Exercised during the year	**£2.17**	£1.80	**(2,820,694)**	(2,397,453)	**(1,148,529)**	(804,808)	**(343,329)**	(382,422)
Lapsed during the year	**£3.77**	£2.86	**(917,920)**	(634,686)	**(632,603)**	(290,696)	**(46,023)**	(171,516)
Outstanding at 31 December	**£4.04**	£3.06	**8,627,181**	9,779,147	**2,244,154**	2,730,595	**964,976**	919,408

* The weighted average exercise price excludes awards made under the Deferred Bonus Plan as there is no exercise price attached to these share awards.

Included in the table above are 233,748 (2006 – 907,756) share options outstanding at 31 December 2007 granted before 7 November 2002 which have been excluded from the share-based payments charge in accordance with the IFRS 2 transitional provisions.

The weighted average remaining contractual life for the share options outstanding at 31 December 2007 is 6.3 years (2006 – 6.2 years).

The range of exercise prices for options outstanding at the end of the year was £0.47 to £5.77 (2006 – £0.47 to £4.57). See note 24 for further details.

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the main inputs to the model for shares granted during the years ended 31 December 2007 and 31 December 2006:

	Executive Share Option Plan		Save As You Earn Plan		Deferred Bonus Plan	
	2007	2006	**2007**	2006	**2007**	2006
Weighted average share price at grant date	**£5.75**	£4.45	**£5.05**	£4.68	**£5.30**	£4.11
Weighted average exercise price	**£5.75**	£4.45	**£4.04**	£3.74	**n/a**	n/a
Vesting period	**3.0 years**	3.0 years	**3.0 years**	3.0 years	**3.0 years**	3.0 years
Expected volatility	**25.0%**	25.0%	**25.0%**	25.0%	**n/a**	n/a
Expected life of option	**4.0 years**	4.0 years	**3.2 years**	3.2 years	**3.0 years**	3.0 years
Weighted average risk free rate	**5.1%**	4.5%	**5.2%**	4.6%	**4.9%**	4.5%
Expected dividend yield	**3.0%**	3.0%	**3.0%**	3.0%	**3.0%**	3.0%
Weighted average fair value per option	**£1.21**	£0.87	**£1.17**	£1.06	**£5.25**	£4.11

The expected life and volatility of the options are based upon historical data.

5 Pensions and other post-retirement benefits

The Group operates a number of pension and post-retirement benefit schemes for its employees in a number of its subsidiaries.

The principal funds are held in the UK and are final salary defined benefit pension schemes. Most of the schemes have assets held in trust in separately administered funds although there are some minor unfunded arrangements relating to post-retirement health and medical plans in respect of past employees. There are no material defined contribution schemes in the UK.

The majority of the overseas defined benefit schemes are final salary schemes which provide a lump sum on retirement, some of which have assets held in trust in separately administered funds and others which are unfunded. The overseas defined contribution schemes are principally linked to local statutory arrangements.

5 Pensions and other post-retirement benefits continued

a. UK schemes

The UK has four main defined benefit schemes, namely the Inchcape Group (UK) Pension Scheme, the Inchcape Motors Pension Scheme, the Inchcape Overseas Pension Scheme and the TKM Group Pension Scheme. These schemes are considered below:

(i) Open schemes

Inchcape Group (UK) Pension Scheme

The latest triennial actuarial valuation for this scheme was carried out as at 31 March 2006 on a market related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit method. The majority of the scheme's liabilities are for pensioners and deferred pensioners, and the investment strategy is to hold a broadly balanced portfolio of equities and bonds.

Inchcape Motors Pension Scheme

The latest triennial actuarial valuation for this scheme was carried out as at 5 April 2006 on a market related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit method. Whilst a majority of the scheme's members are pensioners and deferred pensioners, a sizeable portion of the membership is still accruing benefits and the investment strategy reflects this with the majority of the assets invested in equities.

Inchcape Overseas Pension Scheme

This scheme is managed from Guernsey and is therefore reported in the United Kingdom segment in this note. The latest triennial actuarial valuation for this scheme was carried out as at 31 March 2006 and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit method. A significant majority of the scheme's members are pensioners and deferred pensioners and therefore the majority of the assets are invested in bonds.

(ii) Closed scheme

TKM Group Pension Scheme

The latest triennial actuarial valuation for this closed scheme was carried out at 5 April 2004 on a market related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit method. Another actuarial valuation is being undertaken as at 5 April 2007 which is expected to be finalised in 2008. The scheme has a prudent investment strategy and, as at 31 December 2007, had only 1.0% invested in equities with the remainder invested in bonds or cash. Approximately half the members are pensioners and half are deferred pensioners and as such no further pension accrual arises.

b. Overseas schemes

There are a number of smaller defined benefit schemes overseas, the most significant being the Inchcape Motors Limited Retirement Scheme in Hong Kong. In general these schemes offer a lump sum on retirement with no further obligation to the employee. These schemes are typically subject to triennial valuations.

c. Defined contribution plans

The total expense recognised in the income statement is £3.6m (2006 – £2.1m). Outstanding contributions to defined contribution schemes are £0.1m (2006 – £0.1m).

d. Defined benefit plans

As the Group's principal defined benefit schemes are in the UK, these have been reported separately to the overseas schemes. For the purposes of reporting, actuarial updates have been obtained for the Group's material schemes and these updates are reflected in the amounts reported below.

The principal weighted average assumptions used by the actuaries were:

	United Kingdom		Overseas	
	2007 %	2006 %	**2007 %**	2006 %
Rate of increase in salaries	**5.1**	4.9	**5.0**	5.0
Rate of increase in pensions	**3.3**	2.9	**1.7**	1.7
Discount rate	**5.8**	5.1	**4.0**	4.0
Inflation	**3.3**	2.9	**0.8**	0.9
Expected return on plan assets	**6.2**	5.7	**7.2**	7.5

Notes to the accounts continued

5 Pensions and other post-retirement benefits continued
The rate of increase in healthcare cost is 5.5% (2006 – 4.5%) per annum but with higher increases in the first ten years.

Assumptions regarding future mortality experience are set based on published statistics and experience. For the UK schemes, the average life expectancy of a pensioner retiring at age 65 is 20.9 years (2006 – 20.6 years) for current pensioners and 22.5 years (2006 – 22.2 years) for current non pensioners. Most of the overseas schemes only offer a lump sum on retirement and therefore mortality assumptions are not applicable.

The expected return on plan assets is based on the weighted average expected return on each type of asset (principally equities and bonds). The overall expected return on plan assets is determined based on the expected real rates of return on equities and expected yields on bonds applicable to the period over which the obligation is to be settled.

The asset (liability) recognised in the balance sheet is determined as follows:

	United Kingdom		Overseas		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Present value of funded obligations	**(738.0)**	(724.8)	**(28.1)**	(27.3)	**(766.1)**	(752.1)
Fair value of plan assets	**767.5**	706.5	**31.8**	26.8	**799.3**	733.3
Surplus (deficit) in funded obligations	**29.5**	(18.3)	**3.7**	(0.5)	**33.2**	(18.8)
Irrecoverable surplus	**–**	–	**(0.3)**	(0.2)	**(0.3)**	(0.2)
Net surplus (deficit) in funded obligations	**29.5**	(18.3)	**3.4**	(0.7)	**32.9**	(19.0)
Present value of unfunded obligations	**(3.0)**	(2.7)	**(1.4)**	(1.0)	**(4.4)**	(3.7)
	26.5	(21.0)	**2.0**	(1.7)	**28.5**	(22.7)
The net pension asset (liability) is analysed as follows:						
Schemes in surplus	**48.4**	–	**3.5**	–	**51.9**	–
Schemes in deficit	**(21.9)**	(21.0)	**(1.5)**	(1.7)	**(23.4)**	(22.7)
	26.5	(21.0)	**2.0**	(1.7)	**28.5**	(22.7)

The amounts recognised in the income statement are as follows:

	United Kingdom		Overseas		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Current service cost	**(5.5)**	(5.8)	**(1.8)**	(1.8)	**(7.3)**	(7.6)
Past service cost	**(0.1)**	(0.4)	**–**	–	**(0.1)**	(0.4)
Interest expense on plan liabilities	**(38.0)**	(34.0)	**(1.1)**	(1.3)	**(39.1)**	(35.3)
Expected return on plan assets	**41.9**	36.1	**1.9**	1.6	**43.8**	37.7
	(1.7)	(4.1)	**(1.0)**	(1.5)	**(2.7)**	(5.6)

The actual return on plan assets amounts to £45.1m (2006 – £41.5m).

The totals in the previous table were included in the following income statement lines:

	Cost of sales		Distribution costs		Administrative expenses		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Current service cost	**(0.4)**	(0.4)	**(0.6)**	(0.7)	**(6.3)**	(6.5)	**(7.3)**	(7.6)
Past service cost	**–**	–	**–**	–	**(0.1)**	(0.4)	**(0.1)**	(0.4)
	(0.4)	(0.4)	**(0.6)**	(0.7)	**(6.4)**	(6.9)	**(7.4)**	(8.0)
Interest expense on plan liabilities							**(39.1)**	(35.3)
Expected return on plan assets							**43.8**	37.7
							(2.7)	(5.6)

5 Pensions and other post-retirement benefits continued

The amounts recognised in the statement of recognised income and expense (SORIE) are as follows:

	United Kingdom		Overseas		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Actuarial gains and losses on liabilities:						
– Experience gains and losses	**(0.2)**	8.8	**0.3**	(0.2)	**0.1**	8.6
– Changes in assumptions	**30.8**	(6.2)	**(0.1)**	(0.9)	**30.7**	(7.1)
Actuarial gains and losses on assets:						
– Experience gains and losses	**(1.5)**	1.6	**2.8**	2.2	**1.3**	3.8
Reversal of irrecoverable surplus	**–**	–	**–**	–	**–**	–
	29.1	4.2	**3.0**	1.1	**32.1**	5.3

Analysis of the movement in the balance sheet net asset (liability):

	United Kingdom		Overseas		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
At 1 January	**(21.0)**	(66.0)	**(1.5)**	(3.1)	**(22.5)**	(69.1)
Businesses acquired	**(0.9)**	–	**–**	–	**(0.9)**	–
Amount recognised in the income statement	**(1.7)**	(4.1)	**(1.0)**	(1.5)	**(2.7)**	(5.6)
Contributions by employer	**21.0**	44.9	**1.8**	2.0	**22.8**	46.9
Actuarial gains and losses recognised in SORIE	**29.1**	4.2	**3.0**	1.1	**32.1**	5.3
At 31 December	**26.5**	(21.0)	**2.3**	(1.5)	**28.8**	(22.5)
Irrecoverable surplus	**–**	–	**(0.3)**	(0.2)	**(0.3)**	(0.2)
Revised value at 31 December	**26.5**	(21.0)	**2.0**	(1.7)	**28.5**	(22.7)

Changes in the present value of the defined benefit obligation are as follows:

	United Kingdom		Overseas		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
At 1 January	**(727.5)**	(719.9)	**(28.3)**	(28.7)	**(755.8)**	(748.6)
Businesses acquired	**(36.2)**	–	**–**	–	**(36.2)**	–
Current service cost	**(5.5)**	(5.8)	**(1.8)**	(1.8)	**(7.3)**	(7.6)
Past service cost	**(0.1)**	(0.4)	**–**	–	**(0.1)**	(0.4)
Interest expense on plan liabilities	**(38.0)**	(34.0)	**(1.1)**	(1.3)	**(39.1)**	(35.3)
Actuarial gains and losses:						
– Experience gains and losses	**(0.2)**	8.8	**0.3**	(0.2)	**0.1**	8.6
– Changes in assumptions	**30.8**	(6.2)	**(0.1)**	(0.9)	**30.7**	(7.1)
Contributions by employees	**(1.9)**	(2.1)	**(0.1)**	(0.1)	**(2.0)**	(2.2)
Benefits paid	**37.6**	32.1	**1.9**	1.6	**39.5**	33.7
Effect of foreign exchange rate changes	**–**	–	**(0.3)**	3.1	**(0.3)**	3.1
At 31 December	**(741.0)**	(727.5)	**(29.5)**	(28.3)	**(770.5)**	(755.8)

Notes to the accounts continued

5 Pensions and other post-retirement benefits continued

Changes in the fair value of the defined benefit asset are as follows:

