Inchcape

Annual Report and Accounts 2008

Industry leader

Solid Responsive Confident

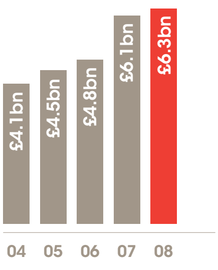
Inchcape plc Annual Report and Accounts 2008

Inchcape

Financial highlights

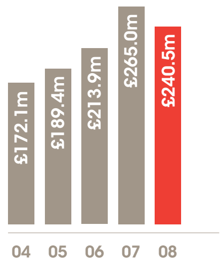
Revenue

£6.3bn
+3.4%



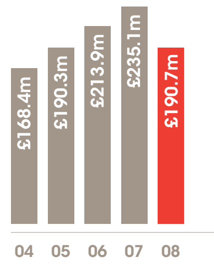
Operating profit
before exceptional items

£240.5m
-9.2%



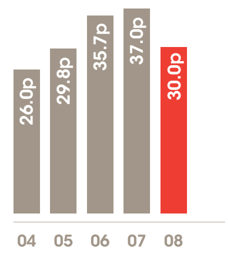
Profit before tax
before exceptional items

£190.7m
-18.9%



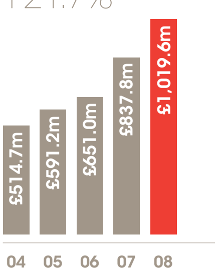
Adjusted earnings per share
before exceptional items

30.0p
-18.9%



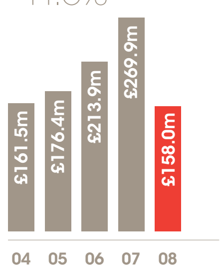
Net assets

£1,019.6m
+21.7%



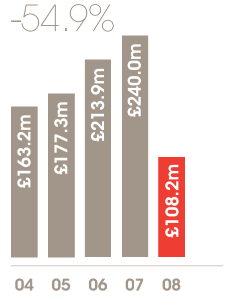
Operating profit

£158.0m
-41.5%



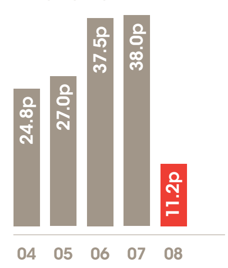
Profit before tax

£108.2m
-54.9%



Earnings per share

11.2p
-70.5%



Contents

Front cover image

Leading the way for over 160 years

We have chosen the Inchcape lighthouse as the symbol for this year's annual report because of the significance it holds – both for our Company's founders and for us today.

Our leading founder, James Lyle Mackay, was so inspired by the building of the lighthouse on the Inchcape Rock – a lethal submerged reef off the Scottish coast – that he took the title 'Baron Inchcape of Strathnaver' and so named the company that he led.

From our Company's earliest days as an intrepid trading pioneer to today's status as a leader in the highly competitive automotive industry, Inchcape has been a beacon of performance, even in the midst of the most disruptive economic storms.

Solid, responsive, confident, the qualities on which Inchcape was founded, are precisely those that have seen the Company thrive and prosper through more than 160 often turbulent years.

As we face challenging times, we too are inspired by the Inchcape lighthouse. With its robust structure that stands strong against the North Sea and the pioneering spirit of those that built this lasting wonder of the industrial age that even now continues to save lives, its guiding light illuminates the journey ahead.

Inchcape's key strengths…

Several factors combine to give Inchcape strength in the global automotive retail and distribution industry:

- An industry leader with a track record of growth and prudent governance.
- A proven and resilient business model with broad geographic coverage across 26 mature and emerging markets, with scale operations and a leading position in 14 markets.
- Long-standing relationships with strong brand partners who have a history of outperforming the market, providing access to a pipeline of attractive new car models.
- A passionate and relentless focus on superior customer service that underpins a history of industry-leading performance.
- A proactive management team, with a blend of industry expertise and blue-chip company experience, which has responded decisively to the rapid and unprecedented downturn in the automotive industry.
- Well positioned to benefit from opportunities when the market recovers – a leaner business with scale presence, broad geographic spread, partnered with strong automotive brands.

As an industry leader, we see opportunity today as we build the platform to emerge even stronger tomorrow.

We are solid, responsive and confident.

André Lacroix
Group Chief Executive

Business review

Our business at a glance

Region | Operations | Core brand partners

Australia

One of the top car retailers in Australia, Inchcape operates a multi-brand retail strategy as well as exclusive distribution of Subaru. AutoNexus is Inchcape's logistics specialist, providing services to the Australian automotive industry.

Europe

Inchcape operates distribution and retail across four European markets – Belgium, Greece, Finland and Luxembourg.

Hong Kong

Operating a multi-brand Vertically Integrated Retail (VIR) model in Hong Kong, Inchcape is the first company in the world to represent all four Toyota brands in one market.

Singapore

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

United Kingdom

The second largest car retailer in the UK based on revenue, Inchcape has a scale presence with premium brand partners in key regions. Inchcape Fleet Solutions is one of the largest independent vehicle management companies in the UK.

Russia and Emerging Markets

Inchcape operates VIR in the Baltics, distribution and retail in the Balkans and retail in Russia, China and Poland. These markets represent long-term growth potential for the Group.

Rest of World

Inchcape has operations in Brunei, Chile, Ethiopia, Guam, New Zealand, Peru and Saipan.

Financial highlights

Contribution to Group profit

Sales
£695.4m
+5.8%

Trading profit*
£42.6m
-2.7%

17.0%

Sales
£1,229.2m
+2.1%

Trading profit*
£40.6m
-19.0%

16.2%

Sales
£291.1m
+20.5%

Trading profit*
£33.3m
+17.7%

13.3%

Sales
£484.4m
+0.9%

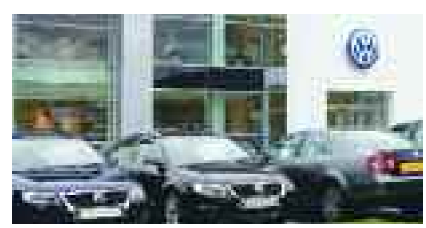
Trading profit*
£57.0m
+23.9%

22.8%

Sales
£2,340.1m
-13.8%

Trading profit*
£23.1m
-66.8%

9.3%



Sales
£929.0m
+79.1%

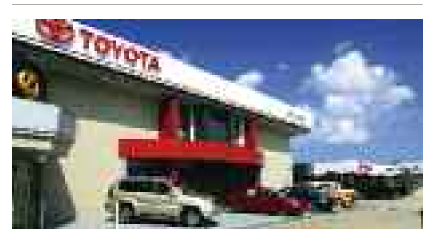
Trading profit*
£22.5m
-24.0%

9.0%

Sales
£290.6m
+20.3%

Trading profit*
£31.0m
+23.5%

12.4%



* Trading profit is defined as operating profit before exceptional items and unallocated central costs.

Chairman's statement

Peter Johnson
Chairman

Inchcape has a proven and resilient business model. The industry faces an unprecedented downturn but we will remain solid by focusing on our core activities.

Despite the weakening trading conditions in many markets around the world, we are pleased to report results for 2008 in line with our expectations, reflecting the progress we have made against our growth strategy and the benefits of excellent portfolio diversification.

Performance

Group sales have increased by 3.4% to £6.3bn for the full year to 31 December 2008, benefiting from strategic and focused acquisitions and from organic sales growth in most of our markets. On a like for like, constant currency basis, sales fell by 4.3% reflecting the impact of an unprecedented and rapid downturn that started to affect our industry in the second half of 2008.

Profit before tax and exceptional items of £190.7m was 18.9% lower than 2007 and adjusted earnings per share fell 18.9% to 30p. On a statutory basis, which includes exceptional items, profit before tax of £108.2m was 54.9% below 2007 and earnings per share fell 70.5% to 11.2p.

We responded swiftly to the market decline by reducing our cost base, closing 24 less profitable sites, reducing our workforce by more than 2,000 people and implementing other restructuring measures which are expected to generate an annualised saving of approximately £58m at 2009 exchange rates. These actions have resulted in an exceptional charge in 2008 of £28.3m together with a charge of £54.2m for goodwill impairment largely due to the downturn in Latvia.

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 unallocated central costs.

In our Distribution businesses we grew sales by 5.8% despite challenging trading conditions. We primarily benefited from strong performances in Singapore, where we outperformed the market with new model launches and strong commercial vehicle sales resulting in a trading profit growth of 23.9%, in Hong Kong with a trading profit growth of 17.7% and in the Rest of World with trading profit growth of 23.2%. We retained market share as well as market leadership in Greece and sales in Belgium grew 0.2% on 2007 under very difficult conditions. In Australia, whilst new models helped to improve market share by 10bp, the market decline resulted in a trading profit decrease of 3.7%. The UK fleet management business, Inchcape Fleet Solutions, suffered from a residual value provision increase of £8.5m.

Sales in our Retail businesses grew by 1.6% in 2008, benefiting from our acquisitions in Russia, 9.3% growth in Australia and a new Lexus retail centre in China. Across Europe, sales grew 3.0% as a result of strong performance in Greece and Finland. In the UK we outperformed the market with like for like sales falling 5.4% in a market which fell 11.3%. In the Russia and Emerging Markets segment, trading profits increased by 40.9% largely as a result of our acquisitions in Russia and growth in Poland.

Acquisition and disposal summary

We made further progress in our UK disposal programme in accordance with our strategy to streamline the business following the acquisition of European Motor Holdings plc in 2007. We sold our Vauxhall business and the majority of our Volvo retail outlets for a total consideration of £17.0m. These transactions followed the disposals of Inchcape Automotive, Wilcomatic, and the Bentley, Ferrari and Maserati retail outlets in 2007.

We have reinvested the proceeds from these disposals into our Russia and Emerging Markets segment, announcing in March the acquisition of the remaining 24.9% stake in our St Petersburg business for a total cash consideration of £28.5m. This gave the Group full ownership of its operations in St Petersburg and was another step in the implementation of the Group's multi-brand Retail footprint, providing broad segment coverage in what is expected to be one of the fastest growing markets in the world.

In April, we announced further expansion in this market with the acquisition of an initial 75.1% shareholding in Musa Motors group, one of Russia's largest car retailing groups, giving Inchcape a significant scale position in Moscow through 16 sites with key global brand partners. The initial consideration was £100.3m (see note 27 for details). This acquisition has positioned Inchcape with one of the largest networks of premium brands in Moscow.

In May we announced another landmark in our expansion into the Chinese market with the official opening of our wholly owned Lexus retail centre in Shaoxing.

During the year we also sold our French operation to its management team for a consideration of £7.6m.

Dividend

The Board is not recommending the payment of a final ordinary dividend for the year in light of the current deterioration of trading conditions (2007 – 10.5p). The Board recommended a half year dividend for 2008 of 5.46p which reflected a 4.0% increase on the half year 2007 dividend.

We currently do not expect to recommend any dividend for the financial year ending 31 December 2009.

We intend to return to our stated aim of maintaining a progressive dividend policy as soon as trading conditions allow.

Share buy back

The Group purchased £16.0m of its shares in 2008 through the acquisition of 4.5m shares, now held as Treasury shares at an average price of £3.59 per share.

Approach to governance and management

We continue to focus on the importance of good governance and observe the Combined Code and other relevant guidance for listed companies in our global operations. Integrating socially responsible behaviour into every aspect of how we operate and define ourselves remains high on our agenda. In 2008 we have built on the foundations of a global approach to Corporate Responsibility (CR) that is making responsible economic, environmental and social behaviour intrinsic to the way we work.

People

Our people strategy is to have engaged people in winning teams, creating the ultimate customer experience for our brand partners. On behalf of the Board, I wish to express thanks to our colleagues across the Group for their commitment and spirit in delivering these results for 2008.

I would like to make special mention of William Tsui, Chairman of Inchcape Asia-Pacific who sadly passed away in February 2009, after 18 years with the Group. Under his leadership, our businesses in Hong Kong, Macau, Singapore, Brunei, Guam and Saipan consolidated their market leading positions. Latterly William spearheaded our entry into China. William will be remembered for his passion for the motor industry and our customers and for his truly inspirational leadership.

Strengthening our capital structure

The Group has historically maintained what was considered to be an appropriate level of borrowings given the prevailing economic environment. Given the prospect of a difficult trading environment in 2009 and beyond, we intend to continue our actions to reduce net debt. In order to further strengthen the position of the Group, the Board believes it is both appropriate and in the best interests of its shareholders to raise net proceeds of approximately £232m in equity via a Rights Issue which we announced on 19 March 2009.

We intend to use the net proceeds of this Rights Issue to reduce the level of indebtedness which in the short term will increase headroom and delay the refinancing of existing facilities. In the longer term, we expect that strengthening the Group's balance sheet through this Rights Issue together with the action we have taken to lower our cost base, our geographic spread and diversified revenue streams, will better position us to take advantage of market recovery.

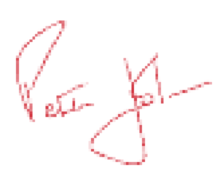
Outlook

Although the Group expects trading conditions to remain extremely challenging throughout 2009 and the actual results for January and February were well below last year, they have exceeded management's expectations in difficult markets, due to a good start to the year in Singapore and a stabilisation of UK used car margins. Currently, March order levels for the Group's UK operations are in line with our revised expectations. The fundamentals of the Group remain solid and our strategic direction is clear. We have responded quickly and decisively to global economic conditions. Our experienced management teams, our track record of operational excellence, our focus on superior customer service and the strength of our relationships with our brand partners give us confidence that we will successfully weather the current storm in our industry and emerge stronger.

Board change

As previously announced, I will be retiring from the position of Non-executive Chairman in May 2009, following 14 years with the Company, six years as Group Chief Executive and three years as Chairman. I am delighted that Ken Hanna, who has been a Non-executive Director of Inchcape for six years, is to be appointed Non-executive Chairman of the Group with effect from 14 May 2009. Ken has considerable skills and expertise with a proven track record both at a financial and operational level and as a Non-executive Director, as well as direct experience of operating businesses in emerging and developed markets.

I have thoroughly enjoyed my years with Inchcape, especially working with so many talented colleagues both on the Board and in the business and I know that I am leaving the Group in very good hands.



Peter Johnson
Chairman

Group Chief Executive's review

André Lacroix
Group Chief Executive

Inchcape is a leading independent, international automotive distributor and retailer, with scale operations in Australia, Belgium, Greece, Hong Kong, Russia, Singapore and the UK as well as operations in 19 other markets. We represent some of the world's leading automotive brands with whom we have long-standing relationships.

During 2008, the car industry faced unprecedented challenges as the economic downturn spread rapidly across the world.

While Inchcape is not immune to the downturn, I believe we are well placed to ride it out successfully, based on the intrinsic strengths of our business together with the prudent and decisive actions we are taking, so that we will be well positioned to capitalise on market recovery.

We have more than 160 years of successful international trade experience based on a pioneering spirit that has seen us at the forefront of every industry in which we have participated. Our focus today is squarely on the car market where we have been an industry leading retailer and distributor for many years. We continue to owe this pre-eminence to two fundamental factors: the resilience of our business model, and the clarity of our vision and strategy.

In addition, we have an exceptional senior team with an in-depth knowledge of the automotive industry and local markets and who share a collective record of decisive, successful management in the face of economic upheaval.

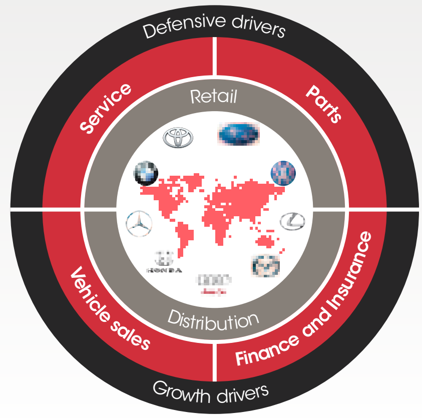
Solid...

Inchcape's history of outperformance is due to the key strengths of our business model and the clarity of our vision and strategy.

A proven track record

- 160 years of international business experience
- Broad geographic spread
- Diversified multi-channel business model
- Prudent governance
- Long-standing brand partner relationships
- Experienced management team

A diversified and resilient business model



A clear vision and strategy

To be the world's most customer-centric automotive retail group

Customer
Our Journey

A diversified and resilient business model

We believe our business model has a number of key strengths including a diversity that ensures resilience and provides a balanced portfolio of income streams.

First, we have a broad geographic spread with scale positions and a presence across both mature and emerging markets. We benefit from a decentralised organisational model which enables us to stay close to changes in the marketplace and react quickly to flex our operational focus. We enjoy a leading market share in many markets thanks to our first-hand experience and hard-won knowledge of different buying preferences and our relentless focus on superior customer service.

Second, we have long-standing relationships with strong brand partners who outperform the market, giving us access to a pipeline of attractive new models. Our brand strategy is market specific, enabling us to fit the right brand with the right market to pursue our core purpose of creating the ultimate customer experience for our brand partners, whilst aiming to maximise market share.

Third, we have a multi-channel structure, in which our Distribution businesses – where we represent every aspect of a brand partner's presence in a specific national market – have historically delivered stable, strong cash generation and our Retail businesses provide access to diversified and resilient sources of revenue through, for example, aftersales service and parts.

These diversified income streams (our value drivers) give us both the growth opportunities that drive our business forward (new and used car sales, third-party finance and insurance products) and defensive income (aftersales service and parts) that becomes increasingly important in times of economic difficulty.

Aftersales represents approximately 50% of our gross margin. This is an area on which we are focusing greater resources than ever before as an integral component of our Customer 1st strategy, emphasising the quality and value benefits for car-owners in staying with their franchise retailer after the expiry of their warranty period.

It is a significant area of opportunity for us as even during times of declining new vehicle sales, the total population of cars on the road (the car parc) continues to grow and more motorists concentrate on maintaining rather than replacing their existing vehicle.

Our focus on maximising the economic contribution of all our value drivers by constantly driving new efficiencies has enabled us historically to deliver strong margins. We seek to continue to improve our performance throughout 2009, when difficult market conditions mean that maximising returns will be particularly important.

A clear vision and strategy

Meeting our vision of being the industry's most customer-centric retailer anywhere in the world is fundamental to the success of our business model.

Our goal of creating and delivering the ultimate customer experience is a key differentiator for Inchcape in our industry and provides the basis of our long-standing relationships with many of the world's leading motor manufacturers. Our passion for superior customer service reflects directly on the reputation of our brand partners, making this a compelling reason for them to select Inchcape as their partner of choice.

This Customer 1st approach is central to our business and drives decisions taken at every level of the organisation. Understanding the customer's view of our performance is vital and we continue to invest strongly in mystery shopper and customer feedback programmes and leading technologies to support our activities. These combine to give us a constant view of our performance from the customer's perspective and help us identify opportunities the moment they emerge.

The combination of our unique business model and our differentiating customer focus has underpinned Inchcape's success for many years. Today, it is enabling us to outperform our competitors in the most difficult trading conditions to affect our industry for more than a generation.

Business review

Group Chief Executive's review continued

Responsive...

We have been responsive to the rapid and unprecedented industry downturn and are proactively managing the business with a high-impact programme.

Our five key priorities

1 Growing market share
Focusing on brand management, customer funnel conversion, outstanding service and new product launches
p11

2 Growing aftersales
Further strengthening customer service, increasing customer retention and enhancing productivity
p12

3 Reducing costs
Prompt action by reducing employee headcount, closing non-profitable sites and reducing all non-essential programmes
p13

4 Managing working capital
Focusing on working capital control to bring inventory levels in-line with market demand
p14

5 Reducing capital expenditure
Reducing discretionary capital expenditure in agreement with brand partners
p15

Managing the downturn

We have responded swiftly to the economic downturn with decisive management action to make our business even sharper, more effective and more efficient. We believe this will help us both minimise the negative impact from the current downturn and prepare us to emerge stronger when the market recovers. We have narrowed our management focus to the five basics of our business, our 'five key priorities': growing market share whilst protecting margins; growing aftersales; reducing costs; managing working capital; and reducing uncommitted capital expenditure.

Focusing on these priorities now, means that we will be well-placed to take advantage of the growth opportunities that come with recovery.

Market share growth

Growing market share whilst protecting margins in our Retail businesses springs directly from our Customer 1st strategy, with a focus on traffic conversion through rigorous, disciplined sales processes and outstanding levels of customer service. Further, in today's market, our ability to help customers gain access to the finance credit they need to buy a car is a clear advantage. In our Distribution businesses we will grow our market share through disciplined marketing effectiveness, taking full advantage of our brand partners' new product launches and offering strong value for money propositions to our customers.

Aftersales growth

Growing our aftersales business will come from focused service and parts marketing, a strong emphasis on retaining customers and providing outstanding levels of customer service through, for example, our 'Vehicle Health Check'. The key for us today is to recognise and respond to every transaction as an opportunity to build a long-term customer relationship that delivers value to both parties. This is central to our Customer 1st strategy.

Further, in our aftersales workshops, we continue to apply ourselves to driving productivity enhancement and therefore gross margin.

Cost reduction

In terms of cost saving, we already have a major restructuring programme under way that will deliver an annualised benefit of approximately £58m, based on 2009 exchange rates. This includes a 12% reduction of our global workforce, tight new restrictions on travel and a retail site and office rationalisation which by the first half of 2009 will have resulted in the closure of 24 less profitable sites, comprising 16 retail centres, one used car centre and one PDI centre in the UK, two retail centres in Greece and four in the Baltics. The Group has implemented a general hiring freeze and a policy of no salary increases in 2009 or management bonuses for 2008.

Additionally, we are negotiating harder than ever before on everything we spend and successfully taking advantage of reduced advertising media costs.

Working capital management

Managing our working capital as efficiently as possible is a top priority right across the business. Unsold stock on forecourts is a major expense for any motor retailer and we have set stock reduction targets across the Group. We have the support of our brand partners to match our inventory levels to the new market demand, which is successfully helping us to contain our working capital levels.

Capital expenditure reduction

Our forward capital expenditure programme is largely driven by the agreements we have in place with our brand partners, some of which commit us to building new retail centres in an agreed expansion timetable. The excellent relationships we have with our brand partners however, mean we have been able to defer some projects. In addition, we are slowing some aspects of the implementation of our new SAP system across the Group, while streamlining its adoption in our Retail business to benefit as rapidly as possible from its main commercial advantages.

Confident

We are planning for the future, so that when the recovery comes we will be uniquely positioned to take advantage of the growth opportunities and emerge stronger.

Emerging a winner

Industry factors

- Structural growth in emerging markets
- Vehicle replacement in mature markets
- Industry consolidation
- Realignment of vehicle supply and demand

Inchcape
Solidly positioned for market recovery

Inchcape factors

- Scale operations in core mature and emerging markets
- A leader in 14 markets
- Strong brand partners
- Decentralised, customer-centric, able to respond swiftly to market conditions
- Leaner and fitter

Solidly positioned for market recovery

We are confident that taking these proactive steps now will prepare us for the best possible performance once the market recovers when, we believe, opportunities will be significant. We see a number of structural and economic factors that will help shape the future of our industry.

It is likely that, when it comes, recovery will take place faster in the emerging markets, where the current low levels of car ownership means that there is greater potential for the demand for new and used vehicles to increase. We will be able to use our existing presence in those emerging markets to full advantage.

However, there will be significant opportunities in the mature markets too, stemming from the need for vehicle replacement as the car parc ages, combined with technological innovation which will both stimulate demand and drive down the cost of ownership.

Industry consolidation means that we will face a reduced number of competitors in some of our markets, so that when the recovery comes it is likely that we will be growing from a position of higher market share, providing the opportunity for improved throughput and economic performance of our retail centres.

Further, we believe vehicle manufacturers will address the current oversupply of vehicles by rationalising their production to create a better balance between supply and demand, which should lead to enhanced margins on both new and used cars.

For all these reasons, we are excited by our future prospects, while recognising the medium-term challenges that we face. And we have a number of Inchcape-specific factors that give us great confidence.

We operate as market leader in many markets with a scale position and with brand partners who continue to outperform the industry and who have the resources to innovate and stimulate demand. We will benefit from a pipeline of new products which are set to deliver better value, better performance and lower CO_2 emissions.

Following a period of integration, our aim is to have established scale operations in emerging markets, enabling them to make a growing contribution to the Group.

Our decentralised organisational model gives us a significant advantage as we are capable of responding rapidly to the changes in our industry.

Superior levels of customer service based on our differentiating Customer 1st strategy and leading retail operating systems will help us grow share in many of our markets.

As an organisation, we will be leaner and more efficient which will provide us with leverage when the market returns.

Further, I am constantly impressed by the quality of our employees across the Group. Despite the economic downturn, I see our people displaying a true 'Inchcape spirit' and a real passion for delivering exceptional customer service.

In short, our proven business model and strategy, allied with the firm and prudent actions being taken by our experienced management teams today, mean that Inchcape is set to emerge from the current downturn leaner, stronger and more successful than ever.

We are confident that we will emerge a winner.

André Lacroix
Group Chief Executive

Focused on the fundamentals

Responding quickly
Acting decisively

Our management team across the Group have responded decisively to the challenging market climate and have adapted quickly to focus their attention on the important areas that are fundamental to the future of our business

André Lacroix
Group Chief Executive

1

Growing market share

Focusing on brand management, customer funnel conversion, outstanding service and new product launches

In the prevailing challenging market conditions, we will seek to grow our market share organically without sacrificing margins. The focus will be on using marketing and promotional activities to increase the number of customers who visit our retail centres and on increasing the conversion rate of those customers into sales. To build customer loyalty, we will continue to emphasise high levels of customer service and satisfaction which we measure through our Net Promoter Score (NPS) system, using feedback from customers on their experience at our retail centres. We will also seek to facilitate access to credit for our customers and, of course, take full advantage of new opportunities arising from the introduction of new models from our brand partners.

Market illustration

In Australia, we are both distributor and retailer of Subaru vehicles and in 2008 we achieved a remarkable milestone of 11 consecutive years of record sales in a market that dropped 4%.

Subaru's core strength is underlined by the success of the new generation Forester, which has regained the position as the country's best-selling compact SUV.

Our marketing messages are demonstrating the value of Subaru ownership to many thousands of customers in these tough economic times, who are recognising the benefit of great retained value, engineering, safety and durability.

We will reinforce these messages in 2009 with some exciting developments that we expect will attract new customers to the brand while strengthening the advocacy of our existing customers.

We will continue to build upon our 2008 segment-leading share for the Forester. The launch of the Impreza sedan and the new WRX has broadened our product range and will drive further segment share growth. In October 2009 we launch the new Liberty and Outback range with the first diesel Subaru being launched at the end of the year. Our product activity will be supported with a combination of strong brand and tactical promotions.





2

Growing aftersales

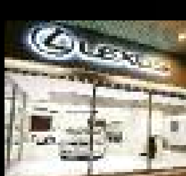
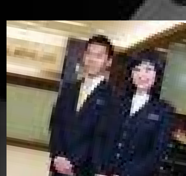
Further strengthening customer service, increasing customer retention and enhancing productivity

Aftersales revenues have historically shown a greater resilience to market downturns than new car sales, as the aftersales market is driven more by the size and age of the car parc and technological advances than it is by new car sales. Accordingly, we are implementing a number of actions to help maximise the benefits of the aftersales revenue stream and maintain long-term consumer relationships. Key measures being undertaken include focusing marketing and sales efforts on the retention of customers who are nearing the end of the warranty period on their new vehicle. There will also be a focus on the use of management tools such as capture rate, vehicle health check and the NPS system to monitor customer satisfaction and increase customer retention.

Market illustration
At Mazda Hong Kong we have applied a strong focus on retaining customers of vehicles over three years old. As a result of effective local marketing and adapting our service offerings to cars of different ages we have increased service loyalty levels significantly.

Flexible, pre-paid maintenance service packages include additional benefits like priority booking and a free odourising treatment. We also offer a pre-inspection safety test package with special discounts on replacement parts.

Packages for newer vehicles have been developed too, like our 12-step exterior surface treatment, interior cleansing and engine compartment cleaning.


3

Reducing costs

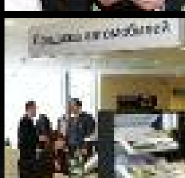
Prompt action by reducing employee headcount, closing non-profitable sites and reducing all non-essential programmes

As a result of prompt actions taken to reduce the Group's cost base to reflect the deterioration in market conditions, our workforce has been reduced by more than 2,000 people across the Group.

In addition, 24 less profitable sites, comprising 16 retail centres, one used car centre and one PDI centre in the UK, two retail centres in Greece and four in the Baltics will be closed by the first half of 2009. The Group has implemented a general hiring freeze and a policy of no salary increases in 2009 or management bonuses for 2008. Further, we have tight new restrictions on travel. The cost of the restructuring will be approximately £28.3m, with an expected annual saving of approximately £58m at 2009 exchange rates from 2009 onwards.

We will continue to monitor closely and review our cost base in light of the prevailing trading and market conditions to ensure that it reflects appropriately our ongoing requirements.






Annualised benefit

£58m

4

Managing working capital

Focusing on working capital control to bring inventory levels in line with market demand

As a result of the abrupt sales declines in many of our markets and the long lead time on orders for new vehicles placed with our brand partners, inventory levels have been higher than desirable. Vehicle orders were reduced during the second half of 2008 to reflect the prevailing market conditions and we are seeking to reduce significantly the level of inventory held across the Group's Distribution and Retail businesses.

We are also targeting a reduction in the length of time vehicles will remain in inventory at current levels of trading. Specific sales incentives have been put in place with the aim of accelerating this reduction, in particular in respect of vehicles which have been in inventory for over six months.

Market illustration
In the UK, we have taken decisive management action to address our used car stock. In addition to a disciplined approach to reviewing daily stock lists and applying tight pricing management, we have introduced an even firmer approval process for all buying of used cars.

Further, through our strong relationships with our brand partners, we have reduced the number of demonstrator vehicles that we hold in stock. Along with an incentive programme to drive down inventory, this has led to a substantial improvement in our UK working capital and vehicle stock position.

5

Reducing capital expenditure

Reducing discretionary capital expenditure in agreement with brand partners

We are confident that our recent investments have placed us in a strong position to benefit when the markets rebound. There will be considerable pent-up consumer demand in emerging markets, based on low levels of car ownership, and we believe our scale position in these territories will reap their reward. While we are putting on hold any uncommitted new investments, we are completing projects that are already under way and honouring our commitments to our brand partners, with whom we have excellent relationships. This has meant that we have been able to defer some projects and should we see further market deterioration, we have scope for additional deferment.

Further, capital outlay on our new SAP system has been slowed whilst at the same time we are accelerating its roll-out into our Retail businesses, such that we can take advantage of earlier gains from this investment.

Operating review

Barbara Richmond
Group Finance Director

In a year of unprecedented global economic slowdown, Inchcape has delivered a performance in line with our expectations, demonstrating the resilience of our proven business model and our prudent governance.

Key Performance Indicators (KPIs)

The Inchcape plc Board of Directors and the Executive Management team 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 rate. Unless otherwise stated, all year on year changes in 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.

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 unallocated central costs.

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

Like for like sales and like for like trading profit
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.

Group profit before tax
The profit made after operating and interest expense but before tax is charged.

Group working capital
Defined as inventory, receivables, payables and supplier-related credit.

Operating cash flow
Defined as trading profit adjusted for depreciation and amortisation plus the change in working capital.

Non-financial KPIs

We continue to measure several non-financial KPIs, particularly regarding customer service, relating to both the purchase of new and used vehicles and also aftersales. For example, Net Promoter Score (NPS) is being used to measure customer satisfaction across the Group, in line with our vision to be the world's most customer-centric automotive retailer.

Further, we measure employee engagement Group-wide through our annual Heartbeat survey conducted in partnership with Gallup.

Group overview

Key Performance Indicators*

	Year ended 31.12.2008 £m	Year ended 31.12.2007 £m
Sales	**6,259.8**	6,056.8
Like for like sales growth (%)	**2.6**	2.5
Trading profit	**250.1**	292.5
Like for like trading profit (decline)/growth (%)	**(16.1)**	4.8
Trading margins (%)	**4.0**	4.8
Operating cash flow	**210.7**	306.9

Regional analysis*

	2008 Operating profit £m	**2008 Exceptional items £m**	**2008 Trading profit £m**	2007 Operating profit £m	2007 Exceptional items £m	2007 Trading profit £m
Australia	**41.3**	**(1.3)**	**42.6**	43.8	–	43.8
Europe	**33.6**	**(7.0)**	**40.6**	50.1	–	50.1
Hong Kong	**33.2**	**(0.1)**	**33.3**	40.3	12.0	28.3
Singapore	**57.0**	**–**	**57.0**	46.0	–	46.0
United Kingdom	**–**	**(23.1)**	**23.1**	62.5	(7.1)	69.6
Russia and Emerging Markets	**(26.6)**	**(49.1)**	**22.5**	29.6	–	29.6
Rest of World	**30.5**	**(0.5)**	**31.0**	25.1	–	25.1
Total	**169.0**	**(81.1)**	**250.1**	297.4	4.9	292.5
Central costs	**(11.0)**	**(1.4)**		(27.5)	–	
	158.0	**(82.5)**		269.9	4.9	

* At actual exchange rates

Foreign currency translation

	Average rates		Year end rates	
	2008	2007	**2008**	2007
Euro	**1.27**	1.46	**1.03**	1.36
Hong Kong dollar	**14.56**	15.63	**11.14**	15.52
Singapore dollar	**2.63**	3.02	**2.07**	2.87
Australian dollar	**2.19**	2.39	**2.06**	2.27
US dollar	**1.87**	2.00	**1.44**	1.99

Operating review continued

Group

The prevailing conditions in the global financial markets have significantly affected the demand for, and price levels of, new and used vehicles.

In Q4 2008 most of our markets experienced a significant downturn: the UK declined 27%; Hong Kong 41%; Greece 21% and Australia 15%.

These significant market declines have contributed to a decline in our Group operating profit, before exceptional items, of 17.4% for the full year, from sales which declined by 3.3%. This compares to the first six months where we reported operating profit growth of 13.4% before exceptionals, on sales which grew by 5.1%.

The sales decline was however partially mitigated by a solid performance from aftersales, on which our like for like revenues grew by 4.2% for the Group for the full year compared to 2007. This is an area of significant opportunity which has received an increasing focus through 2008 and will continue to do so in 2009 and beyond.

We responded swiftly to the market decline by reducing our cost base, closing 24 less profitable sites, reducing our workforce by more than 2,000 people and implementing other restructuring measures which are expected to generate an annualised saving of approximately £58m at 2009 exchange rates. These actions have resulted in an exceptional charge in 2008 of £28.3m together with a charge of £54.2m for goodwill impairment largely due to the downturn in Latvia.

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 continued our expansion into emerging markets, particularly in the strategically important Russian market. We continue to include Russia, China, the Balkans, the Baltics and Poland within the Russia and Emerging Markets segment on the basis that these markets 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. We have re-named the segment 'Russia and Emerging Markets' in our reporting.

Distribution business

Although like for like sales were 5.2% down versus 2007, trading margins remained buoyant at 7.3%, delivering a total trading profit of £192.9m.

Across Europe, we delivered some solid results in the face of significantly reduced markets. Our Greek Toyota and Lexus business retained its market leadership position to deliver trading profit growth of 6.6%. The Belgian market grew 2%, partly aided by the biennial motor show, however our share declined by 1.0ppt, resulting in a 12.8% decline in like for like sales.

The markets in Asia continued to be very competitive, with the market in Hong Kong growing 7% for the full year, but declining by 41% in Q4. In Singapore, market conditions were challenging, as expected, and the market declined by 13% (excluding parallel imports). However, with strong marketing campaigns and new model launches together with the impact of the appreciation of the Yen on our competitors, we achieved a 7.9% increase in trading profit.

Our Russia and Emerging Markets segment has been significantly affected by the economic downturn resulting in a like for like trading profit decline of 84.2% with the Baltics particularly affected.

Our Rest of World segment delivered strong results with like for like sales growth of 11.2% and like for like trading profit growth of 16.4% contributing a total trading profit for 2008 of £30.8m.

Retail business

Our Retail businesses have been significantly affected by the global decline and overall we saw a reduced in like for like sales of 3.5%. Total trading profit decreased by 36.6%.

In the UK we continue to outperform. In a market which declined by 11% our like for like sales reduced by 5.4%. Trading margins reduced from 2.4% to 1.2%.

Across Europe we continue to drive our turnaround strategy. In 2008, like for like revenues declined by 1.2%, delivering a total trading profit of £0.7m.

In our Russia and Emerging Markets segment, like for like sales increased by 3.8%, resulting in a total trading profit of £18.6m, largely due to our recent acquisitions in Russia.

Australia

Key financial highlights*	Year ended 31.12.2008 £m	Year ended 31.12.2007 £m	% change	% change in constant currency
Sales	**695.4**	657.5	5.8	(3.1)
Retail	**263.2**	240.9	9.3	0.1
Distribution	**432.2**	416.6	3.7	(4.9)
Like for like sales	**666.8**	629.3	6.0	(2.9)
Retail	**234.6**	212.7	10.3	1.0
Distribution	**432.2**	416.6	3.7	(4.9)
Trading profit	**42.6**	43.8	(2.7)	(11.0)
Retail	**8.9**	8.8	1.1	(7.7)
Distribution	**33.7**	35.0	(3.7)	(11.8)
Like for like trading profit	**42.1**	43.8	(3.9)	(11.8)
Retail	**8.4**	8.8	(4.5)	(12.1)
Distribution	**33.7**	35.0	(3.7)	(11.8)
Trading margin	**6.1%**	6.7%	(0.6)ppt	(0.5)ppt
Retail	**3.4%**	3.7%	(0.3)ppt	(0.3)ppt
Distribution	**7.8%**	8.4%	(0.6)ppt	(0.6)ppt
Operating cash flow	**44.1**	44.6		
Retail	**7.6**	9.0		
Distribution	**36.5**	35.6		

* At actual exchange rates

Core brand partners

Strategy

We have been the distributor for Subaru in Australia and New Zealand since 1992 and a retailer since 2001. We currently own 11 retail centres out of a total Subaru retail centre network of 106 across Australia. We also operate nine retail centres for a further four of the top 12 automotive brands by volume in Australia (Volkswagen, Hyundai, Mitsubishi and Kia). Inchcape retail centres are located in Melbourne (including a flagship retail centre for Subaru), the greater Sydney area and in the northern Brisbane district of Queensland.

In Australia, we also own AutoNexus which provides logistics services to the automotive industry. In 2008, AutoNexus was responsible for the storage and logistic management of over 48,400 vehicles and 1.4m of parts lines dispatched.

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.

Market

The Australian vehicle market declined by 4% in 2008, with the large engine passenger cars segment particularly affected, while diesel engine vehicles gained share. The market began to be affected by the global downturn in Q4 with a decline of 15%. Market conditions were very competitive, fuelled by high levels of sales support and marketing expenditure with consumers particularly sensitive to fuel consumption.

Performance

Our Subaru Distribution business achieved a milestone of 11 consecutive years of record sales in 2008. Sales of 38,492 vehicles distinguished the business in a difficult market where many competitors weakened. Subaru in Australia maintained the largest market share for the brand (3.8%) of any major region outside Japan.

Subaru's core strength was underlined by the success of the new generation Forester, which regained its position as the country's best-selling compact SUV, with best-ever sales of 14,423 units in 2008, up 14.9%. The Subaru Impreza became one of Australia's fastest selling models of 2008.

Trading margins were below 2007, at 7.8% due to the investment required for the launch of two key new models.

Our Retail business achieved like for like revenues of 1.0% above 2007, a performance which was further enhanced by gross margins which grew by 0.6ppt versus last year. However total trading profits were 7.7% below 2007 (excluding a one off property sale recorded in 2007).

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

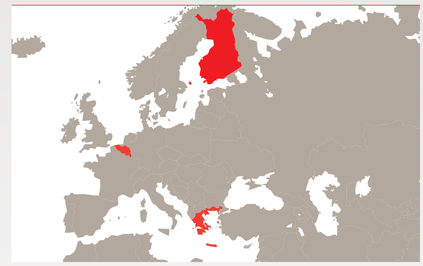
Outlook

The new vehicle market is forecast to decline in 2009. We expect market conditions to remain highly competitive as the market adjusts to lower sales volumes and excess levels of inventory. The strength of the Subaru brand in Australia has enabled us to enter into an agreement with Esanda to replace GMAC for the provision of wholesale finance to support our dealer network. The Subaru product offering should enable us to compete strongly in 2009.

Europe

Key financial highlights*	Year ended 31.12.2008 £m	Year ended 31.12.2007 £m	% change	% change in constant currency
Sales	**1,229.2**	1,203.9	2.1	(11.2)
Retail	**391.3**	379.8	3.0	(10.4)
Distribution	**837.9**	824.1	1.7	(11.5)
Like for like sales	**1,149.0**	1,076.2	6.8	(7.1)
Retail	**311.1**	273.8	13.6	(1.2)
Distribution	**837.9**	802.4	4.4	(9.2)
Trading profit	**40.6**	50.1	(19.0)	(29.4)
Retail	**0.7**	0.8	(12.5)	(14.6)
Distribution	**39.9**	49.3	(19.1)	(29.7)
Like for like trading profit	**40.1**	48.8	(17.8)	(28.7)
Retail	**0.2**	–	n/a	n/a
Distribution	**39.9**	48.8	(18.2)	(29.1)
Trading margin	**3.3%**	4.2%	(0.9)ppt	(0.9)ppt
Retail	**0.2%**	0.2%	–	–
Distribution	**4.8%**	6.0%	(1.2)ppt	(1.2)ppt
Operating cash flow	**(18.7)**	85.9		
Retail	**6.3**	8.6		
Distribution	**(25.0)**	77.3		

* At actual exchange rates



Core brand partners

Strategy
In Belgium, we are the distributor for Toyota and Lexus. We own eight Toyota and Lexus retail centres in Belgium, with the remaining network of 85 retail centres in Belgium owned by independent third party retailers.

In Luxembourg, we are the distributor and retailer of Jaguar, Toyota and Lexus, with one retail centre for each brand.

In Greece, we are the distributor for Toyota and Lexus. We own seven retail centres with the remaining network of 35 Toyota and Lexus retail centres and 40 authorised repairers independently owned.

In Finland, we are the distributor for Jaguar, Land Rover and Mazda with four retail centres in Helsinki and three outside the city.

We aim to drive growth in market share in our Distribution business and to continue our turnaround plan for Retail. In Distribution, growth will be driven by new model launches and a focus on operational excellence, supported by tight overhead cost control. In Retail, our plan continues to focus on operational excellence and improvements in footfall conversion.

Market
In Belgium, the new car market was up by 2% for the year, although Q4 was flat versus 2007. In Greece, the market declined by 6% in 2008. The Finnish car market grew by 11% in part due to a car taxation change.

Performance
In a year that saw the run out of many Toyota models, trading profits in our Distribution business declined by £16.8m (29.7%). The Retail business delivered a total trading profit of £0.7m which was in line with last year following our disposal in July 2008 of our French business.

In Belgium, with no new products, our Distribution business saw market share reduce by 1.0ppt versus 2007 in a market which grew by 2%. Like for like sales declined by 12.8%, and our gross margin was lower than last year due to intense competition and vehicles on run out campaigns. Together with flat overheads, trading profits were 80.3% down. The Retail business experienced like for like sales down by 7.9%, and with overheads in line with 2007 trading profits were 45.7% below last year.

In Greece, our Distribution business continued to lead the market and hold a 9.9% share of the passenger car market. In the Retail business, our Customer 1st focus and business restructuring continues to deliver results. Total sales declined by 0.2%, but with tight control on overheads, total trading profits were up by 8.3%.

In Finland, we gained market share, but like for like sales in our Distribution business fell by 15.8% due to a significant decline of our Distribution activities in the Baltics. Although this was partly mitigated by a 1.3ppt improvement in gross margins, trading profits were 48.2% lower than 2007. A large portion of the decrease year on year was as a result of the market decline in the Baltics as Finland Distribution exports there. However, our Retail business performed better with a 1.2% decline in like for like sales offset by a 2ppt growth in trading margins and lower overheads resulting in a like for like trading loss which was 82.7% better than 2007.

Outlook
Our markets in Europe are expected to be materially down in 2009.

In Greece, we expect to minimise the impact on trading profit by closing two loss-making retail centres, focusing on strict cost-controls and by taking full advantage of the new model line up.

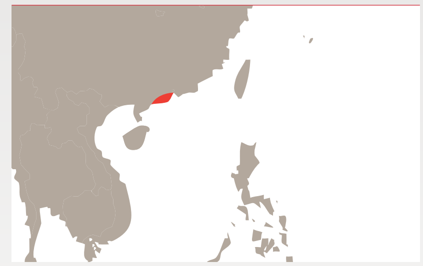
In Belgium, we are confident we will be able to benefit from new product launches, a continued focus on customer satisfaction, careful inventory management and the opening of a state of the art Toyota factory at Anderlecht during the year.

In Finland, we aim to offset the decline with new models exploiting trends towards diesel and the recent CO_2 legislation.

Hong Kong

Key financial highlights*	Year ended 31.12.2008 £m	Year ended 31.12.2007 £m	% change	% change in constant currency
Sales	**291.1**	241.5	20.5	12.3
Distribution	**291.1**	241.5	20.5	12.3
Like for like sales	**279.8**	216.0	29.5	20.6
Distribution	**279.8**	216.0	29.5	20.6
Trading profit	**33.3**	28.3	17.7	9.6
Distribution	**33.3**	28.3	17.7	9.6
Like for like trading profit	**30.2**	23.0	31.3	21.0
Distribution	**30.2**	23.0	31.3	21.0
Trading margin	**11.4%**	11.7%	(0.3)ppt	(0.3)ppt
Distribution	**11.4%**	11.7%	(0.3)ppt	(0.3)ppt
Operating cash flow	**22.8**	31.9		
Distribution	**22.8**	31.9		

* At actual exchange rates



Core brand partners

Strategy

In Hong Kong, we are the distributor for Toyota, Lexus, Hino Trucks, Daihatsu, Jaguar and Mazda. We operate VIR for these brand partners in this market. Our largest business in Hong Kong is Crown Motors, which represents Toyota, Lexus, Hino Trucks and Daihatsu. We have won the Toyota Triple Crown Award (in recognition of outstanding customer service, retail excellence and innovation) for 16 consecutive years since 1992, the only company in the world to have done so over such an extended period.

We continue to make progress in Hong Kong with a particular focus on the luxury segment through our Lexus range and will continue to expand in the growing multi-passenger vehicle (MPV) segment, following the launch of new models in 2008, with further new model launches in 2009.

Market

We experienced a significant change in the market in 2008. The first three quarters saw a market growth rate of 28% however during Q4 the market declined by 41%. For the year, the market was up by 7% on 2007.

Performance

We have further strengthened our market position in Hong Kong with sales of 13,661 vehicles in 2008, representing a combined market share of 36.3%. As a result of the very solid growth in the first three quarters of the year, full year like for like sales were 20.6% better than 2007, benefiting from the launch of the Noah and Alphard models into the fast growing MPV segment. Tight overhead cost control contributed to the delivery of trading profit growth of 9.6% versus 2007 (excluding a one off profit of £2.9m related to property booked in 2007).

Outlook

Forecasts indicate the market will be materially down in 2009. We do expect that with the launch of new models during the year we will further strengthen our market position. Tight cost control and growth in aftersales continue to be the major themes in the current difficult time. Aftersales will receive increasing focus throughout 2009.

Business review 01-37
Governance 38-57
Financial statements 58-120
Shareholder information Inside back cover

Singapore

Key financial highlights*	Year ended 31.12.2008 £m	Year ended 31.12.2007 £m	% change	% change in constant currency
Sales	**484.4**	480.3	0.9	(12.2)
Distribution	**484.4**	480.3	0.9	(12.2)
Like for like sales	**484.3**	478.7	1.2	(11.9)
Distribution	**484.3**	478.7	1.2	(11.9)
Trading profit	**57.0**	46.0	23.9	7.9
Distribution	**57.0**	46.0	23.9	7.9
Like for like trading profit	**57.0**	45.5	25.3	8.9
Distribution	**57.0**	45.5	25.3	8.9
Trading margin	**11.8%**	9.6%	2.2ppt	2.2ppt
Distribution	**11.8%**	9.6%	2.2ppt	2.2ppt
Operating cash flow	**52.1**	54.0		
Distribution	**52.1**	54.0		

* At actual exchange rates

Core brand partners

Strategy

In Singapore, we are the distributor for Toyota, Lexus, Hino Trucks and Suzuki. We have represented Toyota in Singapore since 1967, following a merger at that time with Borneo Motors, which is now a subsidiary of the Group. Borneo Motors has been Singapore's market leading retailer by sales for seven consecutive years since 2002. Our subsidiary Champion Motors has held the Suzuki distribution franchise since 1977.

Our strategy focuses on retaining market leadership with acceptable margins in an overall declining and highly competitive market. Revenue generation is focused on growing share with new model launches where possible and developing special editions of existing models to drive differentiation and margin. We continue to develop other revenue streams further, specifically in aftersales and finance.

Market

The pace of deregistrations continued to slow as expected and led to an overall market decline of 13% (excluding parallel imports) compared to 2007. Competition from parallel imports continued to increase through the first half of 2008, driven by importers selling new models from Japan and the aggressive pricing from local distributors buying in Yen. However, with strong marketing campaigns and new model launches together with the impact of the appreciation of the Yen on our competitors, we achieved a 7.9% increase in trading profit.

Performance

We have outperformed the market in the second half of 2008, thanks to an excellent product mix. Like for like sales were down by 11.9% but this was mitigated by significantly better trading margins, which grew by 2.2ppt, resulting in a full year trading profit which was 7.9% higher than 2007. Despite high competitive pressure, we have maintained our market leadership position.

As expected, our performance in the commercial vehicle segment was lower in 2008 as a result of competitor model launches. Our market share was down 6.6ppt versus 2007.

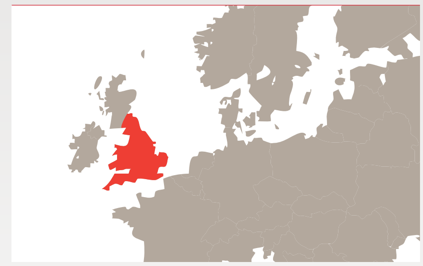
Our Suzuki business delivered another solid performance, registering a slight market share gain compared to 2007.

Outlook

The market is forecast to be materially down, in light of the Land Transport Authority quota announcement and slowing deregistrations. We expect that new model and special edition launches will help us to grow market share. Our aftersales business will continue to benefit from our market leadership position.

UK

Key financial highlights	Year ended 31.12.2008 £m	Year ended 31.12.2007 £m	% change	% change in constant currency
Sales	**2,340.1**	2,713.5	(13.8)	(13.8)
Retail	**2,319.4**	2,646.0	(12.3)	(12.3)
Distribution	**20.7**	67.5	(69.3)	(69.3)
Like for like sales	**2,192.3**	2,331.2	(6.0)	(6.0)
Retail	**2,171.6**	2,294.8	(5.4)	(5.4)
Distribution	**20.7**	36.4	(43.1)	(43.1)
Trading profit	**23.1**	69.6	(66.8)	(66.8)
Retail	**28.8**	64.7	(55.5)	(55.5)
Distribution	**(5.7)**	4.9	(216.3)	(216.3)
Like for like trading profit	**26.1**	69.8	(62.6)	(62.6)
Retail	**31.8**	64.8	(51.0)	(51.0)
Distribution	**(5.7)**	5.0	(214.0)	(214.0)
Trading margin	**1.0%**	2.6%	(1.6)ppt	(1.6)ppt
Retail	**1.2%**	2.4%	(1.2)ppt	(1.2)ppt
Distribution	**(27.5)%**	7.4%	(34.9)ppt	(34.9)ppt
Operating cash flow	**154.1**	60.0		
Retail	**154.8**	53.3		
Distribution	**(0.7)**	6.7		



Core brand partners

Strategy

In the UK, Inchcape has a significant retail business with 130 franchised retail centres and a focus on core premium/premium-volume brand partners. We also operate a fleet leasing business, Inchcape Fleet Solutions (IFS).

Since May 2006, the Group has acquired and integrated Lind Automotive Group Holdings Limited and European Motor Holdings plc. The enlarged portfolio has extended the Group's geographic reach and we now have scale operations in the core regions of the South East, Midlands, North and North East of England.

We have streamlined our portfolio to focus on the following core brands: Audi, BMW, Honda, Jaguar, Land Rover, Lexus, Mercedes-Benz, MINI, Porsche, smart, Toyota and Volkswagen.

We aim to create significant differentiation by delivering an outstanding level of customer service through our Inchcape Advantage programme and drive growth in aftersales and car finance penetration.

IFS offers fleet management and leasing services to corporate and government customers. With over 50 years' experience in the automotive industry, IFS has a combined fleet size of approximately 31,000 vehicles.

Market

The economic downturn created unprecedented challenges for the UK automotive industry in 2008. We saw a significant change in the market from May 2008, with a rapid acceleration of the decline through the second and third quarters, resulting in a full year decline of 11% to 2.1m units. Diesel market share reached an all-time high of 43.6%. Market pricing was significantly affected, resulting in used car prices being well below 2007 levels.

Performance

We continue to outperform our competitors and in the face of an 11% market decline, we achieved a like for like retail sales drop of 5.4% versus 2007. Pressure on new and used margins continued throughout 2008 and as a result like for like trading margins declined from 2.4% to 1.2% in 2008.

An £8.5m increase in residual value provision in IFS has resulted in a like for like trading loss of £5.7m. This provision increase is due to the fall in used car pricing, resulting in lower than expected realisable values on leased vehicles which will be returned over the next two to three years.

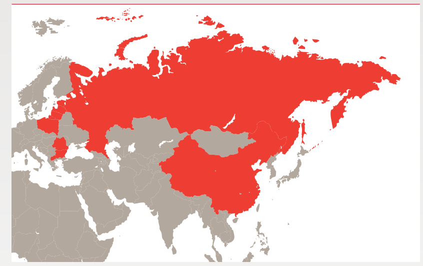
Outlook

The new vehicle market is expected to decline materially in 2009. Notwithstanding this decline, much greater stability is anticipated in the used vehicle market while aftersales is expected to continue to make a significant contribution.