	United Kingdom		Overseas		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
At 1 January	**706.5**	653.9	**26.8**	25.6	**733.3**	679.5
Businesses acquired	**35.3**	–	**–**	–	**35.3**	–
Expected return on plan assets	**41.9**	36.1	**1.9**	1.6	**43.8**	37.7
Actuarial gains and losses:						
– Experience gains and losses	**(1.5)**	1.6	**2.8**	2.2	**1.3**	3.8
Contributions by employer	**21.0**	44.9	**1.8**	2.0	**22.8**	46.9
Contributions by employees	**1.9**	2.1	**0.1**	0.1	**2.0**	2.2
Benefits paid	**(37.6)**	(32.1)	**(1.9)**	(1.6)	**(39.5)**	(33.7)
Effect of foreign exchange rate changes	**–**	–	**0.3**	(3.1)	**0.3**	(3.1)
At 31 December	**767.5**	706.5	**31.8**	26.8	**799.3**	733.3
Irrecoverable surplus	**–**	–	**(0.3)**	(0.2)	**(0.3)**	(0.2)
Revised value at 31 December	**767.5**	706.5	**31.5**	26.6	**799.0**	733.1

At the balance sheet date, the percentage of the plan assets by category had been invested as follows:

	United Kingdom		Overseas		Total	
	2007 %	2006 %	**2007 %**	2006 %	**2007 %**	2006 %
Equities	**35.0**	31.8	**65.2**	65.1	**36.3**	32.9
Corporate bonds	**24.5**	20.8	**17.8**	22.3	**24.2**	20.9
Government bonds	**29.3**	36.9	**–**	–	**28.1**	35.6
Other	**11.2**	10.5	**17.0**	12.6	**11.4**	10.6
	100.0	100.0	**100.0**	100.0	**100.0**	100.0

The history of the plans for the current and previous years is as follows:

	United Kingdom				Overseas				Total			
	2007 £m	2006 £m	2005 £m	2004 £m	**2007 £m**	2006 £m	2005 £m	2004 £m	**2007 £m**	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	**(741.0)**	(727.5)	(719.9)	(622.2)	**(29.5)**	(28.3)	(28.7)	(25.4)	**(770.5)**	(755.8)	(748.6)	(647.6)
Fair value of plan assets	**767.5**	706.5	653.9	592.7	**31.8**	26.8	25.6	20.5	**799.3**	733.3	679.5	613.2
Surplus/deficit	**26.5**	(21.0)	(66.0)	(29.5)	**2.3**	(1.5)	(3.1)	(4.9)	**28.8**	(22.5)	(69.1)	(34.4)
Irrecoverable surplus	**–**	–	–	(24.3)	**(0.3)**	(0.2)	(0.3)	(0.2)	**(0.3)**	(0.2)	(0.3)	(24.5)
Revised surplus deficit	**26.5**	(21.0)	(66.0)	(53.8)	**2.0**	(1.7)	(3.4)	(5.1)	**28.5**	(22.7)	(69.4)	(58.9)
Experience adjustments on plan liabilities	**(0.2)**	8.8	0.3	(0.2)	**0.3**	(0.2)	0.1	(0.5)	**0.1**	8.6	0.4	(0.7)
Experience adjustments on plan assets	**(1.5)**	1.6	45.7	6.8	**2.8**	2.2	0.4	1.1	**1.3**	3.8	46.1	7.9

The cumulative actuarial gains and losses arising since 1 January 2004 recognised in shareholders' equity amounted to a £12.1m gain at 31 December 2007 (2006 – £20.0m loss).

The Group has agreed to pay c. £13m to its defined benefit plans in 2008.

6 Finance income

	2007 £m	2006 £m
Bank interest receivable	**11.6**	8.8
Expected return on post-retirement plan assets	**43.8**	37.7
Other interest receivable	**1.9**	2.5
Total finance income	**57.3**	49.0

7 Finance costs

	2007 £m	2006 £m
Bank interest payable	**8.9**	3.8
Private Placement interest payable	**11.3**	–
Fair value loss on cross currency interest rate swaps	**(8.0)**	–
Fair value adjustment on Private Placement	**8.3**	–
Stock holding interest	**18.2**	11.2
Interest expense on post-retirement plan liabilities	**39.1**	35.3
Other interest payable	**12.9**	4.6
Total finance costs	**90.7**	54.9

8 Tax

	2007 £m	2006 £m
Current tax:		
– UK corporation tax	**36.9**	18.1
– Double tax relief	**(30.1)**	(11.2)
	6.8	6.9
Overseas tax	**54.6**	49.4
	61.4	56.3
Adjustments to prior year liabilities:		
– UK	**2.1**	(1.4)
– Overseas	**(0.9)**	(1.8)
Current tax	**62.6**	53.1
Deferred tax (note 16)	**(4.7)**	(8.0)
Tax before exceptional tax	**57.9**	45.1
Exceptional tax (note 2)	**–**	(8.0)
Total tax charge	**57.9**	37.1

The tax charge for the year includes £nil in respect of exceptional items (2006 – £8.0m).

The effective tax rate for the year of 24.6% (24.1% after exceptional items) (2006 – 21.1%) is higher than the standard rate of tax of 21.4% (2006 – 24.5%) as explained below. The standard rate comprises the average statutory rates across the Group, weighted in proportion to accounting profits.

Notes to the accounts continued

8 Tax continued

	2007 £m	2006 £m
Profit before tax	**240.0**	213.9
Profit before tax multiplied by the standard rate of tax of 21.4% (2006 – 24.5%)	**51.4**	52.4
Effects of:		
– Permanently disallowable items	**4.6**	3.2
– Unrelieved losses	**1.8**	1.0
– Prior year items	**(3.7)**	(8.6)
– Other items	**4.6**	(1.5)
– Tax on share of profit of joint ventures and associates	**(0.8)**	(1.4)
– Exceptional tax credit	**–**	(8.0)
Total tax charge	**57.9**	37.1

The subsidiaries Headline tax rate, defined as tax on profit before exceptional items and excluding the Group's share of profit after tax of joint ventures and associates, for the year is 25.0% (2006 – 21.7%).

9 Earnings per share

	2007 £m	2006 £m
Profit for the year	**182.1**	176.8
Minority interests	**(5.7)**	(2.9)
Basic earnings	**176.4**	173.9
Exceptional items	**(4.9)**	(8.0)
Headline earnings	**171.5**	165.9
Basic earnings per share	**38.0p**	37.5p
Diluted earnings per share	**37.8p**	37.1p
Basic Headline earnings per share	**37.0p**	35.7p
Diluted Headline earnings per share	**36.8p**	35.4p

	2007 number	2006 number
Weighted average number of fully paid ordinary shares in issue during the year	**484,498,889**	481,212,798
Weighted average number of fully paid ordinary shares in issue during the year:		
– Held by the ESOP Trust	**(1,760,001)**	(2,127,884)
– Repurchased as part of the share buy back programme	**(18,625,305)**	(15,031,175)
Weighted average number of fully paid ordinary shares for the purposes of basic EPS	**464,113,583**	464,053,739
Dilutive effect of potential ordinary shares	**2,285,346**	4,076,256
Adjusted weighted average number of fully paid ordinary shares in issue during the year for the purposes of diluted EPS	**466,398,929**	468,129,995

Basic earnings per share is calculated by dividing the basic earnings for the year by the weighted average number of fully paid ordinary shares in issue during the year, less those shares held by the ESOP Trust and those repurchased as part of the share buy back programme.

Diluted earnings per share is calculated on the same basis as the basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise share options and deferred bonus plan awards.

Headline earnings (which excludes exceptional items) is adopted to assist the reader in understanding the underlying performance of the Group. Headline earnings per share is calculated by dividing the Headline 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 ESOP Trust and those repurchased as part of the share buy back programme.

Diluted Headline earnings per share is calculated on the same basis as the basic Headline 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 deferred bonus plan awards.

10 Dividends

The following dividends were paid by the Group:

	2007 £m	2006 £m
Interim dividend for the six months ended 30 June 2007 of 5.25p per share (2006 – 5.0p per share)	**24.5**	23.0
Final dividend for the year ended 31 December 2006 of 10.0p per share (2005 – 6.3p per share)	**46.6**	29.6
	71.1	52.6

The final proposed dividend for the year ended 31 December 2007 of 10.5p per share (£48.5m) is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2007. The record date for the final dividend is 23 May 2008, and the payment date 17 June 2008.

Dividends paid above exclude £3.0m (2006 – £1.9m) payable on treasury shares and shares held by the ESOP Trust.

11 Intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2006	93.6	26.9	120.5
Businesses acquired	–	1.6	1.6
Additions	79.3	3.1	82.4
Disposals	(0.1)	(0.3)	(0.4)
Effect of foreign exchange rate changes	(1.4)	(0.4)	(1.8)
At 1 January 2007	**171.4**	**30.9**	**202.3**
Businesses acquired	**–**	**4.1**	**4.1**
Additions	**256.8**	**8.1**	**264.9**
Disposals	**(34.1)**	**(6.6)**	**(40.7)**
Reclassified to disposal group (note 19)	**(11.1)**	**–**	**(11.1)**
Effect of foreign exchange rate changes	**7.9**	**1.4**	**9.3**
At 31 December 2007	**390.9**	**37.9**	**428.8**
Amortisation and impairment			
At 1 January 2006	(30.1)	(20.9)	(51.0)
Amortisation charge for the year	–	(4.0)	(4.0)
Disposals	–	0.3	0.3
Effect of foreign exchange rate changes	–	0.3	0.3
At 1 January 2007	**(30.1)**	**(24.3)**	**(54.4)**
Amortisation charge for the year	**–**	**(6.5)**	**(6.5)**
Disposals	**28.9**	**5.1**	**34.0**
Effect of foreign exchange rate changes	**(0.1)**	**(1.3)**	**(1.4)**
At 31 December 2007	**(1.3)**	**(27.0)**	**(28.3)**
Net book value at 31 December 2007	**389.6**	**10.9**	**400.5**
Net book value at 31 December 2006	141.3	6.6	147.9

Notes to the accounts continued

11 Intangible assets continued

a. Goodwill

Goodwill acquired in a business combination is allocated to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2007 £m	2006 £m
UK Retail	**265.4**	90.5
Singapore	**14.1**	13.5
Russia	**39.5**	26.1
Latvia	**38.9**	0.5
Other	**31.7**	10.7
	389.6	141.3

Goodwill additions in 2007 arise mainly from the acquisition of EMH in the UK, Baltic Motors in Latvia and 000 Concord and 000 Orgtekhstroy in Russia.

Goodwill is subject to impairment testing annually, or more frequently where there are indications that the goodwill may be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, expected changes to costs and selling prices during the period and the continuing relationship with key brand partners. Management estimates discount rates using the weighted average cost of capital of the Group, adjusted for any risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial plans approved by management for the next three years. Cash flows beyond this period are extrapolated based on estimated growth rates that do not exceed the long term growth rate for the relevant market.

UK Retail

UK Retail CGUs are defined as contiguous territories by brand. Forecast cash flows for UK Retail, discounted at a pre–tax rate of 11.5%, are based on growth rates generally in excess of 4.5% for the first three years, and thereafter are based on the long term growth rate of the local economy of 2.5%.

Singapore

In Singapore, forecast cash flows reflect the anticipated softening of the vehicle market driven by changes in quota sizes and fiscal incentives. The cash flows, discounted at a pre–tax rate of 11.5%, are still however substantially in excess of the carrying amount of the assets of the business. The long term growth rate applied is based upon the long term growth rate of the local economy of 2.0%.

Russia

The goodwill on operations acquired in Russia in December 2006 and 2007 are supported by the forecast cash flow model prepared by management to calculate the purchase price. Forecast cash flows were discounted at a pre–tax rate of 14.0%. The growth rate in the first three years on the Toyota and Lexus businesses is assumed to be 18.0%, and the long term growth rate is based upon the long term growth rate of the local economy of 3.3%. The goodwill on businesses acquired in December 2007 is supported by the acquisition cash flow model.

Latvia

The operations in Latvia were acquired in July 2007. The goodwill is supported by the forecast cash flows prepared by management to calculate the purchase price. Forecast cash flows were discounted at a pre–tax rate of 14.0%. The market growth rate in the first three years is assumed to be 11.0%, and the long term growth rate is based upon the long term growth rate of the local economy of 5.0%. Management expect to outperform the market.

b. Other intangible assets

Other intangible assets principally comprise computer software. The amortisation charge is largely included within administrative expenses in the income statement.