Russia and Emerging Markets

Key financial highlights*	Year ended 31.12.2008 £m	Year ended 31.12.2007 £m	% change	% change in constant currency
Sales	**929.0**	518.6	79.1	57.1
Retail	**623.9**	276.6	125.6	98.5
Distribution	**305.1**	242.0	26.1	10.1
Like for like sales	**573.6**	518.6	10.6	(3.0)
Retail	**326.3**	276.6	18.0	3.8
Distribution	**247.3**	242.0	2.2	(10.7)
Trading profit	**22.5**	29.6	(24.0)	(33.3)
Retail	**18.6**	13.2	40.9	24.2
Distribution	**3.9**	16.4	(76.2)	(79.1)
Like for like trading profit	**13.6**	29.9	(54.5)	(60.4)
Retail	**10.6**	13.5	(21.5)	(31.4)
Distribution	**3.0**	16.4	(81.7)	(84.2)
Trading margin	**2.4%**	5.7%	(3.3)ppt	(3.3)ppt
Retail	**3.0%**	4.8%	(1.8)ppt	(1.8)ppt
Distribution	**1.3%**	6.8%	(5.5)ppt	(5.5)ppt
Operating cash flow	**(67.3)**	7.6		
Retail	**(12.4)**	5.5		
Distribution	**(54.9)**	2.1		

* At actual exchange rates



Core brand partners

Strategy

We operate 20 retail businesses in Moscow and St Petersburg. Two further retail centres for Toyota are under construction, one in Moscow and one in St Petersburg.

In St Petersburg, we own and operate one of the largest car retailing businesses in the city. In 2008, we acquired a 75.1% shareholding in Musa Motors, one of the largest car retail groups in Russia, providing the Group with scale presence in the Moscow region.

We are a distributor for Toyota and Lexus in Bulgaria and Romania. In Romania, we have increased our retail presence in Bucharest with a new large-scale facility. In Bulgaria, we are increasing our retail presence in Sofia and developing our independent network in the countryside. In addition, we are the distributor for Toyota and Lexus in Macedonia and Albania.

In Poland, we retail BMW and MINI in Warsaw and Wroclaw.

In the Baltics, we are the distributor and we operate VIR for Mazda, Jaguar and Land Rover. We are also the retailer for BMW, Mitsubishi and Hyundai in these markets. We have market-leading positions in Latvia with a 12% share and in Lithuania with 15%.

In China, we have Toyota and Lexus retail centres in Shaoxing. A third retail centre, for Lexus in Shanghai, is due to open in 2009.

Market

The second half of the year saw a significant shift in all emerging markets. In Russia, the market for international brands fell by 6% in Q4, the first decline in many years. In China, although the passenger car market declined by 6% in 2008, foreign brand sales grew by 8%. The Balkans market dropped 11% in 2008 (Q4 decline of 37%) and the Baltics market declined 22% in 2008 (Q4 decline of 50%). In Poland, the market increased by 6% in 2008, largely reflecting good economic growth.

Performance

Our Musa Motors acquisition performed in line with expectations in the six months to December. Our existing business in St Petersburg delivered like for like trading profits that were 14.7% higher than 2007. Overall, Russia contributed £18.9m of trading profit to the Group in 2008.

Our performance in the Baltics was affected by a significant market decline with Latvia the worst affected. Overall trading profits declined by £9.5m versus 2007. We continue to restructure our business in the region to reflect the current and projected future business environment.

In the Balkans, overall trading profit fell by £9.0m in 2008 primarily as a result of a 78.6% drop in trading profit in Romania.

In Poland, like for like trading profit increased by 120.5% with a sales increase of 21%.

In China, we successfully opened our Lexus site in Shaoxing in January and we saw sales from our existing Toyota site grow by 56.3% versus 2007. Including the new Lexus site total revenues in China grew by 212.2%.

Outlook

In Russia, 2009 is expected to be challenging, with the market forecast to be materially down. The Group should benefit from expected increase in the highly profitable area of aftersales.

The markets in the Baltics and the Balkans are expected to be substantially down.

Although the Polish market is expected to be down in 2009, the Group expects improvements in sales processes and the opening of a new BMW retail centre in Warsaw to offset this forecast lack of growth.

In China, growth is forecast to continue, although more slowly than in recent years, and will be helped by our new Lexus site opening in Shanghai in 2009.

Rest of World

Key financial highlights*	Year ended 31.12.2008 £m	Year ended 31.12.2007 £m	% change	% change in constant currency
Sales	**290.6**	241.5	20.3	12.1
Retail	**7.3**	4.0	82.5	68.2
Distribution	**283.3**	237.5	19.3	11.2
Like for like sales	**290.6**	241.5	20.3	12.1
Retail	**7.3**	4.0	82.5	68.2
Distribution	**283.3**	237.5	19.3	11.2
Trading profit	**31.0**	25.1	23.5	16.6
Retail	**0.2**	0.1	100.0	99.1
Distribution	**30.8**	25.0	23.2	16.4
Like for like trading profit	**31.0**	25.1	23.5	16.7
Retail	**0.2**	0.1	100.0	99.1
Distribution	**30.8**	25.0	23.2	16.4
Trading margin	**10.7%**	10.4%	0.3ppt	0.4ppt
Retail	**2.7%**	2.5%	0.2ppt	0.5ppt
Distribution	**10.9%**	10.5%	0.4ppt	0.4ppt
Operating cash flow	**23.6**	22.9		
Retail	**–**	(0.4)		
Distribution	**23.6**	23.3		

* At actual exchange rates

Core brand partners

Strategy

Our Rest of World operations incorporate Brunei, Chile, Ethiopia, Guam, New Zealand, Peru and Saipan. In Chile and Peru, the Group is the distributor for BMW. We have represented BMW in Chile for 12 years and in Peru for eight. In addition, the Group operates VIR in Brunei, Guam and Saipan for Toyota and Lexus, whilst in Ethiopia we are the distributor and retailer of Toyota.

We will continue to focus on operational excellence in these markets and drive organisational efficiencies through tight cost-controls.

Market

We saw good growth across most of the other markets in which we trade. In South America, the market in Chile grew 4% and 81% in Peru. Brunei recorded a more modest growth of 2%. In Guam, New Zealand and Saipan, the markets contracted by 2%, 5% and 6% respectively.

Performance

We continue to maintain market leadership positions in Guam, Saipan and Brunei and in 2008 these markets delivered a similar like for like trading profit to 2007.

Our business in Ethiopia delivered another solid set of results in 2008, with trading profit growth of 15.3% on sales growth of 18.5%.

We delivered a strong performance in South America. Like for like trading profits were up 56.7% compared to 2007.

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

Outlook

We continue to be confident of good performance in many of these markets in 2009 despite an expected market decline. Focus will be on preserving our market leadership position in the luxury segment and strengthening the core business, especially aftersales.

Business review

Financial review

Delivering solid results despite the unprecedented global decline in the car industry.

The Group has produced results in line with our expectations. 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

Unallocated central costs for the full year are £9.6m before exceptional items, down from £27.5m in 2007. This decrease is largely a reflection of the Group's performance during the year which has resulted in no management bonuses being paid and an overall credit being recorded in respect of share-based awards.

Joint ventures and associates

The share of profit after tax of joint ventures has decreased by £1.3m to £2.2m in 2008. This is mainly as a result of the acquisition of the remaining stake in our joint venture in Djibouti, thereby converting it to a 100% owned subsidiary.

Exceptional items

The exceptional items consist of goodwill impairment charges of £54.2m, a one off charge of £28.3m in connection with the restructuring of certain Group businesses, (which is expected to deliver approximately £58m of annualised cost savings at 2009 exchange rates) and a £3.6m exceptional tax charge. The exceptional profit recorded in 2007 related to 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 financing cost of £52.0m was £18.6m higher than in 2007 and is a reflection of the Group's higher level of net debt. The majority of the additional interest relates to the financing of the Musa acquisition, together with the annualised cost of the acquisition of the Audi and Peugeot businesses in Russia, the acquisitions in the Baltics in 2007 and the higher level of working capital reflecting the downturn in the markets.

Tax

The subsidiaries headline tax rate for the year is 26% compared to 25% in 2007. This increase arises due to the mix of profits across the territories in which we operate. The rate is expected to increase in 2009 due once again to the profit mix, and to the restricted ability to obtain tax relief on UK financing costs.

Minority interests

Profits attributable to minority interests reduced to £3.9m in 2008 from £5.7m in 2007. This was largely the result of the acquisition in March 2008 of the remaining 24.9% interest in our St Petersburg businesses from the joint venture partner, the Olimp Group. The Group's minority interests at the year end principally comprise a 33% minority holding in UAB Vitvela, Lithuania and 10% in Subaru Australia.

Foreign currency

During 2008, the Group benefited by £22.9m from translation of its overseas profits into Sterling at the 2008 average exchange rate.

Following the recent fall in Sterling against most of the Group's major currencies, a Board decision has been taken to protect the 2009 earnings by purchasing Sterling call options on a matching basis with overseas earnings for all major territories, excluding Russia.

Cash flow and net debt

The Group's operations continued to be cash generative in 2008, with cash flow from operating activities of £183.7m. The tight management of working capital in the face of the downturn in the automotive sector has been a key factor in the delivery of this result.

During the year, the Group returned nearly £90m to shareholders with £73.1m through dividend payments and £16.0m through a programme of buying shares in the market. In addition, the Group invested £264.0m in acquisitions and capital expenditure, funded by additional borrowing facilities, and realised £54.5m from the disposal of businesses and other assets. Overall, the Group had net debt of £407.8m at 31 December 2008 compared to £213.5m at 31 December 2007.

Pensions

During the year, and in line with the funding programme agreed with the Trustees in 2006, the Group made cash contributions to the UK defined benefit scheme amounting to £20.8m. However, a reduction in the market value of scheme assets during 2007 has resulted in a net pension surplus at 31 December 2008 of £6.0m, compared to a net surplus at the end of 2007 of £28.5m.

Acquisitions and disposals

The Group continued its expansion in emerging markets in 2008 and invested a total of £135.4m in acquisitions, offset by total proceeds from disposal of non-core businesses of £27.3m.

In March, the Group acquired the remaining 24.9% stake in the St Petersburg business for a total cash consideration of £28.5m. As a result, the Group now owns 100% of one of the largest automotive retail businesses in St Petersburg, the second largest city in Russia.

In July, the Group acquired a 75.1% interest in Musa Motors group for an initial consideration of US$200m, with a further payment due dependent on 2008 Earnings before Interest, Tax and Amortisation (EBITA) and subject to a cap of US$250m. The remaining 24.9% is due to be acquired in early 2011 for a payment dependent on 2010 EBITA, again subject to a cap of US$250m. As a result, the Group has therefore accounted for Musa Motors group as if it was a wholly-owned subsidiary. This acquisition provides the Group with a significant scale position in Moscow.

The Group disposed of its non-core Vauxhall business and the majority of its Volvo retail centres in the UK for £17.0m and also sold its French operation to its management team for a consideration of £7.6m.

Capital expenditure

The Group maintained its policy of investing to improve the operating standards of its retail centres and to develop new greenfield centres at a cost of £117.8m. The Group also continued with its implementation plan for a global SAP system for its operating businesses. The first retail centre went live with the system in February 2009.

Capital expenditure relating to SAP in 2008 was £18.7m.

Principal business risk factors

Enterprise risk identification and management

The Group applies an effective system of risk management in terms of identifying and monitoring actions to manage these risks. Further details of the Group's risk management process can be found on page 47 and 48.

Risk is a part of doing business; the risk management system 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 key benefits of the system include: maximised resource efficiency through controlled prioritisation of issues, benchmarking between business units, sharing of best practice and effective crisis management.

The following provides an overview of the principal business risk areas facing the Group along with a description, where relevant, of the mitigating actions in place.

Market conditions

Over the past 12 months, the global car industry has suffered an unprecedented and rapid downturn. This downturn and the broader economic conditions have had an impact on the Group. The Group is focusing on five core business priorities (described on page 8). This focus is intended to position the Group to take advantage of improvements in the markets in which it operates as and when they begin to recover.

Another aspect of the current market conditions is the availability of credit for our customers. Inchcape is using its relationships with external finance providers and its brand partners to try and secure such credit on acceptable terms.

Brand partners

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

The brand partners whom we represent may also be affected by the current downturn, which in turn could have an impact on the Group. However, we believe that our brand partners are amongst the strongest in the industry and are therefore best placed to weather the current market conditions.

Treasury management and policy

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. The Treasury function operates as a service centre under Board-approved objectives and policies.

Funding and liquidity risk

The Group's policy is to ensure that the funding requirements forecast by the Group can be met within available, committed facilities.

The inventory lead time in the automotive industry can present a liquidity risk in a contracting market, however this is offset by strict controls on inventory levels which were tightened across the Group during the year. Access to supplier credit also reduces the Group's exposure to current credit markets, as this funding is generally available on extended and favourable terms, even in a contracting market, and this credit funds the largest cash outflows of the Group.

The effect of the current general reduction in credit availability has not yet increased the liquidity risk exposure of the Group, as the actual liquidity position of the Group is secure in the medium term, due to the current committed and available borrowing facilities in place.

At the end of the year the Group's principal committed facility for general corporate purposes, was a five year syndicated £500m revolving credit facility put in place with relationship banks in April 2007. In April 2008 the maturity of this facility was extended for an additional year to 2013. This facility was drawn by £370m at the year end. A three year term loan of £35m put in place in April 2007 was fully drawn during the year.

The Group also has in place funding with Private Placement loan notes totalling $550m. Loan notes totalling $350m mature in May 2017 and a further $200m of loan notes mature in May 2019.

In July 2008 the Group put in place a three year syndicated £185m revolving credit facility and a £40m bilateral facility with relationship banks. These facilities were not drawn at the year end.

The committed bank facilities and Private Placement borrowings are all the subject of one financial covenant being an interest cover covenant based on an adjusted EBITA measure to interest on consolidated borrowings. The covenant is tested on a trailing 12 month basis at 30 June and 31 December each year and is required to be not less than three to one. The Group was compliant with this covenant during the year and regularly monitors actual and prospective compliance.

The proceeds of the Rights Issue, announced on 19 March 2009, are intended to reduce indebtedness, which in the short term will increase headroom, delay the refinancing of existing facilities. In the longer-term, this will better position the Group to take advantage of market recovery.

Currency risk

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 businesses with our brand partners. For those businesses that continue to be billed in foreign currency, Group policy is that committed transactional exposures are hedged into the reporting currency of that business. If possible, foreign exchange exposures will be matched internally before hedging externally.

Principal business risk factors continued

The Group also faces currency risk on the translation of its earnings and net assets, a significant proportion of which are in currencies other than Sterling. On translation into Sterling, currency movements can affect the Group income statement and balance sheet.

Historically the Group has adopted a policy of not hedging the translation of its overseas earnings. This policy has been reviewed in the light of the increasingly high proportion of the Group's earnings from overseas and a new policy has been adopted, effective for 2009, which gives management the opportunity to hedge translation exposures. Any hedges put in place take into account current exchange rates and management expectations for future exchange rate movements. The purchase of options are approved instruments for hedging translation exposures.

Hedging instruments are approved by the Board and are restricted to forward foreign exchange contracts, currency options and foreign exchange currency swaps. Foreign exchange currency swaps are also used to hedge transaction exposures arising on cross border Group loans.

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 2008 the Group has borrowed at floating rates only (after taking into account existing interest rate hedging activities) with the exception of US$75m at a fixed rate of 5.94% in the UK and £11.5m in Russia. This approach reflects the reduction in interest rates during 2008 and the benign interest outlook.

Group policy permits the fixing of up to 30% of gross borrowings at fixed interest rates if deemed appropriate by management.

Should further interest rate hedging activities be undertaken in the future, the Board has approved the use of interest rate swaps, forward rate agreements and options.

Counterparty risk

The amount due from counterparties, arising from cash deposits and the use of financial instruments, creates credit risk. Limits are in place which reduce credit risk by stipulating the aggregate amount and duration of exposure to any one counterparty dependent upon the applicable credit rating. Credit ratings and the appropriate limits are reviewed regularly.

There is also a risk in the current economic climate where the Group operates distribution businesses relating to the financial health of the Group's third party dealer networks. However, the Group has a long and successful history of managing distribution businesses and an experienced management team running day-to-day operations.

Pensions

The Group has defined benefit pension schemes to which it may be required to increase its contributions in the event of an adverse change in the Group's financial position and/or to fund an increase in the cost of future benefits. The Group maintains an open dialogue with the pension trustees to ensure that they have appropriate information upon which to base their decisions.

Acquisition integration

The Group has grown considerably in recent years as a result of acquisitions. Due to the unprecedented economic downturn, it is possible that the Group will not realise all the projected benefits of the acquisitions, however the Group continues to integrate the acquired entities successfully.

Litigation and regulatory risk

The Group is subject to laws and regulations in each of the countries in which it operates, all of which are subject to change and which if breached could have an impact on its business. The Group ensures that it obtains timely information about forthcoming changes and that it has robust procedures in place to minimise any risk of detriment or non-compliance.

The Group's operations also expose it to the risk of litigation. In order to mitigate this risk, processes are in place which are aimed at reducing the potential for litigation and for escalating any problems which do arise with a view to managing the exposure appropriately.

Attracting, developing and retaining talented employees

The ability of the Group to achieve its strategic objectives depends partly on its ability to recruit, retain and develop highly skilled competent people at all levels. The Group has a talent review process, remuneration is externally benchmarked to ensure ongoing competitiveness and succession plans are developed for all key positions.

Refer to page 32 for further information about our people strategy.

Barbara Richmond
Group Finance Director
19 March 2009

Corporate responsibility

Corporate responsibility (CR) is very important to the Inchcape Group and we continue to be committed to integrating socially responsible behaviour into every aspect of how we operate and define ourselves.

Our CR journey

The past 160 years
Inchcape has a heritage of integrity and a history of caring for its local markets, its people and its customers

2006
New strengthen and expand corporate strategy defined
Focus on encouraging community support

2007
Core purpose defined, values refreshed
New people strategy announced

2008
CR strategy implemented and KPIs listed
Focus on CO_2 emissions tracking for the Group

2008 has built on the foundations of a Group approach to CR that is making responsible economic, environmental and social behaviour intrinsic to the way we work. The Group's approach to CR has been recognised by its inclusion again in 2008 in the FTSE 4 Good index. The company has also taken part again in the Carbon Disclosure Project's review.

Our responsibilities
This section of the Annual Report sets out the key principles of our CR Programme. It provides insight into the developments in respect of our people, our emphasis on and approach to creating the ultimate customer experience for our brand partners, highlights the achievements in respect of the Group's impact on the communities in which we operate and outlines a new development in 2008 with the measurement of the Group's CO_2 footprint.

At Inchcape we take responsibility for the impact our activities have on:

- Our people
- Our customers
- Our communities
- Our environment

Governance and management
The Board is responsible for the strategic direction of all CR initiatives and the programme as a whole. The Board is ultimately accountable to our shareholders for our CR Programme. Day to day management of the CR Programme has been delegated to the CR Committee comprising of the Group's General Council and Group Company Secretary, Director of Strategy, Assistant Company Secretary and Group Communications Manager. Above all, the CR Committee's role is to ensure that our day to day business operations respond to the opportunities and avoid the risks, posed by CR-related issues.

A network of locally based CR Champions (employees with Group and local responsibilities) support the work of the CR Committee across three areas of strategic focus: our people, our communities and our environment. Our activities are focused through our internal CR Aware campaign.

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

Business conduct
In 2008, we reviewed our business and ethics policy and will roll out the updated policy during the first half of 2009. In addition to providing a framework for managing our operations in line with a consistent set of standards of behaviour, we have introduced a specific CR element to the design to ensure that CR remains at the forefront of our activities.

Inchcape Aware Our CR Journey

Progress against our goals in 2008

In the context of the early stage of our CR journey, we chose the following strategically important targets for 2008:

Objective Raising employee engagement through the various initiatives from our people strategy including significant reward and development plans

Goal attainment Attained

Objective Extending our employee survey to our global employee base

Goal attainment Attained

Objective Extending best practice in health and safety to our operations worldwide

Goal attainment Attained

Objective Supporting the communities in which we operate through focused initiatives

Goal attainment Attained

Objective Identifying and defining environmental initiatives for 2008 and beyond

Goal attainment Attained

Driven by our values

People power our responsible culture

We believe it is the enthusiasm and understanding of our people that will shape and power Inchcape's CR culture. We 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.

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 are 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 sprit 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 we advance opportunities to reduce our industry's bearing upon our planet.

Our people

At Inchcape we recognise that it is our people who make the difference.

It is through our people that we are able to consistently bring alive our core purpose and thus our people strategy has been defined as 'engaged people in winning teams creating the ultimate customer experience for our brand partners'.

Our people strategy aims at ensuring we have:

The right people: by becoming a magnet for talented people who live our values and enjoy working in winning teams delivering outstanding results;

The right learning: equipping our people to excel today and provide exciting development opportunities for the future, aligned to our business ambition;

The right reward: by recognising, celebrating and rewarding the contribution our people and teams make to deliver our challenging business ambitions;

The right culture: by 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 Group have attended a unique and innovative Customer 1st experience, designed to reinforce the understanding of our core purpose and its meaning to each and every role within the whole organisation.

The vision and strategy for the Group is regularly communicated through market visits, employee events and informal meetings with Inchcape employees across the Group. Objectives in support of the strategy are supported through the performance management process. Additionally, feedback is sought from a representative group of employees on specific issues.

Employee recognition

Recognition of outstanding performance is core to employee engagement and high on our people agenda. We believe tremendous value can be gained from an investment in strategic recognition for performance, personal achievement and team successes, especially in these challenging times.

We have several programmes in place to recognise people on both a Group, regional and local level.

In January 2008 we launched a 12-month Group-wide programme designed to recognise and reward retail centres and distribution sales teams based on embedding the concept of 'good profit' – how both outstanding customer service and strong operational profit are key drivers for winning teams. Progress was monitored via a dedicated website and winners received personal notes of congratulations from the Group Chief Executive on a monthly basis.

Since 2006, the Executive Committee has identified exceptional individuals and teams from across the business for the Inchcape 'Gold Standard' awards for performance and contribution. These are made annually and each case is fully discussed and considered by the Executive team as a whole and a suitable reward is given.

Outstanding performance is celebrated and publicised via our Group-wide employee e-zine, Inchcape Inside, a monthly communication that features news about the business, our exceptional people, teams and business performance – all components that we believe set us apart from the competition.

Employee engagement

This year we have launched Heartbeat, our long-term programme to increase engagement throughout the Company. This incorporated our first Group-wide employee survey – conducted in partnership with Gallup – and individual team action plans to address key issues raised.

Gallup's leading research has identified 12 questions that measure employee engagement and powerfully link to relevant business outcomes. To these we added a further six questions specific to Inchcape. We achieved a response rate of 87% across the Group.

Training was given to help teams understand their Heartbeat scorecard and prepare for successful action planning. These action plans are regularly followed up and discussed at team meetings.

Talent and performance management

Talent and performance management is at the heart of our people strategy as we look to ensure we have the right people in each role. In 2008, we have been through the second wave of talent review and action planning sessions in each of our markets. The process is now being cascaded through the whole organisation. During the year, we also ran several development and assessment centres and programmes for our managers, focusing on our leadership skills. We have also conducted an annual review of our leadership population, with a view to continuously upgrading the quality and depth of our talent pool. Our analysis continues to show us that talented people yield much higher levels of customer satisfaction and profit.

Attracting and retaining talented individuals through attractive performance-based rewards and interesting and diverse career opportunities remains a key area of focus for us. 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 2009.

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.

Employees with disabilities

We are an equal opportunities employer. We are committed to the employment of people with disabilities and will interview all those candidates who meet the minimum selection criteria. We provide training and career development for our employees, tailored where appropriate to their specific needs, to ensure they achieve their potential. If an individual becomes disabled while in our employment, we will do our best to ensure continued employment in their role, including consulting them about their requirements, making appropriate adjustments and providing alternative suitable positions.

Our customers

Every day, every time and everywhere we aim to deliver a world-class retail experience giving our customers better service, better choice and better value.

We place strong emphasis on the quality of our customer service and in 2007 we launched the Customer 1st initiative as part of the Inchcape Advantage programme to deliver outstanding customer service 'every time, every day, everywhere'. Following extensive consumer research, we developed and implemented Customer 1st processes, training and systems throughout our retail centres. In particular, this has allowed local management to set targets for each centre based on customer satisfaction measured through Net Promoter Score (NPS) and sales funnel management analysis.

We have introduced a system for tracking daily customer information including retail centre traffic, sales leads, test drives and orders. Results are collected and monitored daily through a dedicated award-winning portal on the Group's intranet. This information is aggregated overnight, providing reports and comparisons against brand, country, region and across time periods. This allows us to measure, for example, the number of orders taken as a percentage of leads and to set targets accordingly and gives management a strong knowledge of the automotive industry and detailed insight into particular markets.

Our customer understanding is facilitated both by the monthly mystery shop of each of our retail centres and by quantitative analysis of NPS results. Here, on a monthly basis, each retail centre submits feedback from 20 buyers and a further 20 visitors about their experience at the centre.

Guidance on best practice and detailed recommendations on opportunities to improve customer service are accessible to all retail centre employees via our portal.

We use the Customer 1st programme to monitor both our own performance as the retailer for our brand partners and the performance of third-party retailers where we manage the retail network as the distributor.

We believe that this focus on customer service and sales technology will help us deliver a superior retail experience to our customers. Further, an improved customer experience sets us apart from our competitors and builds loyalty, resulting in stronger relationships with our brand partners and leaving the Group better positioned to grow market share.

Customer 1st in 2008

- We carried out approximately 2,650 mystery shop exercises in 240 retail centre showrooms across the Group.
- We carried out approximately 1,700 mystery shop exercises in 230 service centres across the Group.
- We talked to 37,800 vehicle buyers and 39,500 showroom visitors for our vehicle sales NPS programme.
- We talked to over 16,000 service customers for our aftersales NPS.

Supporting our customers

We are committed to providing clear information to our customers to help support them in their vehicle purchase choices. This is provided in our showrooms and on our websites.

As part of providing a customer focused aftersales service, we offer our customers an environmental Vehicle Health Check which includes:

- Tyre pressure test
- CO_2 test and emissions test
- Air condition check
- Engine lubricant test
- Emissions test

In some of our retail centres, customers are offered a free Green Test Drive when they visit us for a vehicle service. The Green Test Drive shares tips with the customer on how to drive more efficiently, how to improve their environmental impact and ultimately how to reduce their vehicle running costs.

We also have accessories available that help our customers manage their environmental footprint, including low rolling resistance tyres, which can reduce CO_2 emission by around 2% and lower engine friction lubricants which can reduce CO_2 emission by around 1%.

Our core purpose

To create the ultimate customer experience for our brand partners.

Our communities

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. We have highlighted some of the work that we have been undertaking in our communities.

1. Hong Kong

Opening of 'Crown Motors Elementary School' – Cuihua Central Primary School, Kunming

Donations by Lexus owners, matched by Crown Motors Limited, have contributed towards the construction of the Cuihua Central Primary School of Lu Quan in Kunming, in the mountainous southwest province of Yunnan in China. The school began operation in January 2008, benefiting around 600 students from poor backgrounds.

Lexus owners in Hong Kong have enthusiastically embraced the opportunity to reach out to these children, who might otherwise be unable to have any formal education.

5. Greece

Toyota Hellas donates to the Pammakaristos Institution

In support of the Pammakaristos Institution, Toyota Hellas purchased equipment to help build a centre dedicated to children's health and wellbeing. The Pammakaristos Institution is a non-profit charitable organisation that provides protection as well as education for children. It is subsidised by the Hellenic Ministry of Health & Welfare.

Toyota Hellas has supported the Pammakaristos Institution in a variety of ways over the year.

2. United Kingdom

Inchcape receives award for payroll giving

ben
the automotive industry charity
Registered Charity No. 297877

In recognition of Inchcape Retail's commitment to good causes and bettering the local community, Inchcape Retail in the UK received a 'Payroll Giving Quality Mark Gold' award for making Payroll Giving available to colleagues.