Other intangible assets also include customer contracts and back orders recognised on the acquisition of a business. These intangible assets are recognised at the fair value attributable to them on acquisition, and are amortised on a straight line basis over their useful life (usually up to one year).

12 Property, plant and equipment

	Freehold land and freehold and leasehold buildings £m	Plant, machinery and equipment £m	Subtotal £m	Vehicles subject to residual value commitments £m	Total £m
Cost					
At 1 January 2006	266.7	150.5	417.2	79.9	497.1
Businesses acquired	63.7	4.7	68.4	–	68.4
Businesses sold	(1.1)	(4.9)	(6.0)	–	(6.0)
Additions	23.0	27.7	50.7	36.5	87.2
Disposals	(6.2)	(13.0)	(19.2)	(35.3)	(54.5)
Effect of foreign exchange rate changes	(7.4)	(6.3)	(13.7)	(0.7)	(14.4)
At 1 January 2007	**338.7**	**158.7**	**497.4**	**80.4**	**577.8**
Businesses acquired	**119.2**	**9.1**	**128.3**	**7.1**	**135.4**
Businesses sold	**(24.6)**	**(18.9)**	**(43.5)**	**–**	**(43.5)**
Additions	**37.2**	**34.8**	**72.0**	**47.2**	**119.2**
Disposals	**(31.2)**	**(25.9)**	**(57.1)**	**(27.0)**	**(84.1)**
Reclassified and reported within disposal group/assets held for sale (note 19)	**(57.5)**	**(11.7)**	**(69.2)**	**–**	**(69.2)**
Effect of foreign exchange rate changes	**9.7**	**6.4**	**16.1**	**5.7**	**21.8**
At 31 December 2007	**391.5**	**152.5**	**544.0**	**113.4**	**657.4**
Depreciation					
At 1 January 2006	(32.5)	(93.1)	(125.6)	(24.8)	(150.4)
Businesses sold	0.6	3.0	3.6	–	3.6
Depreciation charge for the year	(6.1)	(17.2)	(23.3)	(14.1)	(37.4)
Disposals	0.8	7.6	8.4	19.5	27.9
Effect of foreign exchange rate changes	1.3	4.1	5.4	0.1	5.5
At 1 January 2007	**(35.9)**	**(95.6)**	**(131.5)**	**(19.3)**	**(150.8)**
Businesses sold	**3.9**	**9.9**	**13.8**	**–**	**13.8**
Depreciation charge for the year	**(7.7)**	**(19.5)**	**(27.2)**	**(12.5)**	**(39.7)**
Disposals	**2.8**	**16.0**	**18.8**	**9.4**	**28.2**
Reclassified and reported within disposal group/assets held for sale (note 19)	**6.4**	**9.1**	**15.5**	**–**	**15.5**
Effect of foreign exchange rate changes	**(0.5)**	**(3.5)**	**(4.0)**	**(1.1)**	**(5.1)**
At 31 December 2007	**(31.0)**	**(83.6)**	**(114.6)**	**(23.5)**	**(138.1)**
Net book value at 31 December 2007	**360.5**	**68.9**	**429.4**	**89.9**	**519.3**
Net book value at 31 December 2006	302.8	63.1	365.9	61.1	427.0

Certain subsidiaries have an obligation to repurchase, at a guaranteed residual value, vehicles which have been legally sold for leasing contracts. These assets are included in Vehicles subject to residual value commitments in the table above.

Assets held under finance leases have the following net book values:

	2007 £m	2006 £m
Leasehold buildings	**0.4**	4.9
Plant, machinery and equipment	**2.0**	0.5
	2.4	5.4

Notes to the accounts continued

12 Property, plant and equipment continued

The book value of land and buildings is analysed between:

	2007 £m	2006 £m
Freehold	**318.3**	255.6
Leasehold with over fifty years unexpired	**12.1**	15.4
Short leasehold	**30.1**	31.8
	360.5	302.8

13 Investments in joint ventures and associates

	2007 £m	2006 £m
At 1 January	**15.1**	44.7
Additions	**0.1**	0.6
Disposals	**(1.5)**	–
Share of profit after tax of joint ventures and associates	**3.5**	5.9
Dividends paid	**(2.6)**	(0.4)
Transfer to Assets held for sale (note 19)	**–**	(30.8)
Other movements	**0.4**	(0.3)
Effect of foreign exchange rate changes	**0.3**	(4.6)
At 31 December	**15.3**	15.1

Group's share of net assets of joint ventures and associates

	Joint ventures		Associates		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Non–current assets	**98.5**	81.9	**5.4**	11.2	**103.9**	93.1
Current assets	**117.7**	97.7	**44.0**	34.3	**161.7**	132.0
Group's share of gross assets	**216.2**	179.6	**49.4**	45.5	**265.6**	225.1
Current liabilities	**(87.9)**	(80.7)	**(30.0)**	(31.7)	**(117.9)**	(112.4)
Non–current liabilities	**(119.4)**	(89.1)	**(13.0)**	(8.5)	**(132.4)**	(97.6)
Group's share of gross liabilities	**(207.3)**	(169.8)	**(43.0)**	(40.2)	**(250.3)**	(210.0)
Group's share of net assets	**8.9**	9.8	**6.4**	5.3	**15.3**	15.1
Group's share of results of joint ventures and associates						
Revenue	**9.9**	26.1	**3.5**	4.5	**13.4**	30.6
Expenses	**(7.5)**	(20.0)	**(1.6)**	(3.3)	**(9.1)**	(23.3)
Profit before tax	**2.4**	6.1	**1.9**	1.2	**4.3**	7.3
Tax	**(0.3)**	(1.1)	**(0.5)**	(0.3)	**(0.8)**	(1.4)
Share of profit after tax of joint ventures and associates	**2.1**	5.0	**1.4**	0.9	**3.5**	5.9

Guarantees provided in respect of joint ventures and associates borrowings amount to £7.2m (2006 – £7.9m).

14 Available for sale financial assets

	2007 £m	2006 £m
At 1 January	**65.0**	17.4
Additions	**1.4**	53.0
Disposals	**(1.4)**	(3.1)
Reclassified and reported as a subsidiary due to increased shareholding (note 27)	**(49.2)**	–
Fair value movement transferred to shareholders' equity	**(0.2)**	(1.9)
Effect of foreign exchange rate changes	**1.1**	(0.4)
At 31 December	**16.7**	65.0

Analysed as:

	2007 £m	2006 £m
Non–current	**15.6**	12.2
Current	**1.1**	52.8
	16.7	65.0

Assets held are analysed as follows:

	2007 £m	2006 £m
Equity securities	**0.5**	49.9
Bonds	**14.3**	13.6
Other	**1.9**	1.5
	16.7	65.0

Equity securities in 2006 comprised principally the Group's investment in the share capital of European Motor Holdings plc. The Group obtained control of this business on 29 January 2007, from which date the results were consolidated as a subsidiary.

At 31 December 2007 the bonds attracted a weighted average fixed interest rate of 4.5% (2006 – 4.9%) and had a face value of £14.3m (2006 – £13.6m). The bonds are traded on active markets with coupons generally paid on an annual basis.

Other, includes debentures that are not subject to interest rates and do not have fixed maturity dates. They are valued by reference to traded market values.

Available for sale financial assets subject to fixed interest rates are aged by maturity date as follows:

	Less than one year £m	Between one and two years £m	Between two and three years £m	Between three and four years £m	Between four and five years £m	Greater than five years £m	Total interest bearing £m
2007	**0.4**	**1.4**	**0.3**	**1.3**	**–**	**10.9**	**14.3**
2006	1.4	0.4	1.3	0.3	1.2	9.0	13.6

In certain jurisdictions management are required to hold bonds to offset future vehicle warranty obligations. To meet this requirement, management purchases and sells bonds regularly and does not usually hold the bonds to maturity. Accordingly, the maturity profile of the bonds is not necessarily an indication of when management intends to realise the associated future cash flows.

The maximum exposure to credit risk at the reporting date is the fair value of the bonds classified as available for sale. These are government bonds with an A1 credit rating.

Notes to the accounts continued

15 Trade and other receivables

	Current 2007 £m	Current 2006 £m	Non-current 2007 £m	Non-current 2006 £m
Trade receivables	**150.3**	120.6	**0.6**	–
Less: provision for impairment of trade receivables	**(4.6)**	(4.2)	**(0.6)**	–
Net trade receivables	**145.7**	116.4	**–**	–
Amounts receivable from related parties	**4.7**	5.3	**4.2**	4.3
Prepayments and accrued income	**67.1**	54.3	**7.4**	0.2
Other receivables	**45.1**	35.4	**12.6**	18.7
	262.6	211.4	**24.2**	23.2

Movements in the provision for impairment of receivables were as follows:

	2007 £m	2006 £m
At 1 January	**(4.2)**	(4.7)
Businesses acquired	**(0.1)**	–
Businesses sold	**0.7**	–
Charge for the year	**(2.2)**	(1.0)
Amounts written off	**0.3**	0.3
Unused amounts reversed	**0.6**	1.2
Effect of foreign exchange rate changes	**(0.3)**	–
At 31 December	**(5.2)**	(4.2)

At 31 December, the analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	Past due but not impaired 0 < 30 days £m	Past due but not impaired 30 – 90 days £m	Past due but not impaired > 90 days £m	Impaired £m
2007	**150.9**	**116.4**	**17.3**	**5.7**	**6.3**	**5.2**
2006	120.6	93.0	15.5	4.3	3.6	4.2

Trade receivables are non–interest bearing and are generally on credit terms of thirty to sixty days.

Management considers the carrying amount of Trade and other receivables to approximate to their fair value. Long term receivables have been discounted where the time value of money is considered to be material.

Concentration of credit risk with respect to Trade receivables is very limited due to the Group's broad customer base across a number of geographic regions.

16 Deferred tax

Net deferred tax asset/(liability)	**Pension and other post-retirement benefits £m**	**Share-based payments £m**	**Tax losses £m**	**Accelerated tax depreciation £m**	**Provisions and other timing differences £m**	**Cash flow hedges £m**	**Total £m**
At 1 January 2007	**5.8**	**5.7**	**1.0**	**5.9**	**(1.2)**	**8.7**	**25.9**
Businesses acquired / sold	**–**	**–**	**–**	**–**	**(14.3)**	**–**	**(14.3)**
Credited (charged) to the income statement	**(2.5)**	**(1.9)**	**5.7**	**(1.9)**	**3.1**	**2.2**	**4.7**
Credited to shareholders' equity (note 25a)	**(10.7)**	**(3.0)**	**–**	**–**	**–**	**(11.7)**	**(25.4)**
Effect of foreign exchange rate changes	**–**	**–**	**–**	**–**	**0.8**	**–**	**0.8**
At 31 December 2007	**(7.4)**	**0.8**	**6.7**	**4.0**	**(11.6)**	**(0.8)**	**(8.3)**

16 Deferred tax continued

Analysed as:

	2007 £m	2006 £m
Deferred tax assets	**10.2**	40.6
Deferred tax liabilities	**(18.5)**	(14.7)
	(8.3)	25.9

The Group has an unrecognised deferred tax asset of £18m (2006 – £19m) relating to tax relief on trading losses. The asset represents £83m of losses at the standard blended rate of 21.4%. The asset is unprovided as £68m relates to losses which exist within legal entities that are not forecast to generate taxable income with reasonable certainty in the foreseeable future, and £15m relates to losses in companies which have closed or are anticipated to be closed. The deferred tax asset of £6.7m (2006 – £1.0m) relates to trading losses in the UK where the losses may be converted into future tax allowances and other deductions.

The Group has unrecognised deferred tax assets of £37m (2006 – £46m) relating to capital losses. The asset represents £173m of losses at the standard blended rate of 21.4%. The key territories holding the losses are UK (£146m) and France (£27m).

A liability of £10.0m arose during the year on the acquisition of European Motor Holdings plc, which related to the requirement to fully provide for deferred tax on buildings which do not attract capital allowances and which have been acquired as part of a business combination.

No deferred tax is recognised on unremitted earnings of overseas subsidiaries and joint ventures. The Group controls and manages the repatriation of the overseas reserves so that they are repatriated at no additional tax cost or alternatively maintains the profits in the overseas territory where they are reinvested to generate future profits growth. If all overseas earnings were repatriated with immediate effect, tax of £39m (2006 – £28m) would be payable.

Following the 2007 Finance Act, changes to the treatment of industrial buildings allowances and the reduction on the UK standard rate of corporation tax from 30% to 28%, both of which are effective in 2008, we have had to re–assess our deferred tax position on our property portfolio and on the way in which those assets have been acquired. As a result we will be required to recognise a £6m exceptional tax charge in 2008.

17 Inventories

	2007 £m	2006 £m
Raw materials and work in progress	**4.6**	3.1
Finished goods and merchandise	**792.9**	701.5
	797.5	704.6

Vehicles held on consignment which are in substance assets of the Group amount to £118.3m (2006 – £69.6m). These have been included in Finished goods and merchandise with the corresponding liability included within Trade and other payables. Payment becomes due when title passes to the Group, which is generally the earlier of six months from delivery or the date of sale.

An amount of £21.3m (2006 – £23.5m) has been provided against the gross cost of inventory at the year end. The cost of inventories recognised as an expense in the year is £4,277.7m (2006 – £3,711.3m). The write down of inventory to net realisable value recognised as an expense during the year was £10.0m (2006 – £10.8m). All of these items have been included within Cost of sales in the income statement.

18 Cash and cash equivalents

	2007 £m	2006 £m
Cash at bank and in hand	**273.0**	262.8
Short term bank deposits	**70.4**	72.4
	343.4	335.2

Cash and cash equivalents are generally subject to floating interest rates determined by reference to short term benchmark rates applicable in the relevant currency or market (primarily LIBOR or the local equivalent). At 31 December 2007 the weighted average floating rate was 4.8% (2006 – 4.25%).

At 31 December 2007, short term bank deposits have a weighted average period to maturity of 24 days (2006 – 17 days).

Notes to the accounts continued

19 Assets held for sale and disposal group

	2007 £m	2006 £m
Assets directly associated with the disposal group	**163.5**	–
Assets held for sale	**5.1**	30.8
Assets held for sale and disposal group	**168.6**	30.8
Liabilities directly associated with the disposal group	**(78.6)**	–
The assets and liabilities in the disposal group comprise the folllowing:		
Goodwill (note 11)	**11.1**	–
Property, plant and equipment (note 12)	**48.6**	–
Inventories	**81.0**	–
Trade and other receivables	**22.8**	–
Assets held for sale and disposal group	**163.5**	–
Trade and other payables	**(78.6)**	–
Liabilities directly associated with the disposal group	**(78.6)**	–

Following the Group's announcement of its intention to dispose of certain non core franchises in the UK, it is actively marketing these with a view to sale during the year. The assets and liabilities of these businesses have therefore been disclosed on the balance sheet as a disposal group in accordance with IFRS 5.

The assets held for sale in 2007 relate to surplus properties in Australia and Greece which are being actively marketed. The comparative period comprises the Inchroy joint venture which was disposed of in February 2007.

20 Trade and other payables

	Current		Non-current	
	2007 £m	2006 £m	2007 £m	2006 £m
Trade payables: payments received on account	**37.4**	47.7	**0.1**	0.1
other	**728.2**	600.4	**40.9**	37.9
Other taxation and social security payable	**22.9**	16.7	**–**	0.6
Accruals and deferred income	**142.9**	116.2	**0.4**	0.7
Amounts payable to related parties	**2.9**	2.3	**–**	–
Other payables	**5.9**	8.2	**–**	0.1
	940.2	791.5	**41.4**	39.4

At 31 December 2007 current Trade payables – other includes £342.4m (2006 – £288.3m) of creditors where payment is made on deferred terms and is subject to a weighted average floating interest rate of 4.8% (2006 – 3.6%). This balance is expected to be settled within twelve months of the balance sheet date.

Management considers the carrying amount of Trade and other payables to approximate to their fair value. Long term payables have been discounted where the time value of money is considered to be material.

21 Provisions

	Product warranty £m	Vacant leasehold £m	Litigation £m	Other £m	Total £m
At 1 January 2007	40.3	5.4	7.2	3.3	56.2
Businesses acquired	–	1.8	–	0.6	2.4
Charged to the income statement	21.8	2.3	7.2	2.1	33.4
Released to the income statement	(3.8)	(1.1)	(0.8)	(1.9)	(7.6)
Effect of unwinding of discount factor	0.2	0.1	–	–	0.3
Utilised during the year	(15.5)	(1.4)	(0.3)	(0.7)	(17.9)
Effect of foreign exchange rate changes	3.3	–	0.4	0.2	3.9
At 31 December 2007	46.3	7.1	13.7	3.6	70.7

Analysed as:

	2007 £m	2006 £m
Current	31.3	20.7
Non–current	39.4	35.5
	70.7	56.2

Product warranty
Certain Group companies provide self–insured extended warranties beyond those provided by the manufacturer, as part of the sale of the vehicle. These are not separable products. The warranty periods covered are up to six years and/or specific mileage limits. Provision is made for the expected cost of labour and parts based on historical claims experience and expected future trends. These assumptions are reviewed regularly.

Vacant leasehold
The Group is committed to certain leasehold premises for which it no longer has a commercial use. These are principally located in the UK. Provision has been made to the extent of the estimated future net cost. This includes taking into account existing subtenant arrangements. The expected utilisation period of these provisions is generally over the next ten years.

Litigation
This includes a number of litigation provisions in respect of the exit of certain motors and non–motors businesses. Specifically these relate to the exit of our former South American bottling business and shipping business. The cases are largely historic claims and are generally expected to be concluded within the next three years.

Other
This category includes a number of other provisions which are expected to be settled within the next three years.

Notes to the accounts continued

22 Borrowings

2007	Floating rate £m	Floating rate Weighted average effective interest rate %	Fixed rate £m	Fixed rate Weighted average effective interest rate %	Total interest bearing £m	On which no interest is paid £m	Total £m
Current							
Bank overdrafts	**144.8**	**6.4**	**–**	**–**	**144.8**	**–**	**144.8**
Bank loans	**4.4**	**6.5**	**–**	**–**	**4.4**	**0.7**	**5.1**
Other loans	**5.1**	**4.7**	**–**	**–**	**5.1**	**–**	**5.1**
Finance leases	**0.2**	**6.2**	**0.1**	**7.0**	**0.3**	**–**	**0.3**
	154.5	**6.3**	**0.1**	**7.0**	**154.6**	**0.7**	**155.3**
Non-current							
Bank loans	**119.1**	**6.3**	**–**	**–**	**119.1**	**–**	**119.1**
Private Placement	**247.1**	**6.3**	**37.7**	**6.0**	**284.8**	**–**	**284.8**
Finance leases	**3.2**	**6.4**	**2.5**	**7.0**	**5.7**	**–**	**5.7**
	369.4	**6.3**	**40.2**	**6.0**	**409.6**	**–**	**409.6**
Total borrowings	**523.9**	**6.3**	**40.3**	**6.0**	**564.2**	**0.7**	**564.9**

2006	Floating rate £m	Floating rate Weighted average effective interest rate %	Fixed rate £m	Fixed rate Weighted average effective interest rate %	Total interest bearing £m	On which no interest is paid £m	Total £m
Current							
Bank overdrafts	169.0	5.6	–	–	169.0	–	169.0
Bank loans	6.8	5.5	7.1	8.5	13.9	0.1	14.0
Finance leases	0.3	5.1	0.2	6.9	0.5	–	0.5
	176.1	5.6	7.3	8.4	183.4	0.1	183.5
Non-current							
Bank loans	165.0	5.6	–	–	165.0	0.9	165.9
Finance leases	2.2	5.3	2.6	7.0	4.8	–	4.8
	167.2	5.6	2.6	7.0	169.8	0.9	170.7
Total borrowings	343.3	5.6	9.9	8.0	353.2	1.0	354.2

Interest payments on floating rate financial liabilities are determined by reference to short term benchmark rates applicable in the relevant currency or market (primarily LIBOR or the local equivalent).

The fair values of the Group's borrowings are not considered to be materially different from their book value, with the exception of the Private Placement which includes a £8.3m fair value revaluation.

As in 2006, the Group's borrowings are unsecured.

In April 2007, the Group increased and extended its syndicated credit facility. This facility now amounts to £500.0m and expires in 2011. As at 31 December 2007, £80.0m had been drawn down under this facility. In addition, the Group has a £35.0m bilateral facility which expires in 2010.

In addition, US$550.0m was raised in May 2007 in a Private Placement; US$350.0m is repayable in 10 years and US$200.0m in 12 years. Of the total US$475.0m has been swapped into sterling (see note 23 for further details).

22 Borrowings continued

The table below sets out the maturity profile of the Group's borrowings that are exposed to interest rate risk. This analysis is presented after taking account of the cross currency fixed to floating interest rate swap on US$475.0m of the Private Placement.

2007 Fixed rate	Less than one year £m	Between one and two years £m	Between two and three years £m	Between three and four years £m	Between four and five years £m	Greater than five years £m	Total interest bearing £m
Private Placement	–	–	–	–	–	37.7	37.7
Finance leases	0.1	0.1	0.1	–	–	2.3	2.6
Floating rate							
Bank overdrafts	144.8	–	–	–	–	–	144.8
Bank loans	4.4	2.0	35.2	0.2	80.2	1.5	123.5
Private Placement	–	–	–	–	–	247.1	247.1
Other loans	5.1	–	–	–	–	–	5.1
Finance leases	0.2	1.3	0.2	0.2	0.2	1.3	3.4

2006 Fixed rate	Less than one year £m	Between one and two years £m	Between two and three years £m	Between three and four years £m	Between four and five years £m	Greater than five years £m	Total interest bearing £m
Bank loans	7.1	–	–	–	–	–	7.1
Finance leases	0.2	0.1	0.1	0.1	–	2.3	2.8
Floating rate							
Bank overdrafts	169.0	–	–	–	–	–	169.0
Bank loans	6.8	–	–	–	165.0	–	171.8
Finance leases	0.3	0.2	0.2	0.2	0.2	1.4	2.5

23 Financial instruments

The Group's financial instruments, other than derivatives, comprise bank loans and overdrafts, loan notes, finance leases and trade and other payables. The main purpose of these instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and short term deposits which arise from its trading operations.

The Group's primary derivative transactions are forward and swap currency contracts, and cross currency interest rate swaps. The purpose is to manage the currency and interest rate risks arising from the Group's trading operations and its sources of finance. Group policy is that there is no trading or speculation in derivatives.

The main risks arising from the Group's financial instruments are interest rate risk, currency risk, counterparty risk and liquidity risk.

a. Classes of financial instruments

2007	Loans & receivables £m	Available for sale £m	Held at fair value £m	Amortised cost £m	Total £m
Financial assets					
Available for sale financial assets	–	16.7	–	–	16.7
Trade and other receivables	235.4	–	–	–	235.4
Derivative financial instruments	–	–	12.9	–	12.9
Cash and cash equivalents	–	–	–	343.4	343.4
Total financial assets	235.4	16.7	12.9	343.4	608.4
Financial liabilities					
Trade and other payables	–	–	–	(868.6)	(868.6)
Derivative financial instruments	–	–	(8.3)	–	(8.3)
Borrowings	–	–	(247.1)	(317.8)	(564.9)
Total financial liabilities	–	–	(255.4)	(1,186.4)	(1,441.8)
	235.4	16.7	(242.5)	(843.0)	(833.4)

Notes to the accounts continued

23 Financial instruments continued

2006	Loans & receivables £m	Available for sale £m	Held at fair value £m	Amortised cost £m	Total £m
Financial assets					
Available for sale financial assets	–	65.0	–	–	65.0
Trade and other receivables	165.5	–	–	–	165.5
Derivative financial instruments	–	–	0.6	–	0.6
Cash and cash equivalents	–	–	–	335.2	335.2
Total financial assets	165.5	65.0	0.6	335.2	566.3
Financial liabilities					
Trade and other payables	–	–	–	(722.6)	(722.6)
Derivative financial instruments	–	–	(40.2)	–	(40.2)
Borrowings	–	–	–	(354.2)	(354.2)
Total financial liabilities	–	–	(40.2)	(1,076.8)	(1,117.0)
	165.5	65.0	(39.6)	(741.6)	(550.7)

b. Market risk and sensitivity analysis
Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The Group is not exposed to commodity price risk. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity to changes in market variables, being primarily UK interest rates and the Australian Dollar to Japanese Yen exchange rate.