Monies donated through Inchcape's scheme are given to BEN, the automotive charity. This charity supports people from across the automotive and related industries who face hardship or distress and offers financial, emotional and practical help and support to more than 15,000 men, women and children who have a connection with the sector.

3. Singapore

Borneo Motors Singapore: Lexus Charity Golf Day supports the Dover Park Hospice

The highly anticipated Lexus Charity Golf Day was held in July 2008 at the prestigious Tanah Merah Country Club, Garden Course. 288 participants attended for a day of golf, networking and charity.

In the evening after the event, the Dover Park Hospice was presented with a donation cheque of SGD108,000. This record-breaking amount is the highest ever raised by the Lexus Charity Golf Day and it will certainly go a long way in helping the hospice provide palliative care for patients.

4. Brunei

NBT sponsor Corollas for defensive driving course

Our Brunei business NBT, the largest local car retailer, was pleased to support Megamas and Brunei Shell Petroleum (BSP) in promoting greater road safety awareness in Brunei Darussalam through providing cars for defensive driving courses.

NBT officially handed over two Toyota Corollas to Megamas Training Company Sdn Bhd at the NBT Kuala Belait Toyota showroom in June 2008.

6. Romania

Toyota Romanian International Marathon

Toyota Romania was proud to sponsor the Toyota Romanian International Marathon, the first major athletic event to take place in Bucharest, on 12 October 2008.

This momentous event was organised by the Bucharest Running Club in partnership with Bucharest City Hall, the Saatchi & Saatchi advertisement agency and the Romanian Athletics Federation.

7. Ethiopia

Inchcape in the Ethiopian community

Inchcape supports a children's project in Ethiopia called Missionaries of Charity Rehabilitation Centre (MCRC) run by Jutta De Muynck. The project focuses on children with emotional or physical disabilities, HIV, while helping single mothers in need. Jutta also provides training for young teachers in the region.

When the school first opened, it was a privately funded initiative called the 'School Aware Project'. Children were cramped into a four m^2 mud hut; it had no chairs, desks or other supplies. Today the school is flourishing and will soon move to a larger compound with classrooms, a separate dining room and a computer room.

In October 2008, Inchcape donated £12,500. This is being used to support MCRC's work by providing children with food, medical and emotional care as well as education.

Our environment

A suite of CO_2 KPIs has been developed in support of our corporate values, our objectives in the area of customer strategy, and our CR commitments. We will align Inchcape with best corporate practice from a broad range of companies, not restricted to motor retailers.

CO_2 target	Description
Energy	This KPI measures our global electricity and gas usage. For the last six months of 2008, data has been collated on the basis of megawatt hours for electricity and cubic metres for gas.
Transport	This KPI measures the movement of cars and parts from the point of ownership (legal or contractual) to the point we cease to have legal ownership. This includes test drives. We calculate our CO_2 footprint by car or parts kilometres, depending on the mode of transport, with a CO_2 multiplier.
Flights	This KPI measures the impact of the movement of our people. We have recorded the number of flights (each flight leg counts as one unit) and calculate our flight CO_2 emissions with a multiplier by flight kilometre.

We have collated six months of data from the majority of businesses worldwide, excluding our joint ventures in Russia, where, in particular, the Musa Motors group is in the integration phase.

When we have collated at least 18 months worth of data, we will be able to make seasonal adjustments to it. We recognise that the international nature of our business as well as our range of operations across Retail, Distribution and VIR mean that there is not an obvious benchmark against which we can compare our CO_2 footprint to other companies. However, our approach to date is as follows:

- For energy, we are analysing the CO_2 usage data to establish a benchmark for our own operations with a view to setting best practice targets for our Retail and Distribution businesses. This will allow us to apply a standard, notwithstanding the international nature and differing scale of our operations.
- For transport, the CO_2 usage is largely fixed due to the inherent requirements of repeated shipping of cars and parts between defined points of supply.
- For flights, the initial measurement period coincided with the introduction of a Group-wide priority on cutting costs and reducing air travel. Our working assumption is that therefore this data will set a benchmark point against which future travel can be measured.

Our goals for 2009

During 2009, we will be collecting and analysing consistent data to establish our Group carbon footprint and to determine specific policies.

Objectives	Target
Build a solid database from which to determine CO2 reduction policies	• Collate a minimum of 18 months data. • Validate the data collected by market. • Measure CO_2 impact.
Collate Inchcape CR policies	• Top six mature markets – UK, Belgium, Australia, Hong Kong, Singapore and Greece – to develop local policies which will be reviewed to establish Group-wide policies.
Launch CR section of Inchcape website to raise awareness across the Group	• Publish Group-wide policies on website. • Publish information on community projects. • Share best practice from CR champions.

Board of Directors

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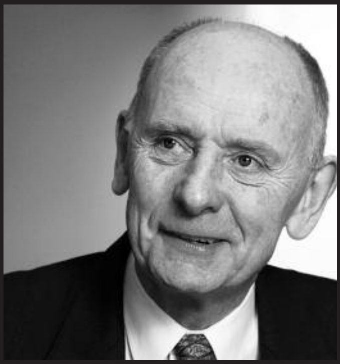

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10.

Members of the Audit Committee
Date of appointment:

Ken Hanna **Chairman** – 16 May 2002
(Member – 27 September 2001)
Will Samuel – 26 January 2005
Michael Wemms – 29 January 2004
David Scotland – 24 February 2005
Graham Pimlott – 25 March 2008

Members of the Remuneration Committee
Date of appointment:

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

Members of the Nominations Committee
Date of appointment:

Peter Johnson **Chairman**
– 1 January 2006
(Member – 1 July 1999)
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: 61
Committee membership(s):
Nominations Committee
Experience: Peter Johnson was appointed Group Chief Executive of Inchcape Motor Retail in 1995, Chief Executive of Inchcape Motors International in 1996 and was Group Chief Executive of Inchcape plc between 1999 and 2005. He is currently 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. Peter Johnson will retire from the position of Non-executive Chairman in May 2009.

2. André Lacroix
Position: Group Chief Executive
Appointment to Board: September 2005
Age: 49
Committee membership(s):
Nominations Committee
Experience: André Lacroix is Chairman of Good Restaurants AG and a Non-executive Director of Reckitt Benckiser Group plc. He was previously Chairman and Chief Executive Officer of Euro Disney S.C.A. from 2003 to 2005. Prior to this he was the President of Burger King International, previously owned by Diageo plc, from 2000 to 2003.

3. Barbara Richmond
Position: Group Finance Director
Appointment to Board: April 2006
Age: 48
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: 57
Committee membership(s):
Audit Committee, Remuneration Committee and Nominations Committee
Experience: Will Samuel is Chairman of Galiform plc and Vice Chairman of Lazard & Co. Ltd. He is a Non-executive Director of the Edinburgh Investment Trust plc and Deputy Chairman of the 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: 57
Committee membership(s): None
Experience: 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, Swiss Reinsurance Company, Convenience Retail Asia Limited 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. He was awarded the honour of Chevalier de l'Ordre du Mérite Agricole of France in 2008.

6. Karen Guerra
Position: Non-executive Director
Appointment to Board: January 2006
Age: 52
Committee membership(s):
Remuneration Committee
Experience: Karen Guerra is a Non-executive Director of Swedish Match AB and Samlerhuset BV. She 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 the More Group plc.

7. Ken Hanna
Position: Non-executive Director
Appointment to Board: September 2001
Age: 55
Committee membership(s):
Audit Committee, Remuneration Committee and Nominations Committee
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) from 1997 to 1999. He has previous experience with Guinness plc (now Diageo plc), Avis Europe and Black & Decker. Ken Hanna will be appointed Non-executive Chairman effective in May 2009.

8. David Scotland
Position: Non-executive Director
Appointment to Board: February 2005
Age: 61
Committee membership(s):
Audit Committee, Remuneration Committee and Nominations Committee
Experience: David Scotland is a Non-executive Director of Brixton plc and Cobra Beer Ltd. David is a Trustee and Director of Winston's Wish, a child bereavement charity. He was previously an Executive Director of Allied Domecq from 1995 to 2005, 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: 69
Committee membership(s):
Audit Committee, Remuneration Committee and Nominations Committee
Experience: Michael Wemms is a Non-executive Director of Galiform plc and Moneysupermarket.com Group plc. He was previously Chairman of the British Retail Consortium from 2004 to 2006 and House of Fraser plc from 2001 to 2006. He held various positions with Tesco plc including Executive Director and Personnel Director from 1989 to 2000.

10. Graham Pimlott
Position: Non-executive Director
Appointment to Board: March 2008
Age: 59
Committee membership(s):
Audit Committee
Experience: Graham Pimlott is a Non-executive Director and Chairman designate of Grosvenor Limited. He was previously Deputy Chairman of Hammerson plc and Chairman of its Audit Committee from 2000 to 2005. He was also a Non-executive Director of Provident Financial plc and a senior independent Non-executive Director at Tesco plc. He chaired the audit committees of both companies. Graham is a qualified solicitor and member of the UK Auditing Practices Board.

We are committed to ensuring that 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 2008. 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, likely future developments and important events occurring since the end of the year is given on pages 16 to 29.

Business review

The information that fulfils the requirements of the Business review can be found in the Operating review and Financial review on pages 16 to 29, which are incorporated in this Report by reference. Information on the environment, employees, community and social issues is given in the Corporate responsibility report on pages 30 to 37.

Results and dividends

The Group's audited Financial statements for the year ended 31 December 2008 are shown on pages 58 to 111. Given the significant downturn in the markets in which the Group operates, the Board does not consider it appropriate to recommend a final dividend for the year ended 31 December 2008. An interim ordinary dividend of 5.46p per ordinary share paid on 4 September was the only dividend paid for 2008 (2007 – 15.75p).

Authority to purchase shares

At the Company's Annual General Meeting (AGM) on Thursday 15 May 2008, the Company was authorised to make market purchases of up to 46,536,694 ordinary shares of 25.0p each (representing approximately 10.0% of its issued share capital). Pursuant to that authority, the Company purchased into treasury 4,460,000 ordinary shares of 25.0p each (representing 0.9% of the Company's issued share capital as at 31 December 2008) at a cost of £16m. The total number of shares held in treasury as at 31 December 2008 is 26,875,606 ordinary shares of 25.0p each (representing 5.5% of the Company's issued share capital as at 31 December 2008). 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 2008, the Company's authorised share capital comprised £196,500,000.00 divided into 786,000,000 ordinary shares of 25.0p each of which 487,244,106 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 Company's ordinary 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. Ordinary shares acquired through the Company's share schemes rank pari passu with the Company's ordinary 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, save as disclosed in the table set out under the heading 'significant shareholdings' below which shows those persons who have notified the Company of their interest in the Company's ordinary shares pursuant to Rule 5 of the Disclosure and Transparency Rules.

The appointment and replacement of Directors is governed by the Company's articles of association.

Any changes to the articles of association 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 7 of the Company's articles of association. The Directors have authority to make market purchases of ordinary shares. This authority is renewed annually at the AGM.

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.

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

Dale Butcher is entitled to receive an enhanced payment if his contract is terminated due to a change of control of twelve months' salary, a bonus payment based on the average of the prior three years' bonus payments, a deferred twelve month pension annuity and a payment in lieu of use of his company car.

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 13 March 2009, 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	% at 13 Mar 09
AVIVA Investors Global Services	**58,287,219**	12.66
Mr George Horesh	**44,687,781**	9.71
Lloyds Banking Group	**38,187,696**	8.30
F&C Asset Management	**26,347,905**	5.72
Toyota Motor Corporation	**25,230,108**	5.48

Directors

The names of the Directors, plus brief biographical details, including those Directors offering themselves for election or re-election, are given on page 38. Each Director held office throughout the year, except Graham Pimlott who joined on 25 March 2008.

David Scotland and Michael Wemms will retire by rotation at the AGM and offer themselves for re-election in accordance with the articles of association.

At the 2008 AGM, Peter Johnson gave notice of his intention to retire at the 2009 AGM. The Nominations Committee has recommended to the Board that Ken Hanna replace Peter Johnson as Chairman. Ken Hanna will also offer himself for re-election at the AGM. Full details can be found in the Nominations Committee report on page 50.

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 2008.

	Ordinary shares of 25.0p each	
	31 Dec 2008	1 Jan 2008
Peter Johnson	**209,425**	205,972
André Lacroix	**459,160**	317,254
Barbara Richmond	**161,916**	98,314
Raymond Ch'ien	**136,369**	130,000
Karen Guerra	**20,000**	0
Ken Hanna	**37,000**	37,000
Graham Pimlott	**20,000**	–
Will Samuel	**12,000**	12,000
David Scotland	**11,298**	11,298
Michael Wemms	**7,564**	7,210

Details of share options held by Directors, including under the Executive share option plan and save as you earn (SAYE) scheme, together with details of awards under the deferred bonus plan and co-investment plan, are shown in notes 3, 4 and 5 on pages 56 and 57.

Employee benefit trust

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 to be interested in any ordinary shares held by the Trust. At 31 December 2008, the Trust's shareholding totalled 2,315,380 ordinary shares (1 January 2007 – 1,715,739 ordinary shares).

Between 1 January 2009 and 6 March 2009 the Trust did not transfer any shares to satisfy the exercise of awards under employee share plans.

Governance

Directors' report continued

Transactions with Directors

No transaction, arrangement or agreement required to be disclosed under the Companies Act 2006 and IAS 24 was outstanding at 31 December 2008, or occurred during the year, for any Director and/or connected person (2007 – none).

Related party transactions

The Company entered into no related party transactions that require disclosure.

Creditor payment policy

The Company has no trade creditors (2007 – none). 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

In determining whether the Group is a going concern, the Directors have reviewed the Group's current financial position and have prepared detailed financial projections. These projections reflect the recent unprecedented downturn in economic conditions and credit availability across the Group's operations, the actions already taken to restructure the business and the plans in place to focus operations on the five core priorities of growing market share, growing aftersales, managing working capital and reducing overheads and capital expenditure (see page 8).

The projections also assume that: new car sales will continue to decline in 2009 and not begin to recover until the second half of 2010; the service and parts business will be more resilient to the downturn; lower UK interest rates will continue; key brand partners will remain in production and supply on normal terms of trade; and there will be no further significant downturn in the global economic environment.

These projections, even after allowing for headroom to accommodate a reasonable downside scenario (including weaker trading and adverse movements in currency and interest rates), indicate that the Group would be able to manage its operations so as to remain within its current facilities and in compliance with its banking covenant.

Accordingly, after making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue as a going concern for the foreseeable future. As such, the Company and the Group continue to adopt the going concern basis in preparing the annual report and accounts.

Charitable and political donations

The Group's charitable donations, including the amounts, are shown on page 35.

No political donations were made during 2008.

Events after the balance sheet date

See note 32 on page 111.

Principal business risk factors

These risks are shown on pages 27 to 29.

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.

Key contractual and other arrangements

Other than arrangements with SAP, the Company's contracts are at an operating unit level rather than a Group level. As a result no individual supplier or customer contract is significant to the business.

The Group's relationships with its brand partners are managed at Group level. However, the contracts with brand partners are at a local level with day to day management being led by each operating business.

Annual General Meeting

The AGM will be held at 11.00 a.m. on Thursday 14 May 2009 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.

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

Claire Chapman
General Counsel and Group Company Secretary
Inchcape plc

Governance

Executive Committee

Martin Taylor
Position: Chief Executive Officer, Europe Distribution, Africa and South America
Appointment to Executive Committee: February 2006
Age: 54
Skills and 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: 41
Skills and 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: 53
Skills and experience: Dale joined British Timken, a subsidiary of the Timken Company, as a Financial Analyst in 1980 and moved to Kuwait to work for the Alghanim Company as Business Development Manager 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 Human Resources Director
Appointment to the Executive Committee: February 2007
Age: 44
Skills and 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 USA. He has also worked with ICI in India and Diageo in the UK.

John McConnell
Position: Chief Executive Officer, Inchcape Australia and New Zealand
Appointment to the Executive Committee: February 2006
Age: 47
Skills and experience: John worked for Reckitt & Colman, now Reckitt Benckiser, for thirteen 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 Chief Executive Officer for Australia and New Zealand in May 2005. John holds a BEc and MBA.

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. In 2007, he was appointed as Chairman and Chief Executive Officer for Inchcape China and Chairman of Inchcape Asia-Pacific Limited.

As mentioned in the Chairman's statement, William Tsui sadly passed away in February 2009.

Trevor Amery
Position: Chairman, Subaru Australia
Director, Inchcape Australia
Appointment to the Executive Committee: February 2006
Age: 55
Skills and experience: Trevor has 26 years' automotive experience with senior roles in accounting, marketing and operations. He was the Managing Director of Subaru Australia for thirteen years which was 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. Trevor retired from the Group in January 2009.

Spencer Lock
Position: Chief Executive, Inchcape Retail UK
Appointment to Executive Committee: February 2006
Age: 42
Skills and experience: Spencer joined Inchcape Retail as Finance and Insurance Director in 1998. In 1999 he was appointed Franchise Director for the Toyota and 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.

Governance

Executive Committee continued

George Ashford

Position: Managing Director, European Retail
Appointment to Executive Committee: October 2006
Age: 41
Skills and 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. He spent ten years with Yum holding several senior management positions which culminated in Board positions in Yum's two UK based operating businesses. He was Product Excellence Director for KFC (GB) from 2000 to 2003 and Operations Director for Pizza Hut (UK) from 2003 to 2006. He joined Inchcape in March 2006 as Director of Implementation, Inchcape Advantage.

Immo Rupf

Position: Managing Director, Inchcape Russia
Appointment to Executive Committee: March 2006
Age: 44
Skills and 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 Chief Financial Officer 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.

Ken Lee

Position: Group Communications Director
Appointment to Executive Committee: November 2006
Age: 52
Skills and 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: 47
Skills and experience: Before joining Inchcape, Patrick was the Group General Manager, Sales and Marketing of Kerry Beverages Ltd from 1998 to mid 2006. His experience in auto retailing came from a Toronto Honda dealership where he worked for three years and was awarded the highest honour 'Sales Master' by Honda Canada in 1991 and 1992. He 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.

Bertrand Mallet

Position: Group Strategy Director
Appointment to Executive Committee: July 2008
Age: 36
Skills and experience: Before joining Inchcape, Bertrand spent over six years with Euro Disney in both strategy and sales roles, most recently as Managing Director for the French market. Prior to joining Euro Disney he spent five years as a senior consultant with Bain & Company both in France and in the USA. He began his career with Automobiles Peugeot in Stockholm, Sweden.

Governance

Corporate governance report

Governance framework

The Board is committed to ensuring that the Group delivers shareholder value in the long term and recognises that good governance will facilitate the achievement of sustainable growth.

The following sections explain how the Company has complied with the main and supporting principles of the 2006 Combined Code (Code). It is the Board's view that it has been fully compliant with the Code throughout the year.

A statement of the Directors' responsibilities for preparing the Financial statements, including a statement regarding the status of the Company as a going concern, is on page 42.

The Board of Directors

The Board comprises a Non-executive Chairman, seven Non-executive Directors and two Executive Directors.

The role of Chairman and Group Chief Executive are separate and there is a clear division of responsibilities. The Chairman, Peter Johnson, is responsible for the leadership of the Board and the balance of its membership. The Group Chief Executive, André Lacroix, is responsible for leading and managing the business, with support from the Executive Committee.

Will Samuel is the Deputy Chairman and Senior Independent Non-executive Director.

Ken Hanna is the Chairman of the Audit Committee, Michael Wemms is Chairman of the Remuneration Committee and Peter Johnson is Chairman of the Nominations Committee.

Graham Pimlott was appointed as a Non-executive Director on 25 March 2008.

The biographies of the Directors (including details of other directorships held) and the Executive Committee are on page 39 and 43 to 44 respectively. The Chairman's other significant commitments are also included in his biography on page 39 and the Board is satisfied that these do not have a detrimental impact on his time commitment to the Company.

At the 2008 Annual General Meeting (AGM), Peter Johnson announced his intention to retire from the Company. Ken Hanna, a Non-executive Director, will take over the role as Chairman at the 2009 AGM. Further details of the appointment can be found in the Nominations Committee report on page 50.

The Company's articles of association require that every Director will seek re-election to the Board at least every three years, subject to election by shareholders at their first AGM. The reappointment of a Non-executive Director after six years is subject to a rigorous review. A Non-executive Director who has served for more than nine years is subject to annual re-election. All Directors are subject to the provisions of the Companies Act 2006 in relation to the removal of directors.

The details of those Directors subject to re-election are shown on page 41.

In accordance with the Companies Act 2006 and the principles of good governance, 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.

There is a schedule of Matters Reserved for the Board, which is reviewed annually, and which identifies those matters that the Board does not delegate to management. Matters are referred to the Board as a whole and no one individual or small group of individuals has unfettered powers of decision making.

Matters Reserved for the Board

Summary

- Responsibility for overall management of the Group and the approval of long-term objectives and strategy;
- Approval of the Group's financial policy, material capital expenditure, acquisitions and disposals;
- Approval of any changes to the Group's capital structure, corporate structure and operational structure;
- Approval of Annual and Interim reports and any financial results;
- Declaration of interim and recommendation of final dividend;
- Approval of accounting and treasury polices;
- Ensuring maintenance of internal control systems and risk management processes;
- Approval of all circulars, listing particulars and resolutions sent to shareholders;
- Approval of changes to the Board and its Committees, and approval of the Committee's terms of reference and the schedule of Matters Reserved for the Board;
- Approval of the division of responsibilities between the Chairman and Group Chief Executive;
- Recommending the election or re-election of Directors to shareholders and the appointment or removal of the Group Company Secretary;
- Recommending the appointment or removal of the external auditor to the shareholders;
- Reviewing the Group's corporate governance arrangements and approval of the Group's policies;
- Approval of major changes to the Group's pension schemes and changes in the fund management arrangements;
- Approval of the appointment of principal external advisors.

The full schedule of Matters Reserved for the Board can be found at www.inchcape.com/aboutus/corporategovernance.

Specific responsibilities have been delegated to Board Committees, details of which are given on pages 49 to 51.

The Company provides insurance cover in respect of legal action against its Directors, which is reviewed on an annual basis.

Board meetings and attendance

The Board held nine scheduled meetings during 2008, which included overseas meetings at the Company's facilities in Singapore and Russia. The Board also met for ad hoc meetings to deal with specific issues. Where a Director is unable to attend 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 Group Company Secretary before the meeting.

Governance
Corporate governance report continued

Number of meetings	Board Number	Board Attended	Audit Committee Number	Audit Committee Attended	Remuneration Committee Number	Remuneration Committee Attended	Nominations Committee Number	Nominations Committee Attended
Raymond Ch'ien	9	9	–	–	–	–	–	–
Karen Guerra	9	9	–	–	2	2	–	–
Ken Hanna	9	8	3	3	2	2	2	1
Peter Johnson	9	9	–	–	–	–	2	2
André Lacroix	9	9	–	–	–	–	2	2
Graham Pimlott*	9	7	3	2	–	–	–	–
Barbara Richmond	9	9	–	–	–	–	–	–
Will Samuel	9	9	3	3	2	2	2	2
David Scotland	9	9	3	3	2	2	2	2
Michael Wemms	9	9	3	3	2	2	2	2

* Graham Pimlott joined the Company on 25 March 2008.

If any Director were to have any concerns regarding the running of the Company or a proposed action, such concerns 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.

In addition to the Board meetings, a Strategy Review day was held where the Board and members of the Executive Committee agreed the strategic agenda for the year. The Strategy Review day included updates from each of the operating businesses.

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

Board balance and independence
All Directors bring an individual 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.

The Board considers all its Non-executive Directors, with the exception of Raymond Ch'ien due to the length of his service and previous employment with Crown Motors, to be independent for the purposes of the Code.

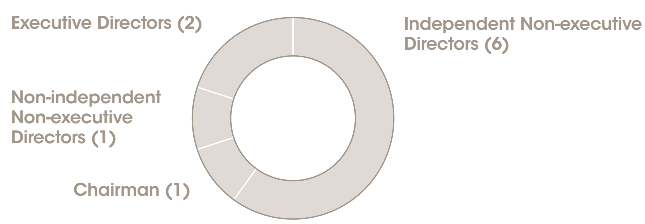
The Board has also determined that Ken Hanna will be considered independent upon his appointment as Chairman under provision A.3.1 of the Code.

Graham Pimlott was appointed to the Board during 2008. It was felt that his extensive skills and knowledge within the private and public sector would enhance the composition of the Board.

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 Non-executive Directors of the Company and the fact that there are no cross-shareholdings or business relationships between Galiform plc and the Company, the Board is satisfied and has determined that they are both independent.

The terms and conditions of appointment of Non-executive Directors are available from the registered office.

Balance of independent Directors



Information, training and development
The Board receives, in advance of each Board meeting, detailed financial information and presentations relating to items for decision from members of the Executive Committee and operational and functional heads.

Each Director is continually updated on the Group's businesses; the competitive, regulatory and legislative environments in which they operate; corporate governance and responsibility matters and other changes affecting the Group and the markets in which it operates, with briefings from the Company's external advisors if appropriate. These arrangements are designed to ensure that the Directors' skills, knowledge and familiarity with the Company are kept up to date, therefore enabling the Directors to make informed decisions and to fulfil their role on both the Board and on its Committees.

The Group Company Secretary is responsible for ensuring that Board processes and procedures are followed, to support effective decision making. New Directors are given an appropriate induction upon joining the Company. This may include advice from external consultants. In particular, it provides information on the business, including visits to retail centres and overseas operations, to ensure awareness of responsibilities and a full appraisal of the Group's activities and strategic direction. The Group Company Secretary is also responsible for ensuring that Directors receive appropriate training. The appointment and removal of the Group 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 in 2008.

Performance evaluation

The Board undertook a formal evaluation of its own and each Board Committee's performance, roles and terms of reference. 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. The Board reviewed the process in November 2008 and determined that an external facilitation was not necessary. The decision was based on the fact that the composition of the Board had not changed significantly during 2008 and the Board had successfully implemented recommended changes from the 2006 external evaluation and the 2007 evaluation.

Led by the Chairman and supported by the Group 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 the issues raised by the Higgs Review on the role and effectiveness of Non-executive Directors published in January 2003. Following the evaluation, 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 the Non-executive Directors and met with each individually 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.

Relationship with shareholders

The Board understands the importance of maintaining good communication with its shareholders. After the preliminary and interim announcements, meetings are held with institutional investors to keep them up to date with the Company's progress throughout the year and to discuss any issues they may have. This ensures that investors have a balanced view of performance and the issues facing the Company.

In 2008, the meetings were attended by the Group Chief Executive, the Group Finance Director and the Investor Relations Manager. The Chairman and Non-executive Directors are also given the opportunity to meet institutional shareholders. The Senior Independent Non-executive Director is available to shareholders if contact through normal channels is inappropriate.

Other meetings are held for investors and analysts that cover a wide range of issues including strategy, performance and governance. The Investor Relations Manager provided the Board with regular updates on the views of the Company's major investors. During the year, the Board received external presentations from advisors, including the Company's brokers, on shareholder and market perception of the Company's strategy.

The Board is equally concerned with the views of private shareholders. The Group Company Secretary manages day to day communication with these shareholders and they are actively encouraged to give their views using the prepaid reply form issued each year with the AGM documentation. This is particularly useful for shareholders unable to attend the AGM in person.