The following assumptions were made in calculating the sensitivity analysis:

- Changes in the carrying value of derivative financial instruments designated as cash flow hedges from movements in interest rates are assumed to be recorded fully in equity.
- Changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates have an immaterial effect on the income statement and equity due to compensating adjustments in the carrying value of debt.
- Changes in the carrying value of financial instruments designated as net investment hedges from movements in the US Dollar to Sterling exchange rate are recorded directly in equity.
- Changes in the carrying value of financial instruments not in hedging relationships only affect the income statement.
- All other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement.

c. Interest rate risk and sensitivity analysis
The Group's interest rate policy has the objective of minimising net interest expense, and protecting the Group from material adverse movements in interest rates. Throughout 2007 the Group has borrowed at floating rates only, with the exception of US$75m of debt. This approach reflects the continuing benign interest rate environment. If hedging is deemed appropriate by management in the future, the Board has approved the fixing of up to 30% of gross borrowings. Instruments approved for this purpose include interest rate swaps, forward rate agreements and options. The Group's exposure to the risk of changes in market interest rates arises primarily from the floating rate interest payable on the Group's 10 and 12 year loan notes, bank borrowings and supplier related finance.

23 Financial instruments continued

Interest rate risk table
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact of floating rate borrowings.

	Increase/ (decrease) in basis points	Effect on profit before tax £m
2007		
Sterling	**75**	**4.8**
Euro	**50**	**0.6**
Australian Dollar	**100**	**–**
2006		
Sterling	75	1.8
Euro	50	0.5
Australian Dollar	100	(0.1)

d. Foreign currency risk
The Group publishes its consolidated financial statements in Sterling and faces currency risk on the translation of its earnings and net assets a significant proportion of which are in currencies other than Sterling.

Net investment hedging
Consideration is given to the currency mix of debt with the primary objective that interest on such borrowings acts as a hedge on foreign currency earnings. In accordance with IAS 39 the Group designated US$75m of the Private Placement raised in May 2007 as a hedge against dollar related assets in Hong Kong, Saipan and Guam. Under IAS 39 the hedge is documented and tested for hedge effectiveness on an ongoing basis.

Transaction exposure hedging
The Group has transactional currency exposures, where sales or purchases by an operating unit are in currencies other than in that unit's reporting currency. For a significant proportion of the Group these exposures are removed as trading is denominated in the relevant local currency. In particular local billing arrangements are in place for many of our businesses with our brand partners. The principal exception is for our business in Australia which purchases vehicles in Japanese Yen.

In this instance, the Group seeks to hedge forecast transactional foreign exchange rate risk using forward foreign currency exchange contracts. The effective portion of the gain or loss on the hedge is recognised in the statement of recognised income and expense to the extent it is effective and recycled into the income statement at the same time as the underlying hedged transaction affects the income statement. Under IAS 39 hedges are documented and tested for the hedge effectiveness on an ongoing basis. The Group expects hedges entered into to continue to be effective and therefore does not expect the impact of ineffectiveness on the income statement to be material.

Hedge of foreign currency debt
The Group uses cross currency interest rate swaps to hedge the forward foreign currency risk associated with US$475.0m of the US$550.0m Private Placement issued in May 2007. The effective portion on the gain or loss of the hedge is recognised in the income statement at the same time as the underlying hedged transaction affects the income statement. Under IAS 39 hedges are documented and tested for hedge effectiveness on an ongoing basis. The Group expects hedges entered into to continue to be effective and therefore does not expect the impact of ineffectiveness on the income statement to be material.

Notes to the accounts continued

23 Financial instruments continued

Foreign currency risk table

The following table demontrates the sensitivity to a reasonably possible change in the Yen and US Dollar exchange rates, with all other variables held constant, of the Group's equity (due to changes in the fair value of forward exchange contracts and net investment hedges).

	Increase/ (decrease) in exchange rate	Effect on equity £m
2007		
Yen	**+10%**	**2.0**
Yen	**–10%**	**(2.6)**
US Dollar	**+/–10%**	**–**
2006		
Yen	+10%	(0.7)
Yen	–10%	0.3
US Dollar	n/a	n/a

e. Credit risk

The amount due from counterparties arising from cash deposits and the use of financial instruments creates credit risk. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy of limiting its exposure to any one party to ensure that they are within board approved limits and that there are no significant concentrations of credit risk.

Group policy is to deposit cash and use financial instruments with counterparties with a long term credit rating of A or better, where available. The notional amounts of financial instruments used in interest rate and foreign exchange management do not represent the credit risk arising through the use of these instruments. The immediate credit risk of these instruments is generally estimated by the fair value of contracts with a positive value. The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

Credit limits and appropriate limits are reviewed regularly.

The table below shows the credit limit and balance of the three major counterparties at the balance sheet date.

		2007		2006
Counterparty	**£m**	**Credit Rating**	£m	Credit Rating
HSBC Bank Australia	**19**	**A–1+**	38	A–1+
Overseas Chinese Banking Corp	**–**	**–**	14	A–1
United Overseas Bank	**–**	**–**	13	A–1
Hong Kong and Shanghai Banking Corp	**21**	**A–1+**	–	–
Svenska Handelsbanken	**30**	**A–1+**	–	–

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties.

At 31 December 2007, £70m of cash balances were held with three counterparties. Total cash balances of £343m include cash in the Group's regional pooling arrangements which is offset against borrowings for interest purposes. Balance sheet netting of cash and overdraft balances only occurs to the extent that there is the legal ability and intention to settle net. As such, overdrafts are presented in current liabilities to the extent that there is no intention to offset with the cash balance.

Concentration of credit risk with respect to Trade receivables is very limited due to the Group's broad customer base. Trade receivables include amounts due from a number of finance houses in respect of vehicles sold to customers on finance arranged through the Group. An independent credit rating agency is used to assess the credit standing of each finance house. Limits for the maximum outstanding with each finance house are set accordingly. Title to the vehicles sold on finance resides with the Group until cleared funds are received from the finance house in respect of a given vehicle.

23 Financial instruments continued

f. Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial assets and liabilities at 31 December 2007 based on contractual undiscounted cash flows.

2007	Less than 3 months £m	Between 3 to 12 months £m	Between 1 to 5 years £m	More than 5 years £m	Total £m
Financial assets					
Cash and cash equivalents	**343.4**	**–**	**–**	**–**	**343.4**
Trade and other receivables	**219.9**	**10.0**	**5.2**	**0.4**	**235.5**
Available for sale financial assets	**1.0**	**0.2**	**3.0**	**12.5**	**16.7**
Derivative financial instruments	**188.0**	**345.3**	**109.1**	**315.1**	**957.5**
	752.3	**355.5**	**117.3**	**328.0**	**1,553.1**
Financial liabilities					
Interest bearing loans and borrowings	**(147.3)**	**(27.3)**	**(175.3)**	**(372.0)**	**(721.9)**
Trade and other payables	**(670.1)**	**(177.0)**	**(21.5)**	**–**	**(868.6)**
Derivative financial instruments	**(201.0)**	**(362.4)**	**(122.6)**	**(332.2)**	**(1,018.2)**
	(1,018.4)	**(566.7)**	**(319.4)**	**(704.2)**	**(2,608.7)**
Net outflows	**(266.1)**	**(211.2)**	**(202.1)**	**(376.2)**	**(1,055.6)**

2006	Less than 3 months £m	Between 3 to 12 months £m	Between 1 to 5 years £m	More than 5 years £m	Total £m
Financial assets					
Cash and cash equivalents	335.2	–	–	–	335.2
Trade and other receivables	150.0	7.5	7.6	0.4	165.5
Available for sale financial assets	49.2	2.1	3.2	10.4	64.9
Derivative financial instruments	209.0	284.0	77.0	–	570.0
	743.4	293.6	87.8	10.8	1,135.6
Financial liabilities					
Interest bearing loans and borrowings	(177.9)	(15.1)	(209.0)	(3.8)	(405.8)
Trade and other payables	(690.5)	(12.7)	(19.4)	–	(722.6)
Derivative financial instruments	(221.0)	(320.0)	(85.6)	–	(626.6)
	(1,089.4)	(347.8)	(314.0)	(3.8)	(1,755.0)
Net (outflows) inflows	(346.0)	(54.2)	(226.2)	7.0	(619.4)

g. Hedging activities
The Group's derivative financial instruments comprise the following:

	Assets		Liabilities	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Cross currency interest rate swap	**8.0**	–	**–**	–
Forward foreign exchange contracts	**4.9**	0.6	**8.3**	40.2
	12.9	0.6	**8.3**	40.2

The ineffective portion recognised in the income statement that arises from fair value hedges amounts to a loss of £0.3m (2006 – £nil). The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a gain of £0.5m (2006 – loss of £0.2m). There was no ineffectiveness to be recorded from hedges of net investments.

Notes to the accounts continued

23 Financial instruments continued

Cash flow hedges

The Group principally uses forward foreign exchange contracts to hedge purchases in a non–functional currency against movements in exchange rates. The cash flows relating to these contracts are generally expected to occur within eighteen months of the balance sheet date.

The nominal principal amounts of the outstanding forward foreign exchange contracts relating to transactional exposures at 31 December 2007 are £599.9m (2006 – £629.4m).

Net fair value gains and losses recognised in the hedging reserve in shareholders' equity (note 25) on forward foreign exchange contracts as at 31 December 2007 are expected to be released to the income statement within eighteen months of the balance sheet date.

Derivative financial instruments are carried at their fair values. The fair value of forward foreign exchange contracts and foreign exchange swaps represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the spot rates of exchange prevailing at 31 December 2007.

Fair value hedge

At 31 December 2007 the Group had in place four cross currency interest rate swaps totalling US$475m which hedge changes in the fair value of the Group's 10 and 12 year loan notes. Under these swaps the Group receives fixed rate US dollar interest of 5.94% on US$275m and 6.04% on US$200m and pays LIBOR +85bps and LIBOR +90bps for the 10 and 12 year notes respectively. The loan notes and cross currency interest rate swaps have the same critical terms.

Hedge of net investment in foreign operations

Included in borrowings at 31 December 2007 was a borrowing of US$75m, which has been designated as a hedge of the net investments in the Hong Kong, Saipan and Guam and is being used to hedge the Group's exposure to foreign exchange risk on these investments. Gains or losses on the retranslation of this borrowing are transferred to equity to offset any gains or losses on translation of net investments in the subsidiaries.

h. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. During 2007 4,535,000 shares were bought for treasury by the Company (2006 – 7,792,578 shares).

The Group monitors group leverage by reference to three tests; interest cover, the ratio of net debt to EBITDA and the ratio of net debt to market capitalisation.

	2007	2006
Interest cover (times)*	**8.0**	37.3
Net debt to EBITDA (times) **	**0.7**	0.1
Net debt / market capitalisation (percentage) ***	**12.0%**	0.78%

* Calculated as EBIT / Interest
** Calculated as net debt / Earnings before exceptional items, interest, tax, depreciation and amortisation
*** Calculated as net debt / market capitalisation as at 31 December

24 Share capital

a. Authorised

	Number of shares		Ordinary share capital	
	2007 Number	2006 Number	**2007 £m**	2006 £m
Ordinary share capital (25.0p per share)	**786,000,000**	786,000,000	**196.5**	196.5

b. Allotted, called up and fully paid up

	Number of shares		Ordinary share capital	
	2007 Number	2006 Number	**2007 £m**	2006 £m
Ordinary shares of 25.0p each				
At 1 January	**482,298,983**	480,216,708	**120.6**	120.1
Allotted under share option schemes	**3,889,994**	2,082,275	**1.0**	0.5
At 31 December	**486,188,977**	482,298,983	**121.6**	120.6

c. Share buy back programme

During the year, the Group repurchased 4,535,000 (2006 – 7,792,578) of its own shares through purchases on the London Stock Exchange. The total consideration paid was £18.5m (2006 – £34.0m) and this has been deducted from the Retained earnings reserve (note 25). The shares repurchased during the year equate to 0.9% (2006 – 1.6%) of the issued share capital. The shares are held as treasury shares and may either be cancelled or used to satisfy share options at a later date.

d. Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 25 February 2008 under the provisions of the Companies Act 1985 have been disclosed in the substantial shareholdings section of the Directors' report.

Notes to the accounts continued

24 Share capital continued

e. Share options

At 31 December 2007, options to acquire ordinary shares of 25.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Number of ordinary shares at 25.0p each	Exercisable until	Option price
The Inchcape 1999 Share Option Plan		
– approved (Part II – UK)		
8,748	17 March 2012	114.1p
11,808	19 March 2013	127.0p
29,244	31 August 2013	205.1p
164,544	20 May 2014	262.0p
50,154	29 September 2014	259.1p
213,864	6 March 2015	342.6p
39,072	11 September 2015	358.0p
260,634	29 March 2016	445.3p
6,772	21 May 2016	443.0p
13,128	10 August 2016	457.0p
230,370	12 April 2017	577.0p
– unapproved (Part I – UK)		
17,514	17 March 2012	114.1p
12,750	19 March 2013	127.0p
14,616	31 August 2013	205.1p
220,302	20 May 2014	262.0p
11,568	29 September 2014	259.1p
576,778	6 March 2015	342.6p
368,712	11 September 2015	358.0p
1,162,564	29 March 2016	445.3p
340,857	21 May 2016	443.0p
29,539	10 August 2016	457.0p
1,486,931	12 April 2017	577.0p
– unapproved overseas (Part I – Overseas)		
15,462	7 September 2009	64.6p
31,680	9 August 2010	47.3p
85,932	21 March 2011	64.0p
74,412	17 March 2012	114.1p
157,584	19 March 2013	127.0p
741,222	20 May 2014	262.0p
824,526	6 March 2015	342.6p
651,456	29 March 2016	445.3p
744,378	12 April 2017	577.0p
30,060	18 December 2017	369.0p

Number of ordinary shares of 25.0p each	Exercisable until	Option price
The Inchcape SAYE Share Option Scheme		
– approved		
25,680	1 May 2008	222.6p
287,458	1 December 2008	274.1p
217,968	1 May 2009	282.5p
320,784	1 December 2009	345.3p
275,569	1 May 2010	368.0p
305,299	1 December 2010	441.0p
811,396	1 May 2011	383.0p

Included within the Retained earnings reserve are 1,718,329 (2006 – 1,715,739) own ordinary shares held by the ESOP Trust, a general discretionary trust whose beneficiaries include current and former employees of the Group and their dependants. The book value of these shares at 31 December 2007 was £6.8m (2006 – £5.4m). The market value of these shares at 31 December 2007 was £6.5m and at 25 February 2008 was £6.8m (31 December 2006 – £8.7m, 5 March 2007 – £8.7m).

25 Reserves

a. Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Minority interest £m	Total shareholders' equity £m
At 1 January 2006	120.1	112.5	16.4	13.1	319.6	581.7	9.5	591.2
Total recognised income and expense for the year	–	–	–	(50.8)	191.3	140.5	2.4	142.9
Share–based payments charge	–	–	–	–	4.5	4.5	–	4.5
Net purchase of own shares by ESOP Trust	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Share buy back programme	–	–	–	–	(34.0)	(34.0)	–	(34.0)
Dividends:								
– Equity holders of the parent	–	–	–	–	(52.6)	(52.6)	–	(52.6)
– Minority interests	–	–	–	–	–	–	(3.9)	(3.9)
Issue of ordinary share capital	0.5	3.4	–	–	–	3.9	–	3.9
Acquisition of minority interest	–	–	–	–	–	–	(0.8)	(0.8)
At 1 January 2007	**120.6**	**115.9**	**16.4**	**(37.7)**	**428.6**	**643.8**	**7.2**	**651.0**
Total recognised income and expense for the year	**–**	**–**	**–**	**50.4**	**198.0**	**248.4**	**6.7**	**255.1**
Share–based payments charge	**–**	**–**	**–**	**–**	**4.5**	**4.5**	**–**	**4.5**
Net purchase of own shares by ESOP Trust	**–**	**–**	**–**	**–**	**(2.0)**	**(2.0)**	**–**	**(2.0)**
Share buy back programme	**–**	**–**	**–**	**–**	**(18.5)**	**(18.5)**	**–**	**(18.5)**
Dividends:								
– Equity holders of the parent	**–**	**–**	**–**	**–**	**(71.1)**	**(71.1)**	**–**	**(71.1)**
– Minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**(1.8)**	**(1.8)**
Issue of ordinary share capital	**1.0**	**7.5**	**–**	**–**	**–**	**8.5**	**–**	**8.5**
Acquisition of businesses	**–**	**–**	**–**	**–**	**–**	**–**	**12.1**	**12.1**
At 31 December 2007	**121.6**	**123.4**	**16.4**	**12.7**	**539.5**	**813.6**	**24.2**	**837.8**

Cumulative goodwill of £108.1m (2006 – £108.1m) has been written off against the Retained earnings reserve. In addition, the Retained earnings reserve includes non–distributable reserves of £5.6m (2006 – £4.7m).

The table below sets out the tax on items recognised in shareholders' equity:

	2007 £m	2006 £m
Cash flow hedges: deferred tax	**(11.7)**	6.6
Share–based payments: deferred tax	**(3.0)**	0.9
Share–based payments: current tax	**0.7**	1.5
Pensions: deferred tax	**(10.7)**	6.9
Pensions: current tax	**2.5**	2.8
	(22.2)	18.7

Notes to the accounts continued

25 Reserves continued

b. Other reserves

	Available for sale reserve £m	Translation reserve £m	Hedging reserve £m	Total other reserves £m
At 1 January 2006	2.8	15.2	(4.9)	13.1
Cash flow hedges:				
– Fair value movements	–	–	(41.3)	(41.3)
– Reclassified and reported in inventories	–	–	19.5	19.5
– Tax on cash flow hedges	–	–	6.6	6.6
Movement on available for sale financial assets	(1.9)	–	–	(1.9)
Effect of foreign exchange rate changes	–	(33.7)	–	(33.7)
At 1 January 2007	**0.9**	**(18.5)**	**(20.1)**	**(37.7)**
Cash flow hedges:				
– Fair value movements	**–**	**–**	**34.2**	**34.2**
– Reclassified and reported in inventories	**–**	**–**	**(1.2)**	**(1.2)**
– Tax on cash flow hedges	**–**	**–**	**(11.7)**	**(11.7)**
Movement on available for sale financial assets	**(0.2)**	**–**	**–**	**(0.2)**
Effect of foreign exchange rate changes	**–**	**29.3**	**–**	**29.3**
At 31 December 2007	**0.7**	**10.8**	**1.2**	**12.7**

Available for sale reserve

Gains and losses on available for sale financial assets are recognised in the Available for sale reserve until the asset is sold or is considered to be impaired, at which time the cumulative gain or loss is included in the income statement.

Translation reserve

The Translation reserve is used to record foreign exchange rate changes relating to the translation of the results of foreign subsidiaries arising after 1 January 2004. It is also used to record foreign exchange differences arising on long term foreign currency borrowings used to finance or hedge foreign currency investments.

Hedging reserve

For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that are determined to be an effective hedge are recognised directly in shareholders' equity. When the hedged firm commitment results in the recognition of a non–financial asset or liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in shareholders' equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

26 Notes to the cash flow statement

a. Reconciliation of cash generated from operations

	2007 £m	2006 £m
Cash flows from operating activities		
Operating profit	**269.9**	213.9
Exceptional items	**(4.9)**	–
Amortisation	**6.5**	4.0
Depreciation	**27.2**	23.3
Profit on disposal of property, plant and equipment	**(9.0)**	(0.6)
Share–based payments charge	**4.5**	4.5
Increase in inventories	**(13.9)**	(58.9)
(Increase) decrease in trade and other receivables	**(2.3)**	29.4
Increase in trade and other payables	**30.8**	56.1
Increase (decrease) in provisions	**8.1**	(0.6)
Decrease in post–retirement defined benefits*	**(15.4)**	(38.8)
Movement in vehicles subject to residual value commitments	**(7.0)**	5.3
Other items	**(1.5)**	(0.8)
Cash generated from operations	**293.0**	236.8

* The decrease in post–retirement defined benefits includes additional payments of £14.8m (2006 – £37.6m).

b. Reconciliation of net cash flow to movement in net debt

	2007 £m	2006 £m
Net increase in cash and cash equivalents	**23.6**	9.5
Net cash inflow from borrowings and finance leases	**(181.0)**	(158.4)
Change in net cash and debt resulting from cash flows	**(157.4)**	(148.9)
Effect of foreign exchange rate changes on net cash and debt	**8.0**	(8.8)
Loan notes issued on acquisition	**(4.5)**	–
Movement in fair value	**(7.5)**	–
Net loans and finance leases relating to acquisitions	**(41.1)**	(19.3)
Movement in net debt	**(202.5)**	(177.0)
Opening net (debt) funds	**(19.0)**	158.0
Closing net debt	**(221.5)**	(19.0)

27 Acquisitions and disposals

a. Acquisitions

On 15 December 2006, the Group acquired 18.55% of the issued share capital of European Motor Holdings plc for a cash consideration of £49.2m. The Group acquired the remaining share capital of the company during January 2007. This acquisition extended the Group's retail presence in the UK. The total cash consideration paid (including net debt acquired of £9.6m) was £289.3m for 100.0% of the share capital. The acquired business contributed revenues of £732.7m and profit after tax of £13.2m to the Group's result for the year.

On 24 July 2007, the Group acquired 100.0% of the issued share capital of Baltic Motors Corporation and SIA BM Auto (Baltic Motors) from MVC Capital Incorporated for a total cash consideration of £48.8m. Baltic Motors represents Ford, BMW and Land Rover in Latvia, the Baltics' largest and fastest growing market. The acquired business contributed revenues of £23.4m and profit after tax of £0.7m to the Group's result for the year.

Notes to the accounts continued

27 Acquisitions and disposals continued

	EMH			Latvia		
	Book value £m	Fair value adjustments £m	Provisional fair value £m	Book value £m	Fair value adjustments £m	Provisional fair value £m
Net assets acquired						
Intangible assets (i)	–	2.6	2.6	0.1	0.4	0.5
Property, plant and equipment	59.4	25.8	85.2	10.5	22.2	32.7
Trade and other receivables	53.5	–	53.5	4.0	–	4.0
Deferred tax assets	0.4	–	0.4	0.1	–	0.1
Inventories	120.6	–	120.6	11.1	–	11.1
Cash	–	–	–	0.7	–	0.7
Current tax asset	1.6	–	1.6	–	–	–
Trade and other payables	(138.1)	–	(138.1)	(10.5)	(7.0)	(17.5)
Bank overdraft	(9.6)	–	(9.6)	–	–	–
Borrowings	(9.1)	–	(9.1)	(17.9)	–	(17.9)
Provisions	(0.7)	(1.2)	(1.9)	(0.4)	–	(0.4)
Deferred tax liabilities (ii)	(4.3)	(10.0)	(14.3)	(0.2)	–	(0.2)
Pension liability	(0.9)	–	(0.9)	–	–	–
Net assets (liabilities)	72.8	17.2	90.0	(2.5)	15.6	13.1
Goodwill (iii)			189.7			35.7
Purchase consideration			279.7			48.8
Satisfied by:						
Cash paid in 2006			49.2			–
Cash paid in 2007			221.0			47.8
Loan notes			4.5			–
Directly attributable costs			5.0			1.0
Purchase consideration			279.7			48.8
Net bank overdraft (cash) in business acquired			9.6			(0.7)
			289.3			48.1
Borrowings acquired			9.1			17.9
Total consideration			298.4			66.0

(i) The intangible assets recognised on acquisition relate to back orders and are recognised at their fair value and amortised on a straight line basis over their useful life, which is less than one year.

(ii) Deferred tax recognised on acquisition includes the recognition of deferred tax on non-qualifying properties in a business combination.

(iii) The provisional goodwill arising on acquisition is attributable to the anticipated future cash flows of the acquired business and synergies expected to arise after the Group's acquisition.

In the UK, this represents the premium paid to significantly expand the Group's footprint achieving regional scale in the premium brand sector. This provides a platform to deliver growth and improved returns far quicker than would have been achievable through organic expansion.

In Latvia, Russia and other markets, the goodwill represents the premium paid to expand the Group's presence in these high growth markets faster than would have been possible through organic expansion.

In addition to the acquisitions noted above, the Group acquired a number of other businesses during the year, none of which was individually material. The consideration for these businesses was £60.0m (including net cash acquired of £1.8m and borrowings of £14.1m). The provisional fair value of the net assets acquired was £28.4m, with a Minority interest of £12.1m and provisional goodwill arising on these acquisitions of £31.4m.

In addition, the Group paid £nil deferred consideration (2006 – £1.1m) on prior year acquisitions and £0.1m (2006 – £0.6m) in respect of joint ventures and associates.