The AGM provides an opportunity for private shareholders to engage with the Directors and shareholders are invited to raise any matters of interest to them. At the meeting the Company complies with the Code as it relates to voting, the separation of resolutions and the attendance of Committee chairmen. 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.

The Company continues to monitor and encourage provisions allowing shareholders to receive electronic communications. These arrangements allow the Company to take advantage of environmental and cost benefits from reduced paper usage, printing and postage costs whilst investors are able to receive communications in the form most appropriate to their needs. Shareholders are entitled to change the way in which they receive shareholder communications at any time.

The Disclosure Committee ensures that all relevant communications are made available to the London Stock Exchange and shareholders. All material information reported is made available simultaneously on the Company's website, ensuring access to Company announcements.

Internal controls

The Board is responsible for the establishment and review of the Company's internal operational and compliance control systems. The internal control systems are designed to ensure:

- Effective and efficient operations;
- Quality of internal and external reporting;
- Internal control and compliance with appropriate laws and regulations.

The implementation of internal control systems is the responsibility of the Executive Committee.

In compliance with provision C.2.1 of the Code and the Turnbull guidance, the Board annually reviews the effectiveness of the Company's internal control systems and reports to shareholders.

The Board has ensured that a process for managing significant risk has been in place during the year.

The process is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. In establishing and reviewing the system of internal control, the Directors have regard to the nature and extent of relevant risks, the likelihood of loss being incurred and the costs of control.

The system can only provide a reasonable but not absolute assurance against any material mis-statement or loss and cannot eliminate business risk.

The Board has delegated the responsibility of reviewing in detail the effectiveness of the Company's internal control systems to the Audit Committee. The Audit Committee reports its findings to the Board as a whole so that a view can be taken.

Risk identification, assessment and management

To assist the Board and the Audit Committee in managing internal controls, the Group operates a Risk Management Strategy Group (RMSG), which is chaired by the Group Chief Executive. Membership throughout the year comprised the Group Finance Director, the Group Company Secretary, the Group Treasury Director and the Group Audit and Risk Director.

Governance

Corporate governance report continued

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 systems. It also follows up on areas that require improvement and reports back to the Audit Committee.

Control procedures and monitoring systems

A Group Risk Register, which identifies key risks, the impact should they occur and actions being taken to manage these risks at 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. The Group Risk Register is approved by the RMSG and the Executive Committee and forwarded to the Audit Committee for discussion at their meetings.

The Group also monitors its control procedures in the following key areas:

Financial reporting

There is a comprehensive system with an annual budget approved by Directors. Monthly actual results are reviewed and reported against budget and, where appropriate, revised forecasts are presented at Board meetings.

Investment appraisal

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

Internal audit

The adequacy and effectiveness of the Group's internal control systems are monitored by the Internal Audit team who report to the Audit Committee on a regular basis. Internal Audit also works closely with management and the external auditor.

Business unit controls

Each business in the Group is required to identify its key risks and the control procedures in place to mitigate those risks. This evaluation takes place twice a year as part of the preparation and update of the business plans.

In 2008, the Managing Director and Finance Director of each business unit in the Group was asked to sign a compliance certificate to confirm: the accuracy and completeness of the accounts submitted for consolidation; compliance with local laws and regulations; the absence of fraud; the absence of conflicted directorships and compliance with Inchcape policies.

Directors' responsibilities

The Directors are responsible for preparing the Financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and the parent Company Financial statements and the Directors' Remuneration report in accordance with applicable law and United Kingdom Accountancy 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 EU, and, with regard to the parent Company Financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial statements;
- Prepare Group and parent 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.

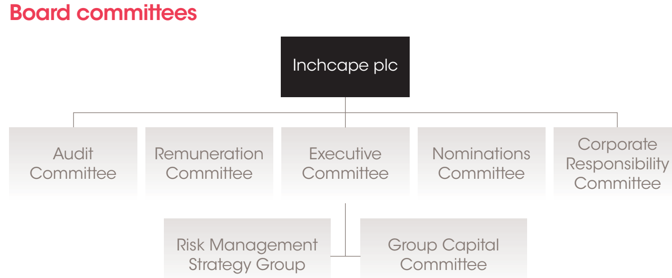
The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Group Financial statements comply with the Companies Act and Article 4 of the IAS Regulation and the Company Financial statements and the Directors' Remuneration report complies with the 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.

Each of the Directors confirms that to the best of their knowledge:

- The Group Financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and;
- The Operating review and Financial review shown on pages 16 to 29, include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Board committees



The Board delegates certain responsibilities to its principal Committees. All Committee Chairmen report verbally on the proceedings of the Committee at the next Board meeting. The Group Company Secretary acts as Secretary to all of the Board Committees.

The Executive Committee has primary responsibility for the day to day management of the Group's operations within agreed limits set by the Board. It is chaired by the Group Chief Executive.

The Corporate Responsibility Committee is chaired by the Group Chief Executive. Its report is set out on pages 30 to 37.

Audit Committee report

Members	From	To
Ken Hanna – Chairman	16 May 2002	To date
Will Samuel	26 January 2005	To date
Michael Wemms	29 January 2004	To date
David Scotland	24 February 2005	To date
Graham Pimlott	25 March 2008	To date

Governance

The Audit Committee comprises five independent Non-executive Directors. The Committee is chaired by Ken Hanna who is a chartered accountant with extensive experience of serving as a Finance Director of a FTSE 100 company.

Will Samuel is a chartered accountant. The Board has determined that he has recent and relevant financial experience. Graham Pimlott is a member of the UK Auditing Practices Board.

The Audit Committee met three times during 2008, to coincide with key dates in the Company's financial calendar. Attendance of these meetings are shown on page 46.

No-one other than the Audit Committee Chairman and its members is entitled to attend the meetings. However, the Chairman, Group Chief Executive, Group Finance Director, Group Audit and Risk Director and the external auditors attend by invitation.

In addition, the Audit Committee meets privately with the external auditors twice a year.

The Audit Committee may take legal, accounting or other advice, at the Company's expense, when it believes it necessary to do so. None was taken during 2008, other than from the Company's external auditors.

Responsibilities

- Monitoring the integrity of the Financial statements of the Company and any formal announcement relating to its 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.

The Audit Committee discharged all its responsibilities, as set out in its Terms of Reference, during the year.

The full Terms of Reference can be found at www.inchcape.com/aboutus/corporategovernance.

Activities

During 2008, the principal activities of the Audit Committee included reviews of the following:

- Interim and full year results and all other formal announcements relating to financial performance;
- The internal audit plan and the results of the internal auditors' work, including monitoring management's responsiveness to findings and recommendations;
- The Company's internal financial controls and the internal control and risk management system;
- The terms of engagement with the external auditor at the start of each audit and the scope of the audit to be provided;
- The audit plan with the external auditor at the planning and reporting stage;
- The effectiveness of the internal and external audit function;
- Whistleblowing provisions;
- Relevant disclosures in this report; and
- Terms of Reference.

The Company's whistleblowing policy is communicated to employees on a global basis. The policy enables employees to raise concerns with the Disclosure Response Team in cases where conduct may be deemed to be contrary to the Company's policies or values.

In addition to the above activities, the Audit Committee reviewed its policy regarding the scope and extent of any non-audit services provided to it by its external auditors. The purpose of the policy is to ensure that the external auditors remain objective and independent. A procedure is in place which must be complied with prior to the auditors being engaged in non-audit work. There is a clear division of responsibility between audit and non-audit staff, and financial limits are imposed on permitted areas of non-audit work such as tax advice. The Audit Committee has acted in compliance with this policy during 2008.

A full statement of the fees paid for audit and non-audit services is provided in note 3 on page 79.

Nominations Committee report

Members	From	To
Peter Johnson – Chairman	1 January 2006	To date
Will Samuel	1 April 2005	To date
Ken Hanna	26 February 2004	To date
Michael Wemms	29 July 2004	To date
David Scotland	29 November 2005	To date
André Lacroix	1 January 2006	To date

Governance

The Nominations Committee is chaired by Peter Johnson who is Chairman of the Board of Directors. It comprises the Chairman, four independent Non-executive Directors and the Group Chief Executive.

Only members of the Nominations Committee have the right to attend Committee meetings. However, other individuals such as the Group Human Resources Director and external advisors may be invited to attend for all or part of any meeting, as and when appropriate.

The Nominations Committee held two scheduled meetings during 2008. Attendance of these meetings is shown on page 46.

Responsibilities

- Evaluating the balance of skills, knowledge and experience on the Board;
- Reviewing the leadership needs of the Group to ensure competitiveness in the marketplace;
- Identifying and nominating suitable candidates to fill Non-executive vacancies;
- Succession planning;
- Recommending the membership and chairmanship of the Audit and Remuneration Committees to the Board; and
- Reviewing the extent of Directors' other interests and any changes to those interests.

The Nominations Committee discharged its responsibilities as set out in its Terms of Reference during the year.

The full Terms of Reference can be found at www.inchcape.com/aboutus/corporategovernance.

Activities

The principal activities during 2008 were Board composition and succession planning in respect of the Executive Directors and Executive Committee members.

After a review of the Board composition, Graham Pimlott was appointed in March 2008, as recommended by the Nominations Committee. He received a formal letter of appointment setting out clearly expectations in terms of time commitment, Committee service and involvement outside Board meetings.

Following the announcement by Peter Johnson of his intention to retire after the 2009 AGM, a programme to find his replacement commenced with external advisors. The Nominations Committee prepared a job specification for the appointment of the Chairman which included an assessment of the time commitment expected for the role. The Nominations Committee recommended to the Board that Ken Hanna would be most suited to take on the role of Chairman from May 2009. The Nominations Committee was satisfied that the appointment process had been thorough and comprehensive. In line with the provisions of A.4.1 of the Code, Peter Johnson did not chair the Nominations Committee when dealing with the appointment of the successor to the chairmanship. Ken Hanna also did not participate in discussions concerning the new chairmanship.

The Nominations Committee also approved the recommendation that Ken Hanna succeeds Peter Johnson as Nominations Committee Chairman and Graham Pimlott succeeds Ken Hanna as Audit Committee Chairman after Peter Johnson's retirement from the Company.

A review of succession planning for the Executive Committee was carried out during the year and provisions were put in place to ensure the continued ability of the Group to compete effectively in the marketplace.

The Nominations Committee made recommendations for the election and re-election, by shareholders, of Directors retiring at the 2009 AGM. No Director was present when his or her election or re-election was considered. In particular, the Nominations Committee reviewed the continued service of any Non-executive Director who has served six or more years, to ensure that Board members continue to possess the skills deemed appropriate for the needs of the Company and its stakeholders. The Directors offering themselves for re-election are shown on page 41.

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

Governance
Remuneration report

Remuneration Committee report

Members	From	To
Michael Wemms – Chairman	13 May 2004	To date
Will Samuel	26 January 2005	To date
Ken Hanna	27 September 2001	To date
David Scotland	24 February 2005	To date
Karen Guerra	1 January 2006	To date

Governance
Michael Wemms is the Chairman of the Remuneration Committee. Throughout the year the Committee comprised wholly of independent Non-executive Directors and continues to do so. The Chairman, Group Chief Executive and Group Human Resources Director advise the Remuneration Committee internally and attend meetings upon invitation. No Director or Executive is involved in deciding his or her own remuneration.

During 2008, the Remuneration Committee held two scheduled meetings. Attendance at these meetings is shown in the table on page 46.

To ensure that the Remuneration Committee receives independent advice, Towers Perrin was appointed by the Remuneration Committee as its external advisor.

Towers Perrin also provides advice to the Board on Non-executive Directors' fees and to the Group in connection with IFRS 2 Share-Based Payments. Towers Perrin has no other connection with the Company other than as remuneration consultants.

Responsibilities
- Determining and agreeing the Company's policy and framework for executive remuneration with the Board;
- Determining the elements of remuneration for Executive Directors and other certain senior executives;
- Determining where to position the Group relative to other companies when reviewing comparative remuneration levels;
- Determining the remuneration of the Chairman;
- Agreeing the terms and conditions of service agreements for Executive Directors, including termination payments;
- Approving share-based incentive schemes and performance conditions; and
- Approving share-scheme performance targets.

The Remuneration Committee is satisfied it discharged its responsibilities as set out in its Terms of Reference during the year.

The full Terms of Reference can be found at www.inchcape.com/aboutus/corporategovernance.

Activities
The Remuneration Committee undertakes an annual review of the remuneration policy to ensure that it remains relevant and competitive. In addition, the Remuneration Committee reviews:

- Policy for all employee share schemes;
- Policy for long-term incentive plans, including the level of individual grants and performance conditions;
- Award of bonuses;
- Policy and scope of pension arrangements for Executive Directors;
- Executive Directors' and senior executives' salaries; and
- Chairman's fees and terms and conditions of employment.

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

Remuneration policy
In establishing its remuneration policy, the Remuneration Committee is guided by the following principles:

- The package should be competitive (i.e. at or around median) when compared with those organisations of similar size, complexity and type;
- There should be a 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' remuneration packages;
- The interests of 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.

The Remuneration Committee also has regard for the need to continue to align with and support the Company's business strategy and reviews the mix of fixed and performance linked remuneration, including share incentive schemes, on an annual basis. Where applicable, shareholders are invited to approve new long-term incentive schemes and changes to existing schemes at the AGM.

The Remuneration Committee has been carefully monitoring the Company's remuneration policy to ensure that pay is appropriate in the current difficult environment. Further details of specific actions are set out below, but the key points to note regarding Executive Director pay in 2008/09 are that:

- Base salaries have been frozen for 2009;
- No bonuses were earned in respect of 2008 performance;
- Long-term incentive awards maturing in 2008 did not vest due to the impact of the 2008 actuals;
- Special incentive awards made to both the Group Chief Executive and the Group Finance Director on recruitment did not vest due to the impact of 2008 actuals on the performance criteria;
- Executive Directors have committed substantial personal investment into the Company over the past few years through the regular purchase of shares, the co-investment plan and the deferred bonus plan. These investments have fallen in value in line with the investments of other shareholders and are unlikely to earn matching awards in the future.

Governance
Remuneration report continued

Looking forward, the Committee is committed to ensuring that the remuneration arrangements in place are suitably structured to help drive the Company's recovery and to support the current business priorities. In particular, the following decisions have been made regarding the pay arrangements in 2009:

- The economic profit element of the 2009 bonus plan is now focused on operating cash flow;
- The performance condition attaching to the 2009 executive share option grant will also be based on longer term operating cash flow; and.
- Long-term incentive award levels in 2009 will be significantly reduced due to the suspension of the co-investment plan.

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 that is pensionable.

In setting base salary levels, the Remuneration Committee also takes account of levels in comparable companies. The comparator group has a retail focus and includes companies with a strong consumer emphasis. This is in line with the Company's strategic aim of customer centricity and its desire to attract retail talent.

During 2008, the Executive Directors received a salary increase of 8.0%. With the increase, the Executive Directors' base salary levels were slightly below comparator group median. The Executive Directors will not receive a salary increase during 2009.

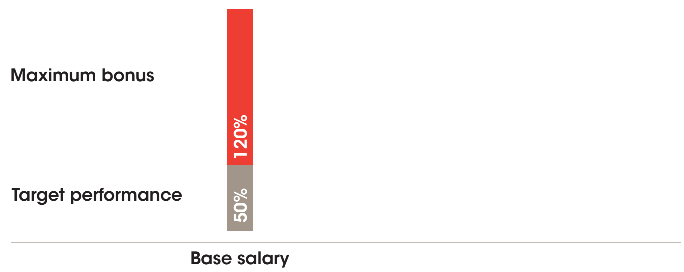
Annual bonus
The Remuneration Committee sets annual bonus plans for the Executive Directors including performance measures, targets and the maximum levels of individual bonus opportunities. In 2008, the bonus plan was based on 70% Economic Profit, 20% Net Promoter Score (NPS) and 10% achievement of personal objectives.

During 2008, the Company achieved the NPS target set at the start of the year and both the Executive Directors fully achieved their personal objectives. However, the Company did not meet the performance target set for Economic Profit and therefore no bonuses were paid in respect of 2008.

For 2009, the Remuneration Committee has decided to change the financial performance criteria for the annual bonus plan from Economic Profit to Cash Flow from Operating Activities (CFOA) as this is more aligned to the Company's current strategic priorities. As in previous years, NPS, our customer service measure, and personal objectives will be the other criteria used to calculate bonus.

For 2009, bonus plans will be based on 70% CFOA, 20% NPS and 10% personal objectives. If all of these targets are achieved in full the Executive Directors will receive 50% of their base salary and higher payments will be received for performance above target to a maximum of 120% of base salary.

André Lacroix and Barbara Richmond bonus plan 2009



Executive share option plan
Under the plan, share options are granted to Executive Directors and senior executives throughout the Group. Options are normally granted following the announcement of preliminary annual results. During 2008, the Remuneration Committee made annual grants of two times base salary, taking into account the Executive Directors' and Company performance. Details of executive share options granted to Executive Directors are shown in note 3 on page 56.

As in previous years, executive share options granted in 2008 will vest if the Company's earnings per share (EPS) exceeds the increase on the UK Retail Price Index (RPI), over a three year period, according to the scale set below.

EPS growth per annum	Vesting percentage
Less than RPI+3.0%	0.0%
RPI+3.0%	25%
RPI+8.0%	100%
Between RPI+3.0% and RPI+8.0%	Straight line basis

There will be no retesting

As outlined in the Chairman's statement on page 5, the Company announced a Rights Issue on 19 March 2009. Clearly this will have an impact on the number of executive share option awards that the Company will grant during 2009 after the Rights Issue has taken place. As such the Remuneration Committee is not in a position to detail the number of executive share options to be awarded with shareholders at this stage. However, outlined below are the performance conditions the Remuneration Committee intends to use with regard to the 2009 award. The Company will consult, as appropriate, with its shareholders and institutional bodies before final decisions are made.

The Remuneration Committee intends to set performance conditions that are specifically tailored to the Company's current business strategy and reflect the focus on cash flow. Accordingly, the measure that will be used will be growth in Cash Flow from Operating Activities (CFOA), according to the scale set out below. The Remuneration Committee has set CFOA targets that it considers at least as challenging as the previous EPS hurdle.

Options awarded in 2009 will vest to the following sliding scale:

CFOA growth	Vesting percentage
Less than 70% of target	0.0%
70% of target	25%
100% of target	100%
Between 70% and 100% of target	Straight line basis

Co-investment plan

The co-investment plan was introduced during 2008 after receiving shareholder approval in 2007. André Lacroix can invest up to 50% and Barbara Richmond can invest up to 40% of post tax annual salary to obtain 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 can be invested. No such exceptional circumstances have arisen to date. Details of awards are shown in note 4 on page 57. The plan has been extended to certain other senior executives below Board level.

The shares acquired will be matched at the end of the three year vesting period. The match will be determined by performance against the cumulative Economic Profit (EP) target.

Awards will vest according to the following sliding scale:

EP growth over three years	Matching shares
Less than RPI+3.0%	0
RPI+3.0%	1:1
RPI+12.0%	2:1
Between RPI+3.0% and RPI+12.0%	Straight line basis

As noted previously, the Remuneration Committee has decided to suspend the co-investment plan for 2009.

Deferred bonus plan

The deferred bonus plan was a voluntary plan for Executive Directors and certain other senior executives. Final awards under this plan were made in 2007. Details of these awards are shown in note 4 on page 56.

Save as you earn (SAYE)

Executive Directors are eligible to participate in the Company's SAYE scheme on the same terms as other employees. Participants make monthly savings, to a maximum of £250 per month, over a three year period. At the end of the savings period the funds are used to purchase shares under option. The acquisition of shares under this scheme is not subject to the satisfaction of a performance target.

Executive share ownership

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

The shares held by the Executive Directors is shown on page 41.

Retirement benefits

The Inchcape Group (UK) Pension Scheme (UK Scheme) provides benefits for Executive Directors and certain senior executives at normal retirement age of 65. The benefit is equal to a maximum of two-thirds of final base salary, where salary has a scheme-specific ceiling of £117,600 in the 2008/09 tax year, subject to completion of between 20 and 40 years' service. Pensions in payment are guaranteed to increase in line with the lesser of 5.0% and the increase in the UK Retail Price Index (RPI). This will be reviewed in 2009 in light of recent changes to guidelines.

The UK Scheme requires members who join after March 2005 to contribute 7.0% of base salary up to the scheme-specific ceiling of £117,600 in the 08/09 tax year.

Executive Directors, whose base salary is higher than £117,600, are paid a monthly cash supplement to enable them to make additional pension arrangements. Barbara Richmond received such supplements in 2008. Details of the amounts paid are shown on page 55. André Lacroix received a cash supplement of 40 % of his base salary in lieu of a formal pension provision. He is not a member of the UK 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 of up to one-third of the member's pension.

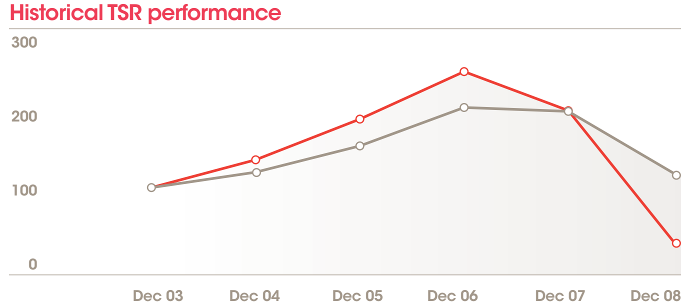
Taxable and other benefits

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

Total Shareholder Return

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 (excluding investment trusts). TSR is essentially share price growth plus re-invested dividends. The FTSE mid-250 has been chosen as the most suitable comparator group as it is the general market index in which Inchcape plc appears.

Historical TSR performance



Growth in the Value of a Hypothetical £100 Holding Over Five Years FTSE 250 (excluding investment companies) Comparison Based on 30 Trading Day Average Values

Inchcape

FTSE mid 250 excluding investment trust

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. Both 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 the event of early termination, to the circumstances of each individual case.

Remuneration report continued

The contracts of Executive Directors do not provide for any enhanced payments in the event of a change of control in the Company (upon which vesting of outstanding long-term incentive awards would be on a time-related pro-rata basis, subject to the satisfaction of the relevant performance criteria).

There have been no payments made during the year in relation to compensation for loss of office.

Name	Date of contract	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. No Non-executive Director is engaged on a service contract with the Company.

Policy on external appointments

The Company 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 generally 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 Group Chief Executive is permitted to hold two such appointments. The policy in respect of Executive Directors' commitments is kept under review by the Nominations Committee. Any fees received for these duties may be retained by the Executive Director.

André Lacroix is the Non-executive Chairman of Good Restaurants AG, for which he does not receive a fee and a Non-executive Director of Reckitt Benckiser for which he received a fee of £14,500 plus Reckitt Benckiser shares to the value of £3,000.

Barbara Richmond is a Non-executive Director of Scarborough Building Society for which she received a fee of £38,000.

Non-executive Directors' fees report

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 Inchcape Group (UK) Pension Scheme but the appointment is not pensionable, nor is the Chairman eligible for pension scheme membership or participation in the Company's bonus, share option or other incentive plan.

Non-executive Directors' remuneration

The remuneration for Non-executive Directors consists of fees for 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 levels of remuneration for the Non-executive Directors reflect the time commitment and responsibilities of the role.

The Non-executive Directors are not involved in deciding their fees.

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

Details of the fees paid to the Chairman and Non-executive Directors are shown on page 55.

By order of the Board

Michael Wemms
Chairman of the Remuneration Committee
19 March 2009

Governance

Notes to the Remuneration report (audited)

1. Individual emoluments for the year

The table below shows a breakdown of remuneration, including taxable and other benefits for each Director. Details of pension entitlements, share options and other long term incentive plans are shown in notes 2, 3, 4 and 5.

	Base salary/fees		Bonus		Taxable and other benefits (e)		Company contributions paid in year in respect of pension arrangements		Total remuneration	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
Chairman										
Peter Johnson	**296.5**	285.0	**–**	–	**1.6**	1.6	**–**	–	**298.1**	286.6
Executive Directors										
André Lacroix (a)	**742.0**	687.5	**–**	535.5	**18.4**	54.2	**296.8**	275.0	**1,057.2**	1,552.2
Barbara Richmond (b)	**441.4**	408.1	**–**	318.1	**19.5**	19.4	**97.5**	88.9	**558.4**	834.5
Non-executive Directors										
Raymond Ch'ien (d)	**36.0**	36.0	**–**	–	**12.9**	13.5	**–**	–	**48.9**	49.5
Karen Guerra (c)	**40.0**	40.0	**–**	–	**–**	–	**–**	–	**40.0**	40.0
Ken Hanna (c)	**54.0**	54.0	**–**	–	**–**	–	**–**	–	**54.0**	54.0
William Samuel (c)	**70.0**	70.0	**–**	–	**–**	–	**–**	–	**70.0**	70.0
David Scotland (c)	**48.0**	48.0	**–**	–	**–**	–	**–**	–	**48.0**	48.0
Michael Wemms (c)	**54.0**	54.0	**–**	–	**–**	–	**–**	–	**54.0**	54.0
Graham Pimlott (c)	**31.7**	–	**–**	–	**–**	–	**–**	–	**31.7**	n/a
Total	**1,813.6**	1,682.6	**–**	853.6	**52.4**	88.7	**394.3**	363.9	**2,260.3**	2,988.8

Notes on Directors' emoluments:

(a) The sum of £296,800 (2007 – £275,003) was paid directly to André Lacroix to allow him to make his own pension arrangements outside the Company's plan. This payment was subject to tax.

(b) The sum of £97,515 (2007 – £88,905) was paid to Barbara Richmond to allow her to make her own pension arrangements outside the Company's plan. This payment was subject to tax.

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

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

(e) Taxable and other benefits comprise such items as company cars, medical care, life assurance premiums and petrol allowance. Both Executive Directors are entitled to such benefits.

No Directors waived emoluments in respect of the year ended 31 December 2008 (2007 – none).

2. Directors' pension entitlements

	Increase in accrued pension during the year £'000	Increase in accrued pension during the year (net of inflation)	Accumulated total of accrued pension at 31.12.07	Accumulated total of accrued pension at 31.12.08	Transfer value (less director's contributions) of the increase in accrued benefit net of inflation	Transfer value of accrued benefits at 31.12.08	Transfer value of accrued benefits at 01.01.08	Difference in transfer value less any contributions made in the year
Barbara Richmond	4.0	4.0	6.3	10.3	34.7	108.6	54.0	46.5

The transfer value has been calculated in accordance with the Occupational Pension Schemes (Transfer Values) Regulations 1996 as amended with effect from 1 October 2008.

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.

Governance

Notes to the Remuneration report (audited) continued

3. Directors' share options

	Held at 31.12.08	Lapsed during year	Exercised during the year	Granted during the year	Held at 01.01.08	Exercise price	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
	242,634 (a)	–	–	–	242,634 (a)	577.0p	Apr 2010 – Apr 2017
	353,271 (a)	–	–	353,271 (a)	–	428.0p	Apr 2011 – Apr 2018
	–	2,706 (b)	–	–	2,706 (b)	345.3p	Jun 2009 – Dec 2009
	4,729 (b)	–	–	4,729 (b)	–	203.0p	Nov 2011 – May 2012
Barbara Richmond	347,629 (a)	–	–	–	347,629 (a)	443.0p	*May 2009 – May 2016
	144,124 (a)	–	–	–	144,124 (a)	577.0p	Apr 2010 – Apr 2017
	210,280 (a)	–	–	210,280 (a)	–	428.0p	Apr 2011 – Apr 2018
	2,540 (b)	–	–	–	2,540 (b)	368.0p	Nov 2009 – May 2010

* Options granted in 2006 did not meet the performance target set at the time of grant and will lapse in full.