27 Acquisitions and disposals continued

b. Pro-forma full year information

If the above acquisitions had occurred on 1 January 2007, the approximate revenue and profit after tax for the year of the Group would have been £6,229.7m and £183.3m respectively. This information has been estimated based on the unaudited management accounts.

c. Disposals

The Group disposed of a number of businesses during the period, with net disposal proceeds of £85.5m, and a profit on disposal of businesses of £4.9m, which has been disclosed as an exceptional item. These disposals include the disposal of the Group's 50% share in Inchroy Credit Corporation Limited for £45.8m for a profit on disposal of £12.0m (after £2.3m adjustment for historical foreign currency differences recycled to the income statement on disposal), the disposal of Inchcape Automotive UK for £18.6m (loss on disposal £5.8m).

28 Guarantees and contingencies

	2007 £m	2006 £m
Guarantees, performance bonds and contingent liabilities	**8.1**	6.6

The Group also has, in the ordinary course of business, commitments under foreign exchange instruments relating to the hedging of transactional exposures (note 23).

29 Commitments

a. Capital commitments

Contracts placed for future capital expenditure at the balance sheet date but not yet incurred are as follows:

	2007 £m	2006 £m
Property, plant and equipment	**7.9**	3.5
Vehicles subject to residual value commitments*	**103.7**	92.9
Intangible assets	**–**	0.2

* Residual value commitments comprise the total repurchase liability on all vehicles sold subject to a residual value commitment, of which £57.0m (2006 – £43.4m) has been included within trade and other payables.

b. Lease commitments

(i) Operating lease commitments – Group as lessee

The Group has entered into non-cancellable operating leases for various offices, warehouses and dealerships. These leases have varying terms, escalation clauses and renewal rights.

Future minimum lease payments under non-cancellable operating leases are as follows:

	2007 £m	2006 £m
Within one year	**35.6**	31.2
In two to five years	**87.8**	72.8
After five years	**128.4**	96.7
	251.8	200.7

(ii) Operating lease commitments – Group as lessor

The Group has entered into non-cancellable operating leases on a number of its vehicles. These leases have varying terms, escalation clauses and renewal rights.

Future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2007 £m	2006 £m
Within one year	**3.3**	2.1
In two to five years	**6.1**	3.4
After five years	**3.4**	1.0
	12.8	6.5

Notes to the accounts continued

29 Commitments continued

(iii) Finance leases and hire purchase contracts

The Group has finance leases and hire purchase contracts for various items of property, plant and equipment. These leases have varying terms, escalation clauses and renewal rights. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments (included within borrowings) are as follows:

	2007 £m	2006 £m
Minimum lease payments:		
– Within one year	**1.1**	0.7
– In two to five years	**2.9**	1.8
– After five years	**8.3**	9.0
Total minimum lease payments	**12.3**	11.5
Less: future finance charges	**(6.3)**	(6.2)
Present value of finance lease liabilities	**6.0**	5.3

30 Related party disclosures

a. Principal subsidiaries and joint ventures

The consolidated financial statements include the principal subsidiaries and joint ventures listed below:

	Country of incorporation	Shareholding	Description
Subsidiary			
Subaru (Australia) Pty Limited	Australia	90.0%	Distribution
Toyota Belgium NV/SA	Belgium	100.0%	Distribution
The Motor & Engineering Company of Ethiopia Ltd S.C.	Ethiopia	94.1%	Distribution
Inchcape Motors Finland OY	Finland	100.0%	Distribution
Toyota Hellas SA	Greece	100.0%	Distribution
Crown Motors Limited	Hong Kong	100.0%	Distribution
Inchcape Olimp OOO	Russia	75.1%	Retail
Borneo Motors (Singapore) Pte Ltd	Singapore	100.0%	Distribution
Baltic Motors Group	Latvia	100.0%	Distribution
Inchcape Finance plc	United Kingdom	100.0%	Central treasury company
Inchcape Fleet Solutions Limited	United Kingdom	100.0%	Financial services*
Inchcape International Holdings Limited	United Kingdom	100.0%	Intermediate holding company
Inchcape Retail Limited	United Kingdom	100.0%	Retail
The Cooper Group Limited	United Kingdom	100.0%	Retail
European Motor Holdings Limited	United Kingdom	100.0%	Retail
Lind Limited	United Kingdom	100.0%	Retail
Joint Ventures			
Unitfin SA	Greece	60.0%	Financial services
Tefin SA	Greece	50.0%	Financial services

* Included within Distribution in the business segmental analysis (note 1).

The ultimate parent company of the Group is Inchcape plc, a company incorporated in the UK and listed on the London Stock Exchange.

30 Related party disclosure continued

b. Trading transactions

Intra-group transactions have been eliminated on consolidation and are not disclosed in this note. In addition to the related party transactions noted on page 48, details of transactions between the Group and other related parties are disclosed below:

	Transactions		Amounts outstanding	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Vehicles purchased from joint ventures and associates	**65.3**	63.5	**2.2**	1.3
Vehicles sold to joint ventures and associates	**378.2**	371.3	**1.3**	1.6
Other income paid to joint ventures and associates	**3.1**	5.2	**0.7**	1.0
Other income received from joint ventures and associates	**11.9**	14.7	**7.7**	8.0

All of the transactions arise in the ordinary course of business and are on an arm's length basis. The amounts outstanding are unsecured and will be settled in cash. There have been no guarantees provided or received for any related party receivables. The Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2006 – £nil).

c. Compensation of key management personnel

The remuneration of the Directors and other members of key management was as follows:

	2007 £m	2006 £m
Short term employment benefits	**6.7**	6.5
Post-retirement benefits	**1.0**	1.1
Share-based payments	**2.6**	2.1
Compensation for loss of office	**0.2**	0.6
	10.5	10.3

The remuneration of the Directors and other key management is determined by the Remuneration Committee having regard to the performance of individuals and market trends. Further details of emoluments paid to the Directors are included in the Board report on remuneration.

31 Foreign currency translation

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

	Average rates		Year end rates	
	2007	2006	**2007**	2006
Australian dollar	**2.39**	2.44	**2.27**	2.48
Euro	**1.46**	1.46	**1.36**	1.48
Hong Kong dollar	**15.63**	14.28	**15.52**	15.22
Singapore dollar	**3.02**	2.92	**2.87**	3.00

32 Post balance sheet events

On 10 January 2008 the Group announced that in line with its stated strategy to dispose of certain non-core UK assets, it had sold all of its UK Vauxhall retail outlets to Eden (GM) Limited for a total consideration of £14.3m.

Five year record

The information presented in the table below is prepared in accordance with IFRS for 2004, 2005, 2006 and 2007. However 2003 is prepared in accordance with the UK GAAP standards effective as at 31 December 2004, and has not been restated other than to be consistent with the IFRS format.

The main adjustments which would be required to make the information in 2003 comply with IFRS would be similiar to those disclosed in the reconciliations of UK GAAP to IFRS set out in note 33 to the financial statements of the Group's Annual report and accounts 2005 (available on the Group's website, www.inchcape.com).

Income statement	**IFRS 2007 £m**	IFRS 2006 £m	IFRS 2005 £m	IFRS 2004 £m	UK GAAP 2003 £m
Revenue	**6,056.8**	4,842.1	4,488.1	4,119.5	3,793.2
Operating profit before exceptional items	**265.0**	213.9	189.4	172.1	124.4
Exceptional items	**4.9**	–	(13.0)	(10.6)	15.5
Operating profit	**269.9**	213.9	176.4	161.5	139.9
Share of profit after tax of joint ventures and associates	**3.5**	5.9	6.2	7.8	9.3
Profit before finance and tax	**273.4**	219.8	182.6	169.3	149.2
Net finance costs before exceptional finance income	**(33.4)**	(5.9)	(5.3)	(10.3)	(5.2)
Exceptional finance income	**–**	–	–	4.2	22.2
Profit before tax	**240.0**	213.9	177.3	163.2	166.2
Tax before exceptional tax	**(57.9)**	(45.1)	(46.9)	(43.1)	(29.7)
Exceptional tax	**–**	8.0	–	(0.5)	(7.5)
Profit after tax	**182.1**	176.8	130.4	119.6	129.0
Minority interests	**(5.7)**	(2.9)	(3.8)	(3.2)	(2.0)
Profit for the year	**176.4**	173.9	126.6	116.4	127.0
Basic:					
– Profit before tax	**240.0**	213.9	177.3	163.2	168.3
– Earnings per share (pence)	**38.0p**	37.5p	27.0p	24.8p	27.5p
Headline (before exceptional items):					
– Profit before tax	**235.1**	213.9	190.3	168.4	135.8
– Earnings per share (pence)	**37.0p**	35.7p	29.8p	26.0p	22.1p
Dividends per share – interim paid and final proposed (pence)	**15.75p**	15.0p	9.5p	8.3p	6.3p
Balance sheet					
Non–current assets	**1,037.0**	666.0	521.7	468.4	401.2
Other assets less (liabilities) excluding cash (borrowings)	**22.3**	4.0	(88.5)	(105.6)	5.3
	1,059.3	670.0	433.2	362.8	406.5
Net (debt) funds	**(221.5)**	(19.0)	158.0	151.9	79.1
Net assets	**837.8**	651.0	591.2	514.7	485.6
Equity attributable to equity holders of the parent	**813.6**	643.8	581.7	506.4	479.0
Minority interests	**24.2**	7.2	9.5	8.3	6.6
Total shareholders' equity	**837.8**	651.0	591.2	514.7	485.6

Report of the Auditors

Independent Auditors' report to the members of Inchcape plc
We have audited the parent Company Financial statements of Inchcape plc for the year ended 31 December 2007 which comprise the Company Balance Sheet and the related notes. These parent Company Financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the Group Financial statements of Inchcape plc for the year ended 31 December 2007.

Respective responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent Company Financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company Financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent Company Financial statements give a true and fair view and whether the parent Company Financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent Company Financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company Financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Operating and Financial Review, the Corporate social responsibility section, the Board of Directors, Corporate governance report, the Directors' responsibilities, and the Company details. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company Financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company Financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent Company Financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company Financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent Company Financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

- the parent Company Financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the parent Company Financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent Company Financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

26 February 2008

Company balance sheet
As at 31 December 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Investment in subsidiaries	3	**1,847.3**	1,171.1
Current assets			
Available for sale financial assets	4	**–**	49.2
Debtors:			
– Amounts due within one year	5	**29.5**	19.5
– Amounts due after more than one year	5	**144.0**	131.4
Cash at bank and in hand	6	**54.2**	41.2
		227.7	241.3
Creditors – amounts falling due within one year	7	**(13.1)**	(1.6)
Net current assets		**214.6**	239.7
Total assets less current liabilities		**2,061.9**	1,410.8
Creditors – amounts falling due after more than one year	8	**(1,637.2)**	(853.8)
Provisions for liabilities and charges	10	**(8.5)**	(3.0)
Net assets		**416.2**	554.0
Capital and reserves			
Share capital	12, 14	**121.6**	120.6
Share premium	14	**123.4**	115.9
Capital redemption reserve	14	**16.4**	16.4
Profit and loss account	14	**154.8**	301.1
Total shareholders' funds		**416.2**	554.0

The financial statements on pages 122 to 128 were approved by the Board of Directors on 26 February 2008 and were signed on its behalf by:

André Lacroix, Director

Barbara Richmond, Director

Accounting policies

Basis of preparation
These financial statements are prepared for Inchcape plc (the Company) for the year ended 31 December 2007. The Company is the ultimate parent entity of the Inchcape Group (the Group).

Accounting convention
These financial statements have been prepared on the historical cost basis in accordance with the Companies Act 1985 and applicable UK accounting standards. As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented for the Company. In addition, the Company is not required to prepare a cash flow statement under the terms of FRS 1– Cash Flow Statements (revised).

Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at closing rates of exchange and are taken to the profit and loss account.

Investments
Investments in subsidiaries are stated at cost, less provisions for impairment.

Available for sale financial assets are stated at market value.

Deferred tax
Deferred tax is provided in full (without discounting) based on current tax rates and law, on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax in the future except as otherwise required by FRS 19 – Deferred Tax. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding commitment to sell the asset.

Provisions
Provisions are recognised when the Company has a present obligation in respect of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

Share capital
Ordinary shares are classified as equity.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid is deducted from shareholders' funds until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' funds.