Notes on share options:

(a) Under the executive share option plan.

(b) Under the SAYE scheme.

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 2008 and 31 December 2008. The mid-market price for shares at the close of business on 31 December was 36.75p. The price range during 2008 was 451.0p to 36.75p.
- Options under the executive 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 be exercised if the performance target has been met. For all options granted between 1999 and 2003 under the executive share option plan, growth in the Company's earnings per share (EPS) 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% of the shares vest if EPS growth of RPI+3.0% per annum is achieved over the initial three year period with all the shares vesting if EPS growth is RPI+8.0% per annum over three years. Shares will vest on a straight-line basis between these points and there is no opportunity to retest.
- The SAYE 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.

4. Deferred bonus plan

	Awarded ordinary shares 31.12.08	Ordinary shares lapsed during the year	Ordinary shares exercised during the year	Ordinary shares awarded during the year	Awarded ordinary shares 01.01.08	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

* Awards granted in 2006 did not meet the performance target set at the time of grant and will lapse in full.

Notes on the deferred bonus plan:

- Participants were able to invest a minimum of 10% and a maximum of 75% post-tax annual bonus to acquire ordinary shares in the Company. The shares are matched on a one to one basis provided the Executive Directors remain employed by the Company for three years and retain the shares purchased with their bonus throughout that period and the performance target is met. Growth in the Company's EPS over a three year period must exceed the increase on RPI over the same period by 3.0% per annum with no opportunity to retest in order for the awarded ordinary shares to vest. Special rules apply on termination of employment and change of control.

Co-investment plan

	Awarded ordinary shares 31.12.08	Ordinary shares lapsed during the year	Ordinary shares exercised during the year	Ordinary shares awarded during the year	Awarded ordinary shares 01.01.08	Market value of shares awarded	Exercise period
André Lacroix	190,524	–	–	190,524	–	396.8p	Jan 2011 – Jun 2011
Barbara Richmond	84,005	–	–	84,005	–	396.8p	Jan 2011 – Jun 2011

Notes on the co-investment plan:

- Directors will be entitled to matching shares if they remain employed by the Company for three years, retain the shares they have purchased under the plan throughout that period and the performance target is met. The Company's Economic Profit (EP) must exceed the increase on RPI over the same period by 3.0% per annum to receive a one for one match. If the Company's EP exceeds the increase on RPI over the same period by 12.0% per annum the match is two for one. Special rules apply on termination of employment and change of control.
- André Lacroix can invest up to 50% and Barbara Richmond can invest up to 40% of post-tax annual salary to obtain ordinary shares in the co-investment plan. The shares purchased are held in trust for the Executives. Provided the performance target is met, the matching shares will vest and the Executive may exercise his or her rights under the plan at any time during the six month exercise period.

5. Incentive plans

	Awarded ordinary shares at 31.12.08	Awarded ordinary shares lapsed during year	Awarded ordinary shares exercised during year	Awarded ordinary shares at 01.01.08	Market value of shares awarded	Vesting period
AL incentive plan	39,000	–	39,000	78,000	357.5p	2008
BR incentive plan	59,612	–	21,996	81,608	428.7p	2008

Notes on the incentive plans:

- As reported last year, André Lacroix is the sole participant in the AL incentive plan. The award is subject to his continuing employment and the percentage growth in the Company's EPS over the relevant performance period exceeding the rate of inflation over the same period by at least 3.0% per annum. The final tranche of the AL incentive plan did not meet the performance target set at the time of grant and will therefore lapse in full.
- As reported last year, Barbara Richmond is the sole participant in the BR incentive plan. The award is subject to her continuing employment and the percentage growth in the Company's EPS over the relevant performance period exceeding the rate of inflation over the same period by at least 3.0% per annum. The final tranche of the BR incentive plan did not meet the performance target set at the time of grant and will therefore lapse in full.

By order of the Board

Michael Wemms
Chairman of the Remuneration Committee
19 March 2009

Financial statements

Consolidated income statement

For the year ended 31 December 2008

	Notes	Before exceptional items 2008 £m	Exceptional items 2008 £m	Total 2008 £m	Before exceptional items 2007 £m	Exceptional items 2007 £m	Total 2007 £m
Revenue	1, 3	**6,259.8**	**–**	**6,259.8**	6,056.8	–	6,056.8
Cost of sales		**(5,358.8)**	**(1.8)**	**(5,360.6)**	(5,174.3)	–	(5,174.3)
Gross profit		**901.0**	**(1.8)**	**899.2**	882.5	–	882.5
Net operating expenses	3	**(660.5)**	**(80.7)**	**(741.2)**	(617.5)	4.9	(612.6)
Operating profit		**240.5**	**(82.5)**	**158.0**	265.0	4.9	269.9
Share of profit after tax of joint ventures and associates	13	**2.2**	**–**	**2.2**	3.5	–	3.5
Profit before finance and tax		**242.7**	**(82.5)**	**160.2**	268.5	4.9	273.4
Finance income	6	**68.4**	**–**	**68.4**	57.3	–	57.3
Finance costs	7	**(120.4)**	**–**	**(120.4)**	(90.7)	–	(90.7)
Profit before tax		**190.7**	**(82.5)**	**108.2**	235.1	4.9	240.0
Tax	2, 8	**(49.3)**	**(3.6)**	**(52.9)**	(57.9)	–	(57.9)
Profit for the year		**141.4**	**(86.1)**	**55.3**	177.2	4.9	182.1
Attributable to:							
– Equity holders of the parent				**51.4**			176.4
– Minority interests				**3.9**			5.7
				55.3			182.1
Basic earnings per share (pence)	9			**11.2p**			38.0p
Diluted earnings per share (pence)	9			**11.2p**			37.8p

Consolidated statement of recognised income and expense

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flow hedges		**111.6**	33.0
Net investment hedge		**(14.4)**	–
Fair value losses on available for sale financial assets		**(1.1)**	(0.2)
Effect of foreign exchange rate changes		**205.4**	30.3
Actuarial (losses)/gains on defined benefit pension schemes		**(41.3)**	32.1
Foreign exchange gains recycled through the consolidated income statement		**(2.1)**	–
Tax recognised directly in shareholders' equity	25a	**(30.8)**	(22.2)
Net gains recognised directly in shareholders' equity		**227.3**	73.0
Profit for the year		**55.3**	182.1
Total recognised income and expense for the year	25a	**282.6**	255.1
Attributable to:			
– Equity holders of the parent		**273.1**	248.4
– Minority interests		**9.5**	6.7
		282.6	255.1

Financial statements

Consolidated balance sheet

As at 31 December 2008

	Notes	2008 £m	2007 £m
Non-current assets			
Intangible assets	11	**537.4**	400.5
Property, plant and equipment	12	**708.1**	519.3
Investments in joint ventures and associates	13	**21.3**	15.3
Available for sale financial assets	14	**17.9**	15.6
Trade and other receivables	15	**26.5**	24.2
Deferred tax assets	16	**11.5**	10.2
Retirement benefit asset	5	**49.4**	51.9
		1,372.1	1,037.0
Current assets			
Inventories	17	**1,084.1**	797.5
Trade and other receivables	15	**271.8**	262.6
Available for sale financial assets	14	**2.0**	1.1
Derivative financial instruments	23	**306.9**	12.9
Current tax assets		**6.0**	2.9
Cash and cash equivalents	18	**458.0**	343.4
		2,128.8	1,420.4
Assets held for sale and disposal group	19	**5.4**	168.6
		2,134.2	1,589.0
Total assets		**3,506.3**	2,626.0
Current liabilities			
Trade and other payables	20	**(1,123.9)**	(940.2)
Derivative financial instruments	23	**–**	(8.3)
Current tax liabilities		**(48.2)**	(42.2)
Provisions	21	**(50.6)**	(31.3)
Borrowings	22	**(165.3)**	(155.3)
		(1,388.0)	(1,177.3)
Non-current liabilities			
Trade and other payables	20	**(78.1)**	(41.4)
Provisions	21	**(52.0)**	(39.4)
Deferred tax liabilities	16	**(69.1)**	(18.5)
Borrowings	22	**(856.1)**	(409.6)
Retirement benefit liability	5	**(43.4)**	(23.4)
		(1,098.7)	(532.3)
Liabilities directly associated with the disposal group	19	**–**	(78.6)
Total liabilities		**(2,486.7)**	(1,788.2)
Net assets		**1,019.6**	837.8
Shareholders' equity			
Share capital	24, 25	**121.9**	121.6
Share premium	25	**126.1**	123.4
Capital redemption reserve	25	**16.4**	16.4
Other reserves	25	**273.1**	12.7
Retained earnings	25	**458.0**	539.5
Equity attributable to equity holders of the parent		**995.5**	813.6
Minority interests	25	**24.1**	24.2
Total shareholders' equity		**1,019.6**	837.8

The Financial statements on pages 58 to 111 were approved by the Board of Directors on 19 March 2009 and were signed on its behalf by: **André Lacroix,** Director **Barbara Richmond,** Director

Consolidated cash flow statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from operations	26a	**183.7**	293.0
Tax paid		**(57.6)**	(49.8)
Interest received		**20.0**	12.4
Interest paid		**(74.0)**	(49.5)
Net cash generated from operating activities		**72.1**	206.1
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired		**(135.4)**	(329.6)
Net cash inflow from sale of businesses		**27.3**	85.5
Purchase of property, plant and equipment		**(117.8)**	(72.0)
Purchase of intangible assets		**(10.8)**	(8.1)
Proceeds from disposal of property, plant and equipment		**26.8**	47.3
Net disposal of available for sale financial assets		**0.4**	–
Dividends received from joint ventures and associates		**1.3**	2.6
Net cash used in investing activities		**(208.2)**	(274.3)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**3.0**	8.5
Share buy back programme		**(16.0)**	(18.5)
Net purchase of own shares by ESOP Trust		**(4.2)**	(2.0)
Cash inflow from Private Placement		**–**	277.1
Net cash inflow/(outflow) from borrowings other than Private Placement		**275.2**	(95.5)
Payment of capital element of finance leases		**(0.7)**	(0.6)
Loans granted to joint ventures		**(1.7)**	–
Settlement of derivatives		**17.5**	(4.3)
Equity dividends paid		**(73.1)**	(71.1)
Minority dividends paid		**(2.6)**	(1.8)
Net cash from financing activities		**197.4**	91.8
Net increase in cash and cash equivalents	26b	**61.3**	23.6
Cash and cash equivalents at the beginning of the year		**198.6**	166.2
Effect of foreign exchange rate changes		**52.9**	8.8
Cash and cash equivalents at the end of the year		**312.8**	198.6
Cash and cash equivalents consist of:			
Cash at bank and in hand	18	**351.3**	273.0
Short-term bank deposits	18	**106.7**	70.4
Bank overdrafts	22	**(145.2)**	(144.8)
		312.8	198.6

Accounting policies

The consolidated 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 consolidated Financial statements have been prepared on a going concern basis and under the historical cost convention, except for the retention of certain 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.

Going concern

In determining whether the Group is a going concern, the Directors have reviewed the Group's current financial position and have prepared detailed financial projections. These projections reflect the recent unprecedented downturn in economic conditions and credit availability across the Group's operations, the actions already taken to restructure the business and the plans in place to focus operations on the five core priorities of growing market share, growing aftersales, managing working capital and reducing overheads and capital expenditure (see page 8).

The projections also assume that: new car sales will continue to decline in 2009 and not begin to recover until the second half of 2010; the service and parts business will be more resilient to the downturn; lower UK interest rates will continue; key brand partners will remain in production and supply on normal terms of trade; and there will be no further significant downturn in the global economic environment.

These projections, even after allowing for headroom to accommodate a reasonable downside scenario (including weaker trading and adverse movements in currency and interest rates), indicate that the Group would be able to manage its operations so as to remain within its current facilities and in compliance with its banking covenant.

Accordingly, after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for the foreseeable future. As such, the Group continues to adopt the going concern basis in preparing the annual report and accounts.

Changes in accounting standards

A number of new standards, amendments and interpretations are effective for the first time for 2008. The Group has adopted, with effect from 1 January 2008, the amendment to IAS 23 'Borrowing Costs' and the IFRIC interpretations noted below.

The amendment to IAS 23 removes the option of immediately expensing borrowing costs that are directly attributable to a qualifying asset. Under IAS 23, such costs are required to be capitalised as part of the cost of the relevant asset. The Group has adopted the amended standard on a prospective basis from 1 January 2008. The impact of adoption on the results for the year ended 31 December 2008 is disclosed in notes 11 and 12 of the consolidated Financial statements.

IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' has been adopted with effect from 1 January 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The application of this Standard has affected one of the defined benefit pension schemes of the Group, with the full effect being recognised in the consolidated statement of recognised income and expense in the year. This is disclosed in note 5 of the consolidated Financial statements.

In addition IFRIC 11 'Group and Treasury Share Transactions' is effective, but has not had a material impact on the results or financial position of the Group.

IFRS 8 'Operating Segments' 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 financial position of the Group.

At the balance sheet date, a number of IFRSs, IAS and IFRS amendments and IFRIC interpretations were in issue but not yet effective. Effective for the Group's financial years commencing on or after 1 January 2009 are: IAS 1 'Presentation of Financial Statements (2007)'; the amendment to IFRS 2 'Share-based Payment – Vesting Conditions and Cancellations'; amendments to IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation'; and IFRIC 13 'Customer Loyalty Programmes'. Effective for the Group's financial years commencing on or after 1 January 2010 are IAS 27 (Revised) 'Consolidated and Separate Financial Statements' and IFRS 3 (Revised) 'Business Combinations'.

These new and revised Standards and Interpretations have not been and will not be early adopted by the Group and, with the exception of the revised IFRS 3, are not expected to have a material impact on the financial position and results of the Group.

IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009) continues to apply the acquisition method to business combinations, with some significant changes. These include all payments to purchase a business being recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

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.

Where the Group acquires the minority interest in a subsidiary, the excess of the purchase cost over the book value of the minority interest is recorded as an addition to goodwill. No fair value exercise is performed for the acquisition of the minority interest.

Where the Group acquires a controlling interest in a subsidiary with a contractual obligation to purchase the remaining minority, the acquired company is accounted for as a 100% subsidiary, with the liability for the purchase of the remaining minority interest recorded as deferred consideration. Subsequent changes to estimates of the deferred consideration are recorded as additions/reductions to the amount of goodwill arising on acquisition.

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 consolidated 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
Transactions included in the results of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated Financial statements are presented in Sterling, which is 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 consolidated income statement, except those arising on long-term foreign currency borrowings used to finance or hedge foreign currency investments which on consolidation are taken directly to 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 rates of exchange for the period. Exchange differences arising from 1 January 2004 are recognised as a separate component of shareholders' equity. On disposal of a foreign operation any cumulative exchange differences held in shareholders' equity are transferred to the consolidated income statement.

Revenue and cost of sales
Revenue from the sale of goods and services is measured at the fair value of consideration receivable, net of rebates and any discounts and includes lease rentals as well as 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.

Where a vehicle is sold to a leasing company, and a Group company retains a residual value commitment to buy back the vehicle for a specified value at a specified date, the significant risks and rewards of ownership are not judged to have been transferred. These vehicles are retained within property, plant and equipment on the consolidated balance sheet at cost, and are depreciated to their residual value over the life of the lease. Total revenue on a leased vehicle comprises the difference between consideration received and residual value. This sits as deferred revenue on the consolidated balance sheet and is released to the consolidated income statement on a straight-line basis over the life of the lease. The residual value commitment, which reflects the price at which the vehicle will be bought back, is held within trade and other payables, according to the date of the commitment.

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.

Share-based payments
The Group operates various share-based award schemes. The fair value at the date at which the share-based awards are granted is recognised in the consolidated income statement (together with a corresponding 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. With the exception of the Group 'Save as you earn' scheme, the vesting of all share-based awards under all schemes is solely reliant upon non-market conditions therefore no expense is recognised for awards that do not ultimately vest. Where an employee cancels a 'Save as you earn' award, the charge for that award is recognised as an expense immediately, even though the award does not vest.

Finance costs
Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset, are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs are capitalised from the first date on which the expenditure is incurred for the asset, borrowing costs are incurred and activities are undertaken to prepare the asset for its intended use. A Group capitalisation rate is used to determine the magnitude of borrowing costs capitalised on each qualifying asset. This rate is the weighted average of Group borrowing costs, excluding those borrowings made specifically for the purpose of obtaining a qualifying asset.

Financial statements

Accounting policies continued

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 consolidated Financial statements.

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

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

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

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

Exceptional items
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.

Goodwill
Goodwill represents the excess of the cost of acquisition of a business combination over the Group's share of the fair value of identifiable net assets of the business acquired at the date of acquisition. Goodwill is initially recognised at cost and is held in the currency of the acquired entity and revalued at the closing exchange rate at each balance sheet date.

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. Amortisation is recognised in the consolidated income statement within net operating expenses.

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.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and directly attributable costs of the asset and includes, where relevant, capitalised borrowing costs. Depreciation is based on cost less estimated residual value and is 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 residual values and useful lives of all assets are reviewed at least at each balance sheet date.

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 not subject to amortisation but is tested at least annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money.

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

Inventory can be held on deferred payment terms. All costs associated with this deferral are expensed in the period in which they are incurred.

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

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

The current service cost and gains and losses on settlements and curtailments are included in cost of sales or net operating expenses in the consolidated income statement. Past service costs are similarly 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 consolidated 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 consolidated 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 consolidated income statement in the period to which the contributions relate.

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

Provisions
Provisions are recognised when the Group has a present obligation in respect of a past event, 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.

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 consolidated 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.

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 classified according to maturity date, within current and non-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.

Cash and cash equivalents
Cash and cash equivalents in the consolidated balance sheet comprise cash at bank and in hand and short-term bank deposits.

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

Leases

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

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rental payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

Offsetting

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.

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 Principal business 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:

- 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); or
- hedges of a net investment in a foreign operation (net investment hedge).

Fair value hedge

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

Cash flow hedge

For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that are determined to be an effective hedge are recognised directly in shareholders' equity and the ineffective portion is recognised in the consolidated income statement. When the hedged forecast transaction results in the recognition of a non-financial asset or liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in 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 consolidated income statement in the same period in which the hedged forecast transaction affects the consolidated income statement.

Net investment hedge

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

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 consolidated income statement as part of net operating expenses.

Held to maturity financial assets are carried at amortised cost.

Business review 01-37
Governance 38-57
Financial statements 58-120
Shareholder information Inside back cover

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

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

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 consolidated Financial statements.

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.

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.

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.

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.

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.

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.

Residual value commitments
The Group has residual value commitments on certain leased vehicles. These commitments are an estimate of future market value at a specified point in time. The actual market value of vehicles bought back may vary from the committed purchase value.

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 are aligned with the risks and returns associated with different territories. Emerging markets are 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, the Balkans, the Baltics and Poland.

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.

2008	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	Total pre Central £m	Central £m	Total £m
Revenue										
Total revenue	695.4	1,304.1	291.1	484.4	2,340.1	929.0	290.6	6,334.7	–	6,334.7
Inter-segment revenue	–	(74.9)	–	–	–	–	–	(74.9)	–	(74.9)
Revenue from third parties	695.4	1,229.2	291.1	484.4	2,340.1	929.0	290.6	6,259.8	–	6,259.8
Results										
Operating profit before exceptional items	42.6	40.6	33.3	57.0	23.1	22.5	31.0	250.1	(9.6)	240.5
Exceptional items	(1.3)	(7.0)	(0.1)	–	(23.1)	(49.1)	(0.5)	(81.1)	(1.4)	(82.5)
Segment result	41.3	33.6	33.2	57.0	–	(26.6)	30.5	169.0	(11.0)	158.0
Share of profit after tax of joint ventures and associates	–	2.1	–	–	0.5	(0.4)	–	2.2	–	2.2
Profit before finance and tax	41.3	35.7	33.2	57.0	0.5	(27.0)	30.5	171.2	(11.0)	160.2
Finance income										68.4
Finance costs										(120.4)
Profit before tax										108.2
Tax										(52.9)
Profit for the year										55.3

2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and 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

1 Segmental analysis continued

2008	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	Total pre Unallocated £m	Unallocated £m	Total £m
Segment assets and liabilities										
Segment assets	342.2	367.3	79.8	109.7	1,077.5	662.2	117.9	2,756.6	–	2,756.6
Investment in joint ventures and associates	–	11.1	–	–	4.5	5.7	–	21.3	–	21.3
Assets held for sale	–	5.4	–	–	–	–	–	5.4	–	5.4
Cash and cash equivalents	–	–	–	–	–	–	–	–	458.0	458.0
Other unallocated assets*	–	–	–	–	–	–	–	–	265.0	265.0
Total assets	342.2	383.8	79.8	109.7	1,082.0	667.9	117.9	2,783.3	723.0	3,506.3
Segment liabilities	(215.6)	(229.4)	(18.1)	(38.8)	(475.2)	(115.9)	(60.3)	(1,153.3)	–	(1,153.3)
External borrowings	–	–	–	–	–	–	–	–	(1,021.4)	(1,021.4)
Liabilities directly associated with the disposal group	–	–	–	–	–	–	–	–	–	–
Other unallocated liabilities*	–	–	–	–	–	–	–	–	(312.0)	(312.0)
Total liabilities	(215.6)	(229.4)	(18.1)	(38.8)	(475.2)	(115.9)	(60.3)	(1,153.3)	(1,333.4)	(2,486.7)

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

2008	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	Total pre Central £m	Central £m	Total £m
Other segment items										
Capital expenditure:										
– Property, plant and equipment	2.4	4.4	3.0	2.4	37.8	55.7	7.1	112.8	5.0	117.8
– Vehicles subject to residual value commitments	–	14.6	–	–	38.8	10.1	–	63.5	–	63.5
– Intangible assets	0.2	0.3	–	–	0.9	0.3	–	1.7	18.3	20.0
Depreciation:										
– Property, plant and equipment	2.7	3.5	1.6	1.6	17.3	4.6	2.3	33.6	2.5	36.1
– Vehicles subject to residual value commitments	0.6	5.0	–	–	10.7	3.3	–	19.6	–	19.6
Amortisation of intangible assets	0.2	0.6	–	0.1	1.1	1.4	–	3.4	0.3	3.7
Impairment of goodwill	–	–	–	–	7.4	46.8	–	54.2	–	54.2
Net provisions charged to the income statement	6.0	18.9	2.1	3.3	24.2	10.5	1.3	66.3	1.1	67.4

2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and 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, cash and debt, dividends and assets and liabilities not directly related to operating activities.

2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and 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
Impairment of goodwill	–	–	–	–	–	–	–	–	–	–
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

Financial statements

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							
2008	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	Total Distribution £m
Revenue								
Total revenue	575.5	1,014.5	291.1	484.4	20.7	382.1	283.3	3,051.6
Inter-segment revenue	(143.3)	(176.6)	–	–	–	(77.0)	–	(396.9)
Revenue from third parties	432.2	837.9	291.1	484.4	20.7	305.1	283.3	2,654.7
Results								
Operating profit before exceptional items	33.7	39.9	33.3	57.0	(5.7)	3.9	30.8	192.9
Exceptional items	(1.3)	(4.0)	(0.1)	–	–	(47.3)	(0.5)	(53.2)
Segment result	32.4	35.9	33.2	57.0	(5.7)	(43.4)	30.3	139.7
Share of profit after tax of joint ventures and associates	–	2.1	–	–	0.2	–	–	2.3
Profit before finance and tax	32.4	38.0	33.2	57.0	(5.5)	(43.4)	30.3	142.0
Finance income								
Finance costs								
Profit before tax								
Tax								
Profit for the year								

2008	Australia £m	Europe £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	Total Retail £m	Total pre Central £m	Central £m	Total £m
	Retail								
Revenue									
Total revenue	263.2	391.3	2,319.4	623.9	7.3	3,605.1	6,656.7	–	6,656.7
Inter-segment revenue	–	–	–	–	–	–	(396.9)	–	(396.9)
Revenue from third parties	263.2	391.3	2,319.4	623.9	7.3	3,605.1	6,259.8	–	6,259.8
Results									
Operating profit before exceptional items	8.9	0.7	28.8	18.6	0.2	57.2	250.1	(9.6)	240.5
Exceptional items	–	(3.0)	(23.1)	(1.8)	–	(27.9)	(81.1)	(1.4)	(82.5)
Segment result	8.9	(2.3)	5.7	16.8	0.2	29.3	169.0	(11.0)	158.0
Share of profit after tax of joint ventures and associates	–	–	0.3	(0.4)	–	(0.1)	2.2	–	2.2
Profit before finance and tax	8.9	(2.3)	6.0	16.4	0.2	29.2	171.2	(11.0)	160.2
Finance income									68.4
Finance costs									(120.4)
Profit before tax									108.2
Tax									(52.9)
Profit for the year									55.3

Financial statements
Notes to the accounts continued

1 Segmental analysis continued

2008	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Segment assets and liabilities								
Segment assets	246.3	301.2	79.8	109.7	93.8	206.1	115.6	1,152.5
Investment in joint ventures and associates	–	11.1	–	–	1.9	–	–	13.0
Assets held for sale	–	–	–	–	–	–	–	–
Cash and cash equivalents	–	–	–	–	–	–	–	–
Other unallocated assets*	–	–	–	–	–	–	–	–
Total assets	246.3	312.3	79.8	109.7	95.7	206.1	115.6	1,165.5
Segment liabilities	(180.1)	(211.7)	(18.1)	(38.8)	(76.4)	(45.6)	(60.0)	(630.7)
External borrowings	–	–	–	–	–	–	–	–
Liabilities directly associated with the disposal group	–	–	–	–	–	–	–	–
Other unallocated liabilities*	–	–	–	–	–	–	–	–
Total liabilities	(180.1)	(211.7)	(18.1)	(38.8)	(76.4)	(45.6)	(60.0)	(630.7)

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

2008	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Other segment items								
Capital expenditure:								
– Property, plant and equipment	1.9	0.7	3.0	2.4	0.9	5.3	7.1	21.3
– Vehicles subject to residual value commitments	–	13.7	–	–	38.8	10.1	–	62.6
– Intangible assets	0.2	0.3	–	–	0.4	0.2	–	1.1

2008	Australia £m	Europe £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	Total Retail £m	Total pre Unallocated £m	Unallocated £m	Total £m
	Retail								
Segment assets and liabilities									
Segment assets	95.9	66.1	983.7	456.1	2.3	1,604.1	2,756.6	–	2,756.6
Investment in joint ventures and associates	–	–	2.6	5.7	–	8.3	21.3	–	21.3
Assets held for sale	–	5.4	–	–	–	5.4	5.4	–	5.4
Cash and cash equivalents	–	–	–	–	–	–	–	458.0	458.0
Other unallocated assets*	–	–	–	–	–	–	–	265.0	265.0
Total assets	95.9	71.5	986.3	461.8	2.3	1,617.8	2,783.3	723.0	3,506.3
Segment liabilities	(35.5)	(17.7)	(398.8)	(70.3)	(0.3)	(522.6)	(1,153.3)	–	(1,153.3)
External borrowings	–	–	–	–	–	–	–	(1,021.4)	(1,021.4)
Liabilities associated with the disposal group	–	–	–	–	–	–	–	–	–
Other unallocated liabilities*	–	–	–	–	–	–	–	(312.0)	(312.0)
Total liabilities	(35.5)	(17.7)	(398.8)	(70.3)	(0.3)	(522.6)	(1,153.3)	(1,333.4)	(2,486.7)

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

2008	Australia £m	Europe £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	Total Retail £m	Total pre Central £m	Central £m	Total £m
	Retail								
Other segment items									
Capital expenditure:									
– Property, plant and equipment	0.5	3.7	36.9	50.4	–	91.5	112.8	5.0	117.8
– Vehicles subject to residual value commitments	–	0.9	–	–	–	0.9	63.5	–	63.5
– Intangible assets	–	–	0.5	0.1	–	0.6	1.7	18.3	20.0

1 Segmental analysis continued

2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	Distribution 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	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and 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 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, cash and debt, dividends and assets and liabilities not directly related to operating activities.

2007	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Russia and 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	Retail								
	Australia £m	Europe £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	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

2007	Retail								
	Australia £m	Europe £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	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 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, cash and debt, dividends and assets and liabilities not directly related to operating activities.

2007	Retail								
	Australia £m	Europe £m	United Kingdom £m	Russia and Emerging Markets £m	Rest of World £m	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

2 Exceptional items

	2008 £m	2007 £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)
Goodwill impairment (note 11)	(54.2)	–
Restructuring costs	(28.3)	–
Operating exceptional items	(82.5)	4.9
Exceptional tax	(3.6)	–
Total exceptional items	(86.1)	4.9

The charge for restructuring costs of £28.3m relates to the cost of restructuring the Group's businesses in response to the downturn in the automotive industry. The charge primarily represents the cost of reducing employee headcount and closing less profitable sites.

The exceptional tax charge represents a deferred tax charge of £6.0m in respect of the phased abolition of industrial buildings allowances offset by a tax credit of £2.4m in respect of the restructuring costs charged in the year.

3 Revenue and expenses

a. Revenue

An analysis of the Group's revenue for the year is as follows:	2008 £m	2007 £m
Sale of goods	5,680.9	5,493.6
Rendering of services	578.9	563.2
	6,259.8	6,056.8

b. Analysis of net operating expenses

	Net operating expenses before exceptional items 2008 £m	Exceptional items 2008 £m	Net operating expenses 2008 £m	Net operating expenses before exceptional items 2007 £m	Exceptional items 2007 £m	Net operating expenses 2007 £m
Distribution costs	380.9	5.5	386.4	370.7	–	370.7
Administrative expenses	280.6	13.8	294.4	247.9	–	247.9
Other operating (income)/expense	(1.0)	61.4	60.4	(1.1)	(4.9)	(6.0)
	660.5	80.7	741.2	617.5	(4.9)	612.6

Other operating (income)/expense includes £54.2m related to goodwill impairment in 2008.

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

	2008 £m	2007 £m
Depreciation of property, plant and equipment:		
– Owned assets	35.9	26.9
– Assets held under finance leases	0.2	0.3
– Vehicles subject to residual value commitments	19.6	12.5
Amortisation of intangible assets	3.7	6.5
Impairment of goodwill	54.2	–
Profit on sale of property, plant and equipment	(2.6)	(9.0)
Operating lease rentals	41.7	33.6

The depreciation charge on owned assets includes £8.6m that has been included within exceptional items.

Business review 01-37
Governance 38-57
Financial statements 58-120
Shareholder information Inside back cover

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:

	2008 £m	2007 £m
Audit services:		
– Fees payable for the audit of the parent Company and the consolidated Financial statements	**0.4**	0.4
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	**1.7**	1.4
– Other services supplied pursuant to such legislation	**0.1**	0.1
– Services relating to taxation	**1.5**	0.8
– Services related to Corporate Financial Services	**–**	0.8
– All other services	**0.1**	0.2
	3.4	3.3
Total fees payable to PricewaterhouseCoopers LLP	**3.8**	3.7
Audit fees – firms other than PricewaterhouseCoopers LLP	**0.1**	0.1

e. Staff costs

	2008 £m	2007 £m
Wages and salaries	**353.4**	327.2
Social security costs	**39.6**	38.1
Other pension costs	**12.3**	11.0
Share-based payment (credit)/charge	**(0.9)**	4.5
	404.4	380.8

Information on Directors' emoluments and interests which forms part of these audited Financial statements, is given in the Board report on remuneration which can be found on pages 51-57 of this document.

f. Average number of employees

By geographical segment	2008 Number	2007 Number
Australia	**1,147**	1,131
Europe	**1,021**	1,355
Hong Kong	**1,099**	1,141
Singapore	**832**	846
United Kingdom	**6,256**	6,592
Russia and Emerging Markets	**3,567**	1,712
Rest of World	**1,392**	1,195
Total operational	**15,314**	13,972
Central	**162**	149
	15,476	14,121

By business segment	2008 Number	2007 Number
Distribution	**4,784**	4,635
Retail	**10,530**	9,337
Total operational	**15,314**	13,972
Central	**162**	149
	15,476	14,121

4 Share-based payments

The terms and conditions of the Group's share-based payment plans are detailed in the Board report on remuneration on pages 51-57 of this document.

The credit arising from share-based payment transactions during the year is £0.9m (2007 – a charge of £4.5m), all of which is equity-settled. A revision of the likelihood of non-market vesting conditions being met, on plans other than Save as you earn, gave rise to the credit in the year.

The Other share plans disclosures below include other share-based incentive plans for senior executives and employees.

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

	Weighted average exercise price*		Executive Share Option Plan		Save As You Earn Plan		Other Share Plans	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Outstanding at 1 January	**£4.04**	£3.06	**8,627,181**	9,779,147	**2,244,154**	2,730,595	**964,976**	919,408
Granted during the year	**£3.50**	£5.18	**4,256,371**	2,586,648	**2,409,067**	1,294,691	**947,752**	434,920
Exercised during the year	**£2.83**	£2.17	**(740,925)**	(2,820,694)	**(309,778)**	(1,148,529)	**(346,301)**	(343,329)
Lapsed during the year	**£3.44**	£3.77	**(322,318)**	(917,920)	**(1,918,744)**	(632,603)	**(16,305)**	(46,023)
Outstanding at 31 December	**£3.97**	£4.04	**11,820,309**	8,627,181	**2,424,699**	2,244,154	**1,550,122**	964,976

* 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 184,986 (2007 – 233,748) share options outstanding at 31 December 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 2008 is 6.4 years (2007 – 6.3 years).

The range of exercise prices for options outstanding at the end of the year was £0.47 to £5.77 (2007 – £0.47 to £5.77). 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 2008 and 31 December 2007:

	Executive Share Option Plan		Save As You Earn Plan		Other Share Plans	
	2008	2007	**2008**	2007	**2008**	2007
Weighted average share price at grant date	**£4.12**	£5.75	**£2.99**	£5.05	**£4.10**	£5.30
Weighted average exercise price	**£4.12**	£5.75	**£2.40**	£4.04	**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	**25.8%**	25.0%	**31.7%**	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	**4.0%**	5.1%	**4.3%**	5.2%	**4.0%**	4.9%
Expected dividend yield	**3.0%**	3.0%	**3.0%**	3.0%	**3.0%**	3.0%
Weighted average fair value per option	**£0.82**	£1.21	**£0.61**	£1.17	**£4.30**	£5.25

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

5 Pensions and other post-retirements 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.

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:

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.

Closed scheme
TKM Group Pension Scheme
The latest triennial actuarial valuation for this closed scheme was carried out at 5 April 2007 on a market-related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit method. The scheme has a prudent investment strategy and, as at 31 December 2008, invested 69% of assets in bonds, cash or gilts. 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 consolidated income statement is £5.5m (2007 – £3.6m). There are no outstanding contributions to defined contribution schemes at the year end (2007 – £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	
	2008 %	2007 %	**2008** %	2007 %
Rate of increase in salaries	**4.7**	5.1	**4.6**	5.0
Rate of increase in pensions	**2.8**	3.3	**–**	1.7
Discount rate	**6.2**	5.8	**1.9**	4.0
Inflation	**2.8**	3.3	**0.5**	0.8
Expected return on plan assets	**6.1**	6.2	**7.1**	7.2

The rate of increase in healthcare cost is 5.5% (2007 – 5.5%) per annum but with higher increases in the first ten years.

5 Pensions and other post-retirements benefits continued
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 (2007 – 20.9 years) for current pensioners and 22.5 years (2007 – 22.5 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	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Present value of funded obligations	**(628.6)**	(738.0)	**(43.9)**	(28.1)	**(672.5)**	(766.1)
Fair value of plan assets	**697.7**	767.5	**29.6**	31.8	**727.3**	799.3
Surplus/(deficit) in funded obligations	**69.1**	29.5	**(14.3)**	3.7	**54.8**	33.2
Irrecoverable surplus	**(43.6)**	–	**(0.3)**	(0.3)	**(43.9)**	(0.3)
Net surplus/(deficit) in funded obligations	**25.5**	29.5	**(14.6)**	3.4	**10.9**	32.9
Present value of unfunded obligations	**(2.7)**	(3.0)	**(2.2)**	(1.4)	**(4.9)**	(4.4)
	22.8	26.5	**(16.8)**	2.0	**6.0**	28.5
The net pension asset/(liability) is analysed as follows:						
Schemes in surplus	**49.4**	48.4	**–**	3.5	**49.4**	51.9
Schemes in deficit	**(26.6)**	(21.9)	**(16.8)**	(1.5)	**(43.4)**	(23.4)
	22.8	26.5	**(16.8)**	2.0	**6.0**	28.5

The amounts recognised in the consolidated income statement are as follows:

	United Kingdom		Overseas		Total	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Current service cost	**(4.8)**	(5.5)	**(2.0)**	(1.8)	**(6.8)**	(7.3)
Past service cost	**–**	(0.1)	**–**	–	**–**	(0.1)
Interest expense on plan liabilities	**(42.0)**	(38.0)	**(1.1)**	(1.1)	**(43.1)**	(39.1)
Expected return on plan assets	**47.1**	41.9	**2.3**	1.9	**49.4**	43.8
	0.3	(1.7)	**(0.8)**	(1.0)	**(0.5)**	(2.7)

The actual loss on plan assets amounts to £67.6m (2007 – actual return of £45.1m).

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

	Cost of sales		Distribution costs		Administrative expenses		Total	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Current service cost	**(0.4)**	(0.4)	**(0.9)**	(0.6)	**(5.5)**	(6.3)	**(6.8)**	(7.3)
Past service cost	**–**	–	**–**	–	**–**	(0.1)	**–**	(0.1)
	(0.4)	(0.4)	**(0.9)**	(0.6)	**(5.5)**	(6.4)	**(6.8)**	(7.4)
Interest expense on plan liabilities							**(43.1)**	(39.1)
Expected return on plan assets							**49.4**	43.8
							(0.5)	(2.7)

5 Pensions and other post-retirements benefits continued

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

	United Kingdom 2008 £m	United Kingdom 2007 £m	Overseas 2008 £m	Overseas 2007 £m	Total 2008 £m	Total 2007 £m
Actuarial gains and losses on liabilities:						
– Experience gains and losses	**16.0**	(0.2)	**0.7**	0.3	**16.7**	0.1
– Changes in assumptions	**106.9**	30.8	**(4.3)**	(0.1)	**102.6**	30.7
Actuarial gains and losses on assets:						
– Experience gains and losses	**(104.1)**	(1.5)	**(12.9)**	2.8	**(117.0)**	1.3
Irrecoverable surplus	**(43.6)**	–	**–**	–	**(43.6)**	–
	(24.8)	29.1	**(16.5)**	3.0	**(41.3)**	32.1

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

	United Kingdom 2008 £m	United Kingdom 2007 £m	Overseas 2008 £m	Overseas 2007 £m	Total 2008 £m	Total 2007 £m
At 1 January	**26.5**	(21.0)	**2.3**	(1.5)	**28.8**	(22.5)
Businesses acquired	**–**	(0.9)	**–**	–	**–**	(0.9)
Amount recognised in the income statement	**0.3**	(1.7)	**(0.8)**	(1.0)	**(0.5)**	(2.7)
Contributions by employer	**20.8**	21.0	**2.1**	1.8	**22.9**	22.8
Actuarial gains/(losses) recognised in the year	**18.8**	29.1	**(16.5)**	3.0	**2.3**	32.1
Irrecoverable surplus recognised in the year	**(43.6)**	–	**–**	–	**(43.6)**	–
Effect of foreign exchange rates	**–**	–	**(3.6)**	–	**(3.6)**	–
At 31 December	**22.8**	26.5	**(16.5)**	2.3	**6.3**	28.8
Irrecoverable surplus brought forward	**–**	–	**(0.3)**	(0.3)	**(0.3)**	(0.3)
Revised value at 31 December	**22.8**	26.5	**(16.8)**	2.0	**6.0**	28.5

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

	United Kingdom 2008 £m	United Kingdom 2007 £m	Overseas 2008 £m	Overseas 2007 £m	Total 2008 £m	Total 2007 £m
At 1 January	**(741.0)**	(727.5)	**(29.5)**	(28.3)	**(770.5)**	(755.8)
Businesses acquired	**–**	(36.2)	**–**	–	**–**	(36.2)
Current service cost	**(4.8)**	(5.5)	**(2.0)**	(1.8)	**(6.8)**	(7.3)
Past service cost	**–**	(0.1)	**–**	–	**–**	(0.1)
Interest expense on plan liabilities	**(42.0)**	(38.0)	**(1.1)**	(1.1)	**(43.1)**	(39.1)
Actuarial gains and losses:						
– Experience gains and losses	**16.0**	(0.2)	**0.7**	0.3	**16.7**	0.1
– Changes in assumptions	**106.9**	30.8	**(4.3)**	(0.1)	**102.6**	30.7
Contributions by employees	**(1.6)**	(1.9)	**(0.1)**	(0.1)	**(1.7)**	(2.0)
Benefits paid	**35.2**	37.6	**1.9**	1.9	**37.1**	39.5
Effect of foreign exchange rate changes	**–**	–	**(11.7)**	(0.3)	**(11.7)**	(0.3)
At 31 December	**(631.3)**	(741.0)	**(46.1)**	(29.5)	**(677.4)**	(770.5)

Financial statements
Notes to the accounts continued

5 Pensions and other post-retirements benefits continued

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

	United Kingdom		Overseas		Total	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
At 1 January	**767.5**	706.5	**31.8**	26.8	**799.3**	733.3
Businesses acquired	**–**	35.3	**–**	–	**–**	35.3
Expected return on plan assets	**47.1**	41.9	**2.3**	1.9	**49.4**	43.8
Actuarial gains and losses:						
– Experience gains and losses	**(104.1)**	(1.5)	**(12.9)**	2.8	**(117.0)**	1.3
Contributions by employer	**20.8**	21.0	**2.1**	1.8	**22.9**	22.8
Contributions by employees	**1.6**	1.9	**0.1**	0.1	**1.7**	2.0
Benefits paid	**(35.2)**	(37.6)	**(1.9)**	(1.9)	**(37.1)**	(39.5)
Effect of foreign exchange rate changes	**–**	–	**8.1**	0.3	**8.1**	0.3
At 31 December	**697.7**	767.5	**29.6**	31.8	**727.3**	799.3
Irrecoverable surplus	**(43.6)**	–	**(0.3)**	(0.3)	**(43.9)**	(0.3)
Revised value at 31 December	**654.1**	767.5	**29.3**	31.5	**683.4**	799.0

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

	United Kingdom		Overseas		Total	
	2008	2007	**2008**	2007	**2008**	2007
Equities	**30.3%**	35.0%	**65.1%**	65.2%	**31.8%**	36.3%
Corporate bonds	**35.6%**	24.5%	**24.8%**	17.8%	**35.2%**	24.2%
Government bonds	**33.5%**	29.3%	**–**	–	**32.1%**	28.1%
Other	**0.6%**	11.2%	**10.1%**	17.0%	**0.9%**	11.4%
	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:

	Total				
	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	**(677.4)**	(770.5)	(755.8)	(748.6)	(647.6)
Fair value of plan assets	**727.3**	799.3	733.3	679.5	613.2
Surplus/(deficit)	**49.9**	28.8	(22.5)	(69.1)	(34.4)
Irrecoverable surplus	**(43.9)**	(0.3)	(0.2)	(0.3)	(24.5)
Revised surplus/(deficit)	**6.0**	28.5	(22.7)	(69.4)	(58.9)
Experience adjustments on plan liabilities	**16.7**	0.1	8.6	0.4	(0.7)
Experience adjustments on plan assets	**(117.0)**	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 £29.2m loss at 31 December 2008 (2007 – £12.1m gain).

The Group has agreed to pay c. £25m to its defined benefit plans in 2009.

6 Finance income

	2008 £m	2007 £m
Bank and other interest receivable	**16.9**	11.6
Expected return on post-retirement plan assets	**49.4**	43.8
Other finance income	**2.1**	1.9
Total finance income	**68.4**	57.3

7 Finance costs

	2008 £m	2007 £m
Interest payable on bank borrowings	**11.7**	8.9
Interest payable on Private Placement	**18.2**	11.3
Interest payable on revolving credit facility	**11.3**	2.9
Interest payable on other borrowings	**3.2**	6.4
Fair value gain on cross-currency interest rate swaps	**(147.6)**	(8.0)
Fair value adjustment on Private Placement	**144.8**	8.3
Stock holding interest	**21.5**	18.2
Interest expense on post-retirement plan liabilities	**43.1**	39.1
Other finance costs	**17.1**	3.6
Capitalised borrowing costs	**(2.9)**	–
Total finance costs	**120.4**	90.7

The Group capitalisation rate used for general borrowing costs in accordance with IAS 23 was a weighted average rate for the year of 6.58%.

8 Tax

	2008 £m	2007 £m
Current tax:		
– UK corporation tax	**8.0**	36.9
– Double tax relief	**(11.6)**	(30.1)
	(3.6)	6.8
Overseas tax	**56.8**	54.6
	53.2	61.4
Adjustments to prior year liabilities:		
– UK	**1.0**	2.1
– Overseas	**(1.0)**	(0.9)
Current tax	**53.2**	62.6
Deferred tax (note 16)	**(3.9)**	(4.7)
Tax before exceptional tax	**49.3**	57.9
Exceptional tax – current tax	**(2.4)**	–
Exceptional tax – deferred tax	**6.0**	–
Exceptional tax (note 2)	**3.6**	–
Total tax charge	**52.9**	57.9

The effective tax rate for the year of 25.9% before exceptional items (2007 – 24.6%) is higher than the standard rate of tax of 20.4% (2007 – 21.4%) as explained below. The standard rate comprises the average statutory rates across the Group, weighted in proportion to accounting profits.

Financial statements

Notes to the accounts continued

8 Tax continued

	2008 £m	2007 £m
Profit before tax	**108.2**	240.0
Profit before tax multiplied by the standard rate of tax of 20.4% (2007 – 21.4%)	**22.1**	51.4
Effects of:		
– Amortisation and impairment	**10.5**	–
– Non-tax deductible items	**5.9**	4.6
– Unrelieved losses	**9.3**	1.8
– Prior year items	**(4.4)**	(3.7)
– Tax arising on acquisition of non-qualifying tangible fixed assets	**3.7**	–
– Tax arising on phase out of industrial buildings allowances	**6.0**	–
– Tax impact of share of profit after tax of joint ventures and associates	**(0.3)**	(0.8)
– Other items	**0.1**	4.6
Total tax charge	**52.9**	57.9

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 26.0% (2007 – 25.0%).

9 Earnings per share

	2008 £m	2007 £m
Profit for the year	**55.3**	182.1
Minority interests	**(3.9)**	(5.7)
Basic earnings	**51.4**	176.4
Exceptional items	**86.1**	(4.9)
Adjusted earnings	**137.5**	171.5
Basic earnings per share	**11.2p**	38.0p
Diluted earnings per share	**11.2p**	37.8p
Basic Adjusted earnings per share	**30.0p**	37.0p
Diluted Adjusted earnings per share	**29.9p**	36.8p

	2008 number	2007 number
Weighted average number of fully paid ordinary shares in issue during the year	**486,854,223**	484,498,889
Weighted average number of fully paid ordinary shares in issue during the year:		
– Held by the ESOP Trust	**(1,257,218)**	(1,760,001)
– Repurchased as part of the share buy back programme	**(26,602,853)**	(18,625,305)
Weighted average number of fully paid ordinary shares for the purposes of basic EPS	**458,994,152**	464,113,583
Dilutive effect of potential ordinary shares	**290,040**	2,285,346
Adjusted weighted average number of fully paid ordinary shares in issue during the year for the purposes of diluted EPS	**459,284,192**	466,398,929

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.

Adjusted earnings (which excludes exceptional items) is adopted to assist the reader in understanding the underlying performance of the Group. Adjusted earnings per share is calculated by dividing the Adjusted earnings for the year by the weighted average number of fully paid ordinary shares in issue during the year, less those shares held by the ESOP Trust and those repurchased as part of the share buy back programme.

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

Business review
01-37

Governance
38-57

Financial statements
58-120

Shareholder information
Inside back cover

10 Dividends

The following dividends were paid by the Group:

	2008 £m	2007 £m
Interim dividend for the six months ended 30 June 2008 of 5.46p per share (2007 – 5.25p per share)	**25.0**	24.5
Final dividend for the year ended 31 December 2007 of 10.5p per share (2006 – 10.0p per share)	**48.1**	46.6
	73.1	71.1

There is no proposal to pay a final dividend for the year ending 31 December 2008.

Dividends paid above exclude £4.6m (2007 – £3.0m) 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 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	(11.1)	–	(11.1)
Effect of foreign exchange rate changes	7.9	1.4	9.3
At 1 January 2008	**390.9**	**37.9**	**428.8**
Businesses acquired	**–**	**1.0**	**1.0**
Additions	**142.0**	**20.0**	**162.0**
Disposals	**(5.4)**	**(1.3)**	**(6.7)**
Reclassified from disposal group	**5.9**	**–**	**5.9**
Effect of foreign exchange rate changes	**41.1**	**5.2**	**46.3**
At 31 December 2008	**574.5**	**62.8**	**637.3**
Amortisation and impairment			
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 1 January 2008	**(1.3)**	**(27.0)**	**(28.3)**
Amortisation charge for the year	**–**	**(3.7)**	**(3.7)**
Impairment charge for the year	**(54.2)**	**–**	**(54.2)**
Disposals	**0.2**	**1.4**	**1.6**
Effect of foreign exchange rate changes	**(10.3)**	**(5.0)**	**(15.3)**
At 31 December 2008	**(65.6)**	**(34.3)**	**(99.9)**
Net book value at 31 December 2008	**508.9**	**28.5**	**537.4**
Net book value at 31 December 2007	389.6	10.9	400.5

As at 31 December 2008, capitalised borrowing costs of £0.9m were included within other intangible assets, all of which was capitalised in 2008.

For details of the disposal group see note 19.

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. These are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. This may be at country, regional or brand level.

The carrying amount of goodwill has been allocated to the following primary reporting segments as follows:

	2008 £m	2007 £m
United Kingdom	**264.8**	265.4
Russia and Emerging Markets	**214.6**	99.5
Singapore	**19.6**	14.1
Australia	**9.7**	5.5
Rest of World	**0.2**	0.2
Europe	**–**	4.9
	508.9	389.6

Goodwill additions in 2008 arise mainly from the acquisition of the minority interest in the Group's St Petersburg businesses from the Olimp Group and the acquisition of the Musa Motors group (see note 27).

Goodwill disposed of during the year related to the Group's operations in France and certain UK businesses.

Goodwill is subject to impairment testing annually, or more frequently where there are indications that the goodwill may be impaired. Impairment tests were performed for all CGUs during the year ended 31 December 2008.

The recoverable amounts of all CGUs were determined based on value in use calculations. These calculations use cash flow projections based on five year financial forecasts prepared by management. The key assumptions for these forecasts are those relating to revenue growth/decline, operating margins and the level of working capital required to support trading, which have been based on past experience, recent trading and expectations of future changes in the relevant markets. They also reflect expectations about continuing relationships with key brand partners.

Cash flows after the five year period are extrapolated at an estimated average long-term growth rate for each market. These growth rates reflect the long-term growth prospects of the markets in which the CGUs operate. The growth rates used vary between 1% and 6% and are consistent with appropriate external sources for the relevant markets.

Cash flows are discounted back to present value using a risk adjusted discount rate. The discount rate assumptions are based on an estimate of the Group's weighted average cost of capital adjusted for a risk premium attributable to the relevant CGU. The discount rates used vary between 10% and 13%, and reflect long-term country risk and local tax rates.

The assumptions used with regards to discount rates and long-term growth rates in those segments with material goodwill balances were as follows:

	Discount Rate	Long-term Growth Rate
United Kingdom	11%	2%
Russia and Emerging Markets	11% to 13%	5% to 6%
Singapore	10%	1%

Impairment

During the year ended 31 December 2008, the goodwill in relation to the Group's businesses in Russia and Emerging Markets was impaired by £46.8m following a significant deterioration in the automotive sector in emerging markets that has adversely affected revenue and trading profit. The Group has consequently reassessed its short and medium-term forecasts for the relevant CGUs and recognised an impairment loss of £46.8m relating to the business acquired in Latvia in 2007. The discount rate applied to the value in use calculation for Latvia was 11% (2007 – 12%).

In addition, acquisition goodwill of £7.4m related to sites in the UK which are to be sold or closed, has been impaired.

Sensitivities

The Group's value in use calculations are sensitive to a change in the key assumptions used, most notably the discount rate and the long-term growth rate. With the exception of those CGUs already subject to an impairment charge and the Musa Motors group, a reasonably possible change in a key assumption will not cause an impairment in any of the other CGUs.

The value in use calculations for the Musa Motors group currently exceeds the carrying value by approximately 10%. A 0.5% increase in the discount rate or a 0.5% reduction in the long-term growth rate would eliminate the headroom available.

b. Other intangible assets

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

	Land and buildings £m	Plant, machinery and equipment £m	Subtotal £m	Vehicles subject to residual value commitments £m	Total £m
Cost					
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	(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 1 January 2008	**391.5**	**152.5**	**544.0**	**113.4**	**657.4**
Businesses acquired	**17.8**	**5.4**	**23.2**	**–**	**23.2**
Businesses sold	**(6.9)**	**(4.8)**	**(11.7)**	**–**	**(11.7)**
Additions	**87.5**	**30.3**	**117.8**	**63.5**	**181.3**
Disposals	**(9.0)**	**(20.9)**	**(29.9)**	**(48.1)**	**(78.0)**
Reclassified from disposal group	**46.1**	**9.7**	**55.8**	**–**	**55.8**
Effect of foreign exchange rate changes	**48.7**	**30.6**	**79.3**	**10.6**	**89.9**
At 31 December 2008	**575.7**	**202.8**	**778.5**	**139.4**	**917.9**
Depreciation					
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	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 1 January 2008	**(31.0)**	**(83.6)**	**(114.6)**	**(23.5)**	**(138.1)**
Businesses sold	**0.3**	**3.1**	**3.4**	**–**	**3.4**
Depreciation charge for the year	**(15.1)**	**(21.0)**	**(36.1)**	**(19.6)**	**(55.7)**
Disposals	**0.6**	**13.0**	**13.6**	**11.0**	**24.6**
Reclassified from disposal group	**(5.5)**	**(8.0)**	**(13.5)**	**–**	**(13.5)**
Effect of foreign exchange rate changes	**(7.7)**	**(18.8)**	**(26.5)**	**(4.0)**	**(30.5)**
At 31 December 2008	**(58.4)**	**(115.3)**	**(173.7)**	**(36.1)**	**(209.8)**
Net book value at 31 December 2008	**517.3**	**87.5**	**604.8**	**103.3**	**708.1**
Net book value at 31 December 2007	360.5	68.9	429.4	89.9	519.3

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:

	2008 £m	2007 £m
Leasehold buildings	**1.5**	0.4
Plant, machinery and equipment	**4.4**	2.0
	5.9	2.4

Financial statements

Notes to the accounts continued

12 Property, plant and equipment continued

The book value of land and buildings is analysed between:

	2008 £m	2007 £m
Freehold	**447.7**	318.3
Leasehold with over fifty years unexpired	**45.9**	12.1
Short leasehold	**23.7**	30.1
	517.3	360.5

Properties with a book value of £3.2m have been pledged as security.