Dividends
Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

Share-based payments
The Company operates a number of equity–settled share–based compensation plans. The fair value of the shares or share options granted is recognised as an expense over the vesting period to reflect the value of the employee services received. The fair value of options granted, excluding the impact of any non–market vesting conditions, is calculated using established option pricing models, principally Binomial models. The probability of meeting non–market vesting conditions, which include profitability targets, is used to estimate the number of share options which are likely to vest. In accordance with the transitional provisions of FRS 20 – Share–based Payment, no charge had been recognised for grants of equity instruments made before 7 November 2002.

Financial instruments
The adoption by the Company of FRS 29 – Financial Instruments: Disclosures has had no impact as the Company has taken advantage of the exemption not to apply FRS 29 in its own financial statements. The Group's policies on the recognition, measurement and presentation of financial instruments under IFRS 7 are set out in the Group's accounting policies on pages 70 to 75.

Notes to the accounts

1 Auditors' remuneration

The Company incurred £0.1m (2006 – £0.1m) in relation to UK statutory audit fees for the year ended 31 December 2007.

2 Directors' remuneration

	2007 £m	2006 £m
Wages and salaries	2.1	2.6
Social security costs	0.3	0.3
Pension costs	0.4	0.5
Other employment costs	0.9	0.7
Compensation for loss of office	–	0.6
	3.7	4.7

Further information on Directors' emoluments and interests is given in the Notes to the Board report on remuneration (the auditable part) in the Group's Financial statements for the year ended 31 December 2007.

3 Investment in subsidiaries

	2007 £m	2006 £m
Cost		
At 1 January	1,221.1	1,204.1
Additions	684.2	17.0
Disposals	(37.0)	–
At 31 December	1,868.3	1,221.1
Provisions		
At 1 January	(50.0)	(36.0)
Disposals	29.0	–
Provisions for impairment	–	(14.0)
At 31 December	(21.0)	(50.0)
Net book value	1,847.3	1,171.1

Additions include £280m in respect of the acquisition of European Motor Holdings plc, which was acquired on 29 January 2007 and £404m in respect of additional investments in existing Group companies. Included within the figure of £280m in respect of European Motor Holdings plc is £49.2m which was transferred from Available for sale financial assets following the acquisition of the business (see note 4).

4 Available for sale financial assets

	2007 £m	2006 £m
Equity securities		
At 1 January	49.2	–
Additions	–	49.2
Transfer to investment in subsidiaries	(49.2)	–
At 31 December	–	49.2

5 Debtors

	2007 £m	2006 £m
Amounts due within one year		
Other debtors	**2.1**	0.4
Amounts owed by Group undertakings	**27.4**	19.1
	29.5	19.5
Amounts due after more than one year		
Deferred tax asset (note 9)	**1.6**	2.2
Amounts owed by Group undertakings	**142.4**	129.2
	144.0	131.4

6 Cash at bank and in hand

	2007 £m	2006 £m
Cash at bank and in hand	**54.2**	41.2

7 Creditors – amounts falling due within one year

	2007 £m	2006 £m
Amounts owed to Group undertakings	**9.8**	–
Other taxation and social security payable	**0.4**	1.4
Other creditors	**2.9**	0.2
	13.1	1.6

8 Creditors – amounts falling due after more than one year

	2007 £m	2006 £m
Amounts owed to Group undertakings	**1,348.0**	853.2
Private Placement	**284.8**	–
Other loans	**4.4**	–
Other taxation and social security payable	**–**	0.6
	1,637.2	853.8

In May 2007, the Company raised US$550m in a Private Placement: US$350m is repayable in 10 years and bears interest at a fixed rate of 5.94% per annum; and US$200m is repayable in 12 years and bears interest at a fixed rate of 6.04% per annum.

Other loans are loan notes issued in connection with the acquisition of European Motor Holdings plc and bear interest at rates linked to LIBOR.

Amounts owed to Group undertakings bear interest at rates linked to LIBOR.

Notes to the accounts continued

9 Deferred tax

	Share-based payments £m	Other timing differences £m	Total £m
At 1 January 2007	**1.7**	**0.5**	**2.2**
Charged to the profit and loss account	**(0.3)**	**(0.1)**	**(0.4)**
Charged to the profit and loss account reserve	**(0.2)**	**–**	**(0.2)**
At 31 December 2007	**1.2**	**0.4**	**1.6**

Deferred tax arises in respect of share–based payments.

10 Provisions for liabilities and charges

	2007 £m
At 1 January	**3.0**
Charged to the profit and loss account	**5.5**
At 31 December	**8.5**

Provision has been made for warranties, indemnities and other litigation issues in relation to motors and non–motors business exits, based on expected outcomes.

11 Guarantees and contingencies

	2007 £m	2006 £m
Guarantees of various subsidiaries' borrowings (against which £115.0m has been drawn at year end, 2006 – £165.0m)	**535.0**	600.0

The Company is party to composite cross guarantees between banks and its subsidiaries. The Company's contingent liability under these guarantees at 31 December 2007 was £81.9m (2006 – £41.2m).

12 Share capital

a. Authorised

	Number of shares		Ordinary share capital	
	2007 Number	2006 Number	2007 £m	2006 £m
Ordinary share capital (25.0p per share)	**786,000,000**	786,000,000	**196.5**	196.5

b. Allotted, called up and fully paid up

	Number of shares		Ordinary share capital	
	2007 Number	2006 Number	2007 £m	2006 £m
Ordinary shares of 25.0p each				
At 1 January	**482,298,983**	480,216,708	**120.6**	120.1
Allotted under share option schemes	**3,889,994**	2,082,275	**0.9**	0.5
At 31 December	**486,188,977**	482,298,983	**121.5**	120.6

c. Share buy back programme

During the year, the Company repurchased 4,535,000 (2006 – 7,792,578) of its own shares through purchases on the London Stock Exchange. The total consideration paid was £18.5m (2006 – £34.0m) and this has been deducted from the Profit and loss account reserve. The shares repurchased during the year equate to 0.9% (2006 – 1.6%) of the issued share capital. The shares are held as treasury shares and may either be cancelled or used to satisfy share options at a later date.

d. Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 25 February 2008 under the provisions of the Companies Act 1985 have been disclosed in the substantial shareholdings section of the Directors' report.

12 Share capital continued

e. Share options

At 31 December 2007, options to acquire ordinary shares of 25.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Number of ordinary shares at 25.0p each	Exercisable until	Option price
The Inchcape 1999 Share Option Plan – approved (Part II – UK)		
8,748	17 March 2012	114.1p
11,808	19 March 2013	127.0p
29,244	31 August 2013	205.1p
164,544	20 May 2014	262.0p
50,154	29 September 2014	259.1p
213,864	6 March 2015	342.6p
39,072	11 September 2015	358.0p
260,634	29 March 2016	445.3p
6,772	21 May 2016	443.0p
13,128	10 August 2016	457.0p
230,370	12 April 2017	577.0p
– unapproved (Part I – UK)		
17,514	17 March 2012	114.1p
12,570	19 March 2013	127.0p
14,616	31 August 2013	205.1p
220,302	20 May 2014	262.0p
11,568	29 September 2014	259.1p
576,778	6 March 2015	342.6p
368,712	11 September 2015	358.0p
1,162,564	13 December 2015	394.3p
340,857	29 March 2016	445.3p
29,539	21 May 2016	443.0p
1,486,931	10 August 2016	457.0p
– unapproved overseas (Part I – Overseas)		
15,462	7 September 2009	64.6p
31,680	9 August 2010	47.3p
85,932	21 March 2011	64.0p
74,412	17 March 2012	114.1p
157,584	19 March 2013	127.0p
741,222	20 May 2014	262.0p
824,526	6 March 2015	342.6p
651,456	29 March 2016	445.3p
744,378	12 April 2017	577.0p
30,060	18 December 2017	369.0p

Number of ordinary shares of 25.0p each	Exercisable until	Option price
The Inchcape SAYE Share Option Scheme – approved		
26,680	1 May 2008	222.6p
287,458	1 December 2008	274.1p
217,968	1 May 2009	282.5p
320,784	1 December 2009	345.3p
275,569	1 May 2010	368.0p
305,299	1 December 2010	441.0p
811,396	1 May 2011	383.0p

Included within the Profit and loss account reserve are 1,718,739 (2006 – 1,715,739) own ordinary shares held by the ESOP Trust, a general discretionary trust whose beneficiaries include current and former employees of the Group and their dependants. The book value of these shares at 31 December 2007 was £6.8m (2006 – £5.4m). The market value of these shares at 31 December 2007 was £6.5m and at 25 February 2008 was £6.8m (31 December 2006 – £8.7m, 5 March 2007 – £8.7m).

Notes to the accounts continued

13 Dividends

The following dividends were paid by the Company.

	2007 £m	2006 £m
Interim dividend for the six months ended 30 June 2007 of 5.25p per share (2006 – 5.0p per share)	**24.5**	23.0
Final dividend for the year ended 31 December 2006 of 10.0p per share (2005 – 6.3p per share)	**46.6**	29.6
	71.1	52.6

The final proposed dividend for the year ended 31 December 2007 of 10.5p per share (£48.5m) is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2007.

Dividends paid above exclude £3.0m (2006 – £1.9m) payable on treasury shares and shares held by the ESOP Trust.

14 Reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1 January 2006	120.1	112.5	16.4	421.2	670.2
Profit for the financial year	–	–	–	(37.3)	(37.3)
Dividends	–	–	–	(52.6)	(52.6)
Issue of ordinary share capital	0.5	3.4	–	–	3.9
Net purchase of own shares by ESOP Trust	–	–	–	(0.2)	(0.2)
Share-based payments charge (net of tax)	–	–	–	4.0	4.0
Share buy back programme	–	–	–	(34.0)	(34.0)
At 1 January 2007	**120.6**	**115.9**	**16.4**	**301.1**	**554.0**
Profit for the financial year	**–**	**–**	**–**	**(57.4)**	**(57.4)**
Dividends	**–**	**–**	**–**	**(71.1)**	**(71.1)**
Issue of ordinary share capital	**1.0**	**7.5**	**–**	**–**	**8.5**
Net purchase of own shares by ESOP Trust	**–**	**–**	**–**	**(2.0)**	**(2.0)**
Share-based payments charge (net of tax)	**–**	**–**	**–**	**2.7**	**2.7**
Share buy back programme	**–**	**–**	**–**	**(18.5)**	**(18.5)**
At 31 December 2007	**121.6**	**123.4**	**16.4**	**154.8**	**416.2**

15 Principal subsidiaries at 31 December 2007

The Company is a limited company incorporated in the UK whose shares are publicly traded on the London Stock Exchange. The principal subsidiaries in which the Company holds an investment are as follows:

	Country of incorporation	Shareholding	Description
European Motor Holdings plc	United Kingdom	100.0%	Retail
Inchcape Finance plc	United Kingdom	100.0%	Central treasury company
Inchcape International Holdings Limited	United Kingdom	100.0%	Intermediate holding company

Company details

Registered office
Inchcape plc
22a St James's Square
London SW1Y 5LP.
Tel: +44 (0) 20 7546 0022
Fax: +44 (0) 20 7546 0010
www.inchcape.com
Registered number 609782

Advisors

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors

Share Registrars
Computershare Investor Services PLC
Registrar's Department, PO Box No 82
Bristol BS99 7NH.
Tel: +44 (0) 870 707 1076

Solicitors
Slaughter and May

Financial advisors
Dresdner Kleinwort

Corporate brokers
Dresdner Kleinwort
Merrill Lynch

Inchcape PEPS
Individual Savings Accounts (ISAs) replaced Personal Equity Plans (PEPs) as the vehicle for tax efficient savings. Existing PEPs may be retained. Inchcape PEPs are managed by The Share Centre Ltd, who can be contacted at PO Box 2000, Oxford House, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB.
Tel: +44 (0) 1296 414144

Inchcape ISA
Inchcape has established a Corporate Individual Savings Account (ISA). This is managed by Equiniti Limited (UK)
The Causeway, Worthing,
West Sussex BN99 6DA.
Tel: 0870 600 3989
International callers:
+44 (0) 121 415 7047

Financial calendar
Annual General Meeting
15 May 2008

Ex-dividend date for 2008 final dividend
21 May 2008

Record date for 2008 final dividend
23 May 2008

Final 2008 ordinary dividend payable
17 June 2008

Announcement of 2008 interim results
29 July 2008

Mixed Sources
Product group from well-managed forests and other controlled sources
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