As at 31 December 2008, £2.0m of capitalised borrowing costs were included within land and buildings, all of which was capitalised during 2008.

13 Investments in joint ventures and associates

	2008 £m	2007 £m
At 1 January	**15.3**	15.1
Additions	**0.4**	0.1
Disposals	**–**	(1.5)
Share of profit after tax of joint ventures and associates	**2.2**	3.5
Dividends received	**(1.3)**	(2.6)
Loan advances	**1.7**	–
Acquisition of remaining interests	**(0.6)**	–
Other movements	**(0.1)**	0.4
Effect of foreign exchange rate changes	**3.7**	0.3
At 31 December	**21.3**	15.3

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

	Joint ventures		Associates		Total	
	2008	2007	**2008**	2007	**2008**	2007
Non-current assets	**99.0**	98.5	**2.6**	5.4	**101.6**	103.9
Current assets	**162.4**	117.7	**62.5**	44.0	**224.9**	161.7
Group's share of gross assets	**261.4**	216.2	**65.1**	49.4	**326.5**	265.6
Current liabilities	**(65.2)**	(87.9)	**(42.7)**	(30.0)	**(107.9)**	(117.9)
Non-current liabilities	**(183.5)**	(119.4)	**(13.8)**	(13.0)	**(197.3)**	(132.4)
Group's share of gross liabilities	**(248.7)**	(207.3)	**(56.5)**	(43.0)	**(305.2)**	(250.3)
Group's share of net assets	**12.7**	8.9	**8.6**	6.4	**21.3**	15.3
Group's share of results of joint ventures and associates						
Revenue	**3.8**	9.9	**4.0**	3.5	**7.8**	13.4
Expenses	**(2.4)**	(7.5)	**(2.3)**	(1.6)	**(4.7)**	(9.1)
Profit before tax	**1.4**	2.4	**1.7**	1.9	**3.1**	4.3
Tax	**(0.4)**	(0.3)	**(0.5)**	(0.5)	**(0.9)**	(0.8)
Share of profit after tax of joint ventures and associates	**1.0**	2.1	**1.2**	1.4	**2.2**	3.5

Guarantees provided in respect of joint ventures and associates borrowings amount to £17.9m (2007 – £7.2m).

14 Available for sale financial assets

	2008 £m	2007 £m
At 1 January	**16.7**	65.0
Additions	**0.1**	1.4
Disposals	**(0.5)**	(1.4)
Reclassified and reported as a subsidiary due to increased shareholding	**–**	(49.2)
Fair value movement transferred to shareholders' equity	**(1.1)**	(0.2)
Effect of foreign exchange rate changes	**4.7**	1.1
At 31 December	**19.9**	16.7

Analysed as:

	2008 £m	2007 £m
Non-current	**17.9**	15.6
Current	**2.0**	1.1
	19.9	16.7

Assets held are analysed as follows:

	2008 £m	2007 £m
Equity securities	**0.2**	0.5
Bonds	**17.6**	14.3
Other	**2.1**	1.9
	19.9	16.7

At 31 December 2008 the bonds attracted a weighted average fixed interest rate of 5.1% (2007 – 4.5%). 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
2008	**1.8**	**0.4**	**1.7**	**–**	**2.0**	**11.7**	**17.6**
2007	0.4	1.4	0.3	1.3	–	10.9	14.3

In certain jurisdictions management holds 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.

15 Trade and other receivables

	Current 2008 £m	Current 2007 £m	Non-current 2008 £m	Non-current 2007 £m
Trade receivables	**162.2**	150.3	**–**	0.6
Less: provision for impairment of trade receivables	**(7.1)**	(4.6)	**–**	(0.6)
Net trade receivables	**155.1**	145.7	**–**	–
Amounts receivable from related parties	**3.4**	4.7	**2.6**	4.2
Prepayments and accrued income	**77.0**	67.1	**7.4**	7.4
Other receivables	**36.3**	45.1	**16.5**	12.6
	271.8	262.6	**26.5**	24.2

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

	2008 £m	2007 £m
At 1 January	**(5.2)**	(4.2)
Businesses acquired	**–**	(0.1)
Businesses sold	**0.6**	0.7
Charge for the year	**(2.3)**	(2.2)
Amounts written off	**0.3**	0.3
Unused amounts reversed	**0.8**	0.6
Effect of foreign exchange rate changes	**(1.3)**	(0.3)
At 31 December	**(7.1)**	(5.2)

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
2008	**162.2**	**117.0**	**18.2**	**8.2**	**11.7**	**7.1**
2007	150.9	116.4	17.3	5.7	6.3	5.2

Trade receivables are non-interest bearing and are generally on credit terms of 30 to 60 days.

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

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

16 Deferred tax

Net deferred tax 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 2008	**(7.4)**	**0.8**	**6.7**	**4.0**	**(11.6)**	**(0.8)**	**(8.3)**
Businesses acquired	**–**	**–**	**–**	**–**	**(14.7)**	**–**	**(14.7)**
Businesses sold	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Credited/(charged) to the income statement	**(2.6)**	**(0.3)**	**(5.2)**	**10.6**	**(4.0)**	**(0.6)**	**(2.1)**
Credited/(charged) to shareholders' equity (note 25a)	**3.0**	**(0.5)**	**–**	**–**	**–**	**(33.4)**	**(30.9)**
Effect of foreign exchange rate changes	**–**	**–**	**0.3**	**(0.5)**	**0.4**	**(1.8)**	**(1.6)**
At 31 December 2008	**(7.0)**	**–**	**1.8**	**14.1**	**(29.9)**	**(36.6)**	**(57.6)**

16 Deferred tax continued
Analysed as:

	2008 £m	2007 £m
Deferred tax assets	**11.5**	10.2
Deferred tax liabilities	**(69.1)**	(18.5)
	(57.6)	(8.3)

The Group has unrecognised deferred tax assets of £24m (2007 – £18m) relating to tax relief on trading losses. The asset represents £116m of losses at the standard blended rate of 20.4%. The asset is unprovided as £101m 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 £1.8m (2007 – £6.7m) relates to trading losses in Belgium and Poland where future profits are anticipated with reasonable certainty.

The Group has unrecognised deferred tax assets of £28m (2007 – £37m) relating to capital losses. The asset represents £135m of losses at the standard blended rate of 20.4%. The key territory holding the losses is the UK. During the period the Group disposed of the French sub-group.

A liability of £14.7m arose during the year on the acquisition of the Russian and Latvian operations which relates to the requirement to fully provide for deferred tax of £11.9m on property valuations which do not attract tax allowances and which have been recognised as part of a business combination, along with other temporal differences of £2.8m.

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 enhanced profits. If all overseas earnings were repatriated with immediate effect, tax of £71m (2007 – £39m) would be payable. The increase from 2007 is largely as a result of the Sterling weakness during the year that enhanced the UK value of overseas unrepatriated reserves. The 2008 Finance Bill has introduced proposals that will allow the repatriation of overseas earnings by way of a dividend at no additional UK tax cost. The proposals are not as yet substantially enacted and as such may be open to amendment prior to becoming effective.

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%, have now been substantially enacted and an exceptional tax charge of £6.0m has been recognised in the consolidated income statement in respect of the phased abolition of industrial building allowances.

The £29.9m deferred tax liability for provisions and other timing differences consists of a £45.2m liability in respect of the net book value of tangible fixed assets that do not qualify for tax allowances and property revaluations and a £15.3m deferred tax asset in respect of provisions and other temporal differences between the accounts base and the tax base. The key temporal differences are £3.5m for the UK, £4.1m for Greece, £7.2m for Australia and £0.5m in other territories.

17 Inventories

	2008 £m	2007 £m
Raw materials and work in progress	**10.1**	4.6
Finished goods and merchandise	**1,074.0**	792.9
	1,084.1	797.5

Vehicles held on consignment which are in substance assets of the Group amount to £175.5m (2007 – £118.3m). 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 £48.7m (2007 – £21.3m) 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 £4,309m (2007 – £4,278m). The write down of stock to net realisable value recognised as an expense during the year was £31.5m (2007 – £10.0m). All of these items have been included within cost of sales in the consolidated income statement.

18 Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank and in hand	**351.3**	273.0
Short-term bank deposits	**106.7**	70.4
	458.0	343.4

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 2008 the weighted average floating rate was 1.9% (2007 – 4.8%).

£44.0m of cash and cash equivalents is held in countries where prior approval is required to transfer funds abroad. If the Group complies with the required procedures, such liquid funds are at its disposition within a reasonable period of time.

At 31 December 2008, short-term bank deposits have a weighted average period to maturity of 32 days (2007 – 24 days).

Notes to the accounts continued

19 Assets held for sale and disposal group

	2008 £m	2007 £m
Assets directly associated with the disposal group	–	163.5
Assets held for sale	5.4	5.1
Assets held for sale and disposal group	5.4	168.6
Liabilities directly associated with the disposal group	–	(78.6)
The assets and liabilities in the disposal group comprise the following:		
Goodwill	–	11.1
Property, plant and equipment	–	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, a number of UK businesses were classified in the disposal group in 2007. The disposal of these non-core businesses progressed during 2008 and businesses with net assets of £20.3m were disposed of during the year. Following the acquisition of the Jaguar and Land Rover franchises by Tata, the Board decided to retain these brands in the UK and these businesses were therefore removed from the disposal group.

Assets held for sale in 2008 relate to surplus properties that are being actively marketed.

20 Trade and other payables

	Current		Non-current	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade payables: payments received on account	49.9	37.4	0.2	0.1
vehicle funding agreements	61.6	20.5	–	–
other trade payables	793.2	700.1	30.8	19.3
Other taxation and social security payable	25.8	22.9	–	–
Accruals and deferred income	178.4	150.5	35.6	22.0
Amounts payable to related parties	4.6	2.9	–	–
Other payables	10.4	5.9	11.5	–
	1,123.9	940.2	78.1	41.4

The Group has entered into vehicle funding agreements whereby the Group is able to refinance interest bearing amounts due to suppliers on similar terms. Amounts outstanding under these agreements are included within vehicle funding agreements above and interest charged under these agreements is included within stock holding interest.

At 31 December 2008 current other trade payables includes £473.2m (2007 – £321.9m) of creditors where payment is made on deferred terms and is subject to a weighted average floating interest rate of 4.7% (2007 – 4.8%). Interest charged on these balances is included within stock holding interest.

Other payables include an amount of £17.2m relating to deferred acquisition consideration (see note 27).

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 2008	46.3	7.1	13.7	3.6	70.7
Charged to the consolidated income statement	19.3	3.5	1.0	15.1	38.9
Released to the consolidated income statement	(3.0)	(0.6)	(0.9)	(0.3)	(4.8)
Effect of unwinding of discount factor	0.9	0.5	–	–	1.4
Utilised during the year	(17.0)	(1.1)	(0.7)	(0.3)	(19.1)
Subsidiaries sold	–	–	(0.4)	–	(0.4)
Effect of foreign exchange rate changes	12.8	–	1.3	1.8	15.9
At 31 December 2008	**59.3**	**9.4**	**14.0**	**19.9**	**102.6**

Analysed as:

	2008 £m	2007 £m
Current	50.6	31.3
Non-current	52.0	39.4
	102.6	70.7

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. Warranties cover periods of 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. The majority of 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 principally includes provisions relating to restructuring costs and residual values on leased vehicles, all of which are expected to be settled within three years.

Financial statements

Notes to the accounts continued

22 Borrowings

2008	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	2008 Total £m
Current							
Bank overdrafts	**144.9**	**3.0**	**–**	**–**	**144.9**	**0.3**	**145.2**
Bank loans	**3.0**	**7.2**	**3.5**	**14.0**	**6.5**	**–**	**6.5**
Other loans	**1.8**	**5.2**	**7.4**	**14.0**	**9.2**	**–**	**9.2**
Finance leases	**4.1**	**5.6**	**0.3**	**7.7**	**4.4**	**–**	**4.4**
	153.8	**3.2**	**11.2**	**13.8**	**165.0**	**0.3**	**165.3**
Non-current							
Bank loans	**405.0**	**2.3**	**0.6**	**14.0**	**405.6**	**2.0**	**407.6**
Private Placement	**391.8**	**5.0**	**52.1**	**6.0**	**443.9**	**–**	**443.9**
Finance leases	**1.9**	**6.7**	**2.7**	**7.2**	**4.6**	**–**	**4.6**
	798.7	**3.7**	**55.4**	**6.1**	**854.1**	**2.0**	**856.1**
Total borrowings	**952.5**	**3.6**	**66.6**	**7.4**	**1,019.1**	**2.3**	**1,021.4**

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	2007 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

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 £153.1m fair value revaluation.

As in 2007, the Group's borrowings are unsecured, with the exception of a £3.0m loan which is secured against a property with a book value of £3.2m.

At 31 December 2008, the Group had drawn £370m of the £500m revolving credit facility which expires in 2013. During the year, the Group raised £225m in revolving credit facilities which expire in 2011. Of this amount, £185m is a syndicated revolving credit facility and £40m is a bilateral facility with a relationship bank.

In addition, the Group has a £35m bilateral facility which expires in 2010.

US$475m of the Group's US$550m Private Placement has been swapped into Sterling (see note 23 for further details). US$350m is repayable in 9 years and US$200m in 11 years.

Business review 01-37
Governance 38-57
Financial statements 58-120
Shareholder information Inside back cover

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$475m of the Private Placement.

2008 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	**3.5**	**0.2**	**0.3**	**0.1**	–	–	**4.1**
Other loans	**7.4**	–	–	–	–	–	**7.4**
Private Placement	–	–	–	–	–	**52.1**	**52.1**
Finance leases	**0.3**	**0.1**	**0.1**	**0.1**	**0.1**	**2.3**	**3.0**
Floating rate							
Bank overdrafts	**144.9**	–	–	–	–	–	**144.9**
Bank loans	**3.0**	**35.0**	–	–	**370.0**	–	**408.0**
Other loans	**1.8**	–	–	–	–	–	**1.8**
Private Placement	–	–	–	–	–	**391.8**	**391.8**
Finance leases	**4.1**	**0.9**	**1.0**	–	–	–	**6.0**

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
Other loans	5.1	–	–	–	–	–	5.1
Private Placement	–	–	–	–	–	247.1	247.1
Finance leases	0.2	1.3	0.2	0.2	0.2	1.3	3.4

23 Financial Instruments

The Group's financial liabilities, 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 also has various financial assets such as trade and other receivables, cash and short-term deposits which arise from its trading operations.

The Group's primary derivative transactions are forward and swap currency contracts, and cross-currency interest rate swaps. The purpose is to manage the currency and interest rate risks arising from the Group's trading operations and its sources of finance.

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

2008	Loans and receivables £m	Available for sale £m	Held at fair value £m	Amortised cost £m	Total £m
Financial assets					
Available for sale financial assets	–	**19.9**	–	–	**19.9**
Trade and other receivables	**252.8**	–	–	–	**252.8**
Derivative financial instruments	–	–	**306.9**	–	**306.9**
Cash and cash equivalents	–	–	–	**458.0**	**458.0**
Total financial assets	**252.8**	**19.9**	**306.9**	**458.0**	**1,037.6**
Financial liabilities					
Trade and other payables	–	–	–	**(1,079.1)**	**(1,079.1)**
Borrowings	–	–	**(391.8)**	**(629.6)**	**(1,021.4)**
Total financial liabilities	–	–	**(391.8)**	**(1,708.7)**	**(2,100.5)**
	252.8	**19.9**	**(84.9)**	**(1,250.7)**	**(1,062.9)**

Financial statements

Notes to the accounts continued

23 Financial Instruments continued

2007	Loans and 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)

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 consolidated 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 consolidated income statement.
- All other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the consolidated income statement.

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 2008 the Group has borrowed at floating rates only (after taking into account existing interest rate hedging activities), with the exception of US$75m of debt in the UK and £11.5m in Russia. 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.

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
2008		
Sterling	**75**	**8.2**
Euro	**50**	**0.2**
Australian Dollar	**100**	**(0.7)**
2007		
Sterling	75	4.8
Euro	50	0.6
Australian Dollar	100	–

23 Financial Instruments continued

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.

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 consolidated income statement at the same time as the underlying hedged transaction affects the consolidated income statement. Under IAS 39 hedges are documented and tested for the hedge effectiveness on an ongoing basis.

Hedge of foreign currency debt

The Group uses cross-currency interest rate swaps to hedge the forward foreign currency risk associated with US$475m of the US$550m Private Placement. The effective portion on the gain or loss of the hedge is recognised in the consolidated income statement at the same time as the underlying hedged transaction affects the consolidated income statement. 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 consolidated income statement to be material.

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 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.

Foreign currency risk table

The following table demonstrates 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
2008		
Yen	**+10%**	**(2.6)**
Yen	**-10%**	**2.0**
US Dollar	**+10%**	**2.8**
US Dollar	**-10%**	**(2.3)**
2007		
Yen	+10%	2.0
Yen	-10%	(2.6)
US Dollar	+/-10%	–

23 Financial Instruments continued

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 rating and balances held with major counterparties at the balance sheet date.

	2008			2007		
Counterparty	Derivative assets £m	Cash £m	Credit Rating	Derivative assets £m	Cash £m	Credit Rating
HSBC Bank plc	122	97	A-1+	5	19	A-1+
Lloyds TSB Bank	89	13	A-1+	4	–	A-1+
Royal Bank of Scotland	38	–	A-1	–	8	A-1+
Westpac Banking Corporation	28	1	A-1+	–	–	–
United Overseas Bank	–	23	A-1	–	7	A-1
ING Bank NV	15	3	A-1+	–	13	A-1+
Commercial Bank of Ethiopia	–	15	n/a	–	11	n/a
Sumitomo Mitsui Banking Corporation	14	–	A-1	–	–	–
Hong Kong and Shanghai Banking Corp	–	11	A-1+	–	21	A-1+
Fortis Bank	–	10	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 2008, total derivative asset balances included £306m which was held with six counterparties and total cash balances included £173m which was held with eight counterparties. Total cash balances of £458m 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.

Refer to the Financial Review on page 27 for discussion of liquidity risks to the Group.

The table below summarises the maturity profile of the Group's financial assets and liabilities at 31 December 2008 based on contractual undiscounted cash flows.

2008	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	**458.0**	**–**	**–**	**–**	**458.0**
Trade and other receivables	**219.4**	**28.2**	**4.8**	**0.4**	**252.8**
Available for sale financial assets	**0.3**	**1.8**	**4.1**	**13.7**	**19.9**
Derivative financial instruments	**310.0**	**319.2**	**78.9**	**415.7**	**1,123.8**
	987.7	**349.2**	**87.8**	**429.8**	**1,854.5**
Financial liabilities					
Interest bearing loans and borrowings	**(148.1)**	**(45.7)**	**(500.4)**	**(544.4)**	**(1,238.6)**
Trade and other payables	**(794.9)**	**(231.2)**	**(52.9)**	**(0.1)**	**(1,079.1)**
Derivative financial instruments	**(262.1)**	**(220.0)**	**(48.5)**	**(291.9)**	**(822.5)**
	(1,205.1)	**(496.9)**	**(601.8)**	**(836.4)**	**(3,140.2)**
Net outflows	**(217.4)**	**(147.7)**	**(514.0)**	**(406.6)**	**(1,285.7)**

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)

23 Financial Instruments continued

g. Hedging activities

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 2008.

The Group's derivative financial instruments comprise the following:

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Cross-currency interest rate swap	**155.6**	8.0	**–**	–
Forward foreign exchange contracts	**151.3**	4.9	**–**	8.3
	306.9	12.9	**–**	8.3

The ineffective portion recognised in the consolidated income statement that arises from fair value hedges amounts to a gain of £2.8m (2007 – a loss of £0.3m). The ineffective portion recognised in the consolidated income statement that arises from cash flow hedges amounts to a gain of £0.4m (2007 – £0.5m). There was no ineffectiveness to be recorded from hedges of net investments.

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 twelve months of the balance sheet date.

The nominal principal amounts of the outstanding forward foreign exchange contracts relating to transactional exposures at 31 December 2008 was £464.7m (2007 – £599.9m).

Net fair value gains and losses recognised in the hedging reserve in shareholders' equity (see note 25) on forward foreign exchange contracts as at 31 December 2008 are expected to be released to the consolidated income statement within twelve months of the balance sheet date.

Fair value hedge

At 31 December 2008 the Group had in place 4 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 2008 was a borrowing of US$75m (2007 – US$75m), which has been designated as a hedge of the net investments in 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 2008 4,460,000 shares were bought for treasury by the Company (2007 – 4,535,000 shares).

The Group monitors group leverage by reference to three tests; adjusted EBITA interest cover, the ratio of net debt to EBITDA and the ratio of net debt to market capitalisation.

	2008	2007
Adjusted EBITA Interest cover (times)*	**8.0**	14.0
Net debt to EBITDA (times)**	**1.4**	0.7
Net debt/market capitalisation (percentage)***	**227.7%**	11.6%

* Calculated as adjusted EBITA/interest on consolidated borrowings
** Calculated as net debt / earnings before exceptional items, interest, tax, depreciation and amortisation
*** Calculated as net debt / market capitalisation as at 31 December

24 Share capital
a. Authorised

	Number of shares		Ordinary share capital	
	2008 Number	2007 Number	**2008 £m**	2007 £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	
	2008 Number	2007 Number	**2008 £m**	2007 £m
Ordinary shares of 25.0p each				
At 1 January	**486,188,977**	482,298,983	**121.6**	120.6
Allotted under share option schemes	**1,055,129**	3,889,994	**0.3**	1.0
At 31 December	**487,244,106**	486,188,977	**121.9**	121.6

c. Share buy back programme
At 31 December 2008, the Company held treasury shares with a total book value of £99.4m (2007 – £83.4m). During the year, the Group repurchased 4,460,000 (2007 – 4,535,000) of its own shares through purchases on the London Stock Exchange. The total consideration paid was £16.0m (2007 – £18.5m) and this has been deducted from the Retained earnings reserve (see note 25). The shares repurchased during the year equate to 0.9% (2007 – 0.9%) 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 13 March 2009 under the provisions of the Companies Act 2006 have been disclosed in the substantial shareholdings section of the Directors' report.

24 Share capital continued

e. Share options

At 31 December 2008, 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 of 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
103,124	20 May 2014	262.0p
33,180	29 September 2014	259.1p
163,713	6 March 2015	342.6p
36,282	11 September 2015	358.0p
248,034	29 March 2016	445.3p
6,772	21 May 2016	443.0p
13,128	10 August 2016	457.0p
217,545	12 April 2017	577.0p
424,767	3 April 2018	428.0p
11,764	31 July 2018	255.0p
– unapproved (Part I – UK)		
14,616	31 August 2013	205.1p
157,680	20 May 2014	262.0p
6,750	29 September 2014	259.1p
426,720	6 March 2015	342.6p
368,712	11 September 2015	358.0p
1,127,322	29 March 2016	445.3p
340,857	21 May 2016	443.0p
29,539	10 August 2016	457.0p
1,467,295	12 April 2017	577.0p
1,954,698	3 April 2018	428.0p
25,125	24 April 2018	398.0p
145,098	31 July 2018	255.0p
– unapproved overseas (Part I – Overseas)		
15,462	7 September 2009	64.6p
31,680	9 August 2010	47.3p
54,684	21 March 2011	64.0p
74,412	17 March 2012	114.1p
153,648	19 March 2013	127.0p
551,202	20 May 2014	262.0p
640,210	6 March 2015	342.6p
648,012	29 March 2016	445.3p
720,783	12 April 2017	577.0p
30,060	18 December 2017	369.0p
1,343,905	3 April 2018	428.0p
53,458	24 April 2018	398.0p
130,272	5 October 2018	198.0p

Number of ordinary shares of 25.0p each	Exercisable until	Option price
The Inchcape SAYE Share Option Scheme – approved		
2,346	1 December 2008	274.1p
165,570	1 May 2009	282.5p
160,986	1 December 2009	345.3p
100,141	1 May 2010	368.0p
123,223	1 December 2010	441.0p
292,346	1 May 2011	383.0p
267,961	1 December 2011	315.0p
1,312,126	1 May 2012	203.0p

Included within the Retained earnings reserve are 2,315,380 (2007 – 1,718,329) 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 2008 was £9.3m (2007 – £6.8m). The market value of these shares at 31 December 2008 was £0.9m and at 18 March 2009 was £1.2m (31 December 2007 – £6.5m, 25 February 2008 – £6.8m).

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 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 business	–	–	–	–	–	–	12.1	12.1
At 1 January 2008	**121.6**	**123.4**	**16.4**	**12.7**	**539.5**	**813.6**	**24.2**	**837.8**
Total recognised income and expense for the year	**–**	**–**	**–**	**260.4**	**12.7**	**273.1**	**9.5**	**282.6**
Share-based payments credit	**–**	**–**	**–**	**–**	**(0.9)**	**(0.9)**	**–**	**(0.9)**
Net purchase of own shares by ESOP Trust	**–**	**–**	**–**	**–**	**(4.2)**	**(4.2)**	**–**	**(4.2)**
Share buy back programme	**–**	**–**	**–**	**–**	**(16.0)**	**(16.0)**	**–**	**(16.0)**
Dividends:								
– Equity holders of the parent	**–**	**–**	**–**	**–**	**(73.1)**	**(73.1)**	**–**	**(73.1)**
– Minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**(2.6)**	**(2.6)**
Issue of ordinary share capital	**0.3**	**2.7**	**–**	**–**	**–**	**3.0**	**–**	**3.0**
Acquisition of businesses	**–**	**–**	**–**	**–**	**–**	**–**	**0.6**	**0.6**
Acquisition of minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**(7.6)**	**(7.6)**
At 31 December 2008	**121.9**	**126.1**	**16.4**	**273.1**	**458.0**	**995.5**	**24.1**	**1,019.6**

Cumulative goodwill of £108.1m (2007 – £108.1m) has been written off against the Retained earnings reserve. In addition, the Retained earnings reserve includes non-distributable reserves of £5.5m (2007 – £5.6m).

The table below sets out the tax on items recognised in shareholders' equity:

	2008 £m	2007 £m
Cash flow hedges – deferred tax	**(33.4)**	(11.7)
Share-based payments – deferred tax	**(0.5)**	(3.0)
Share-based payments – current tax	**0.1**	0.7
Pensions – deferred tax	**3.0**	(10.7)
Pensions – current tax	**–**	2.5
	(30.8)	**(22.2)**

Financial statements
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 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 1 January 2008	**0.7**	**10.8**	**1.2**	**12.7**
Cash flow hedges:				
– Fair value movements	**–**	**–**	**136.9**	**136.9**
– Reclassified and reported in inventories	**–**	**–**	**(25.3)**	**(25.3)**
– Tax on cash flow hedges	**–**	**–**	**(33.4)**	**(33.4)**
Movement on net investment hedge	**–**	**(14.4)**	**–**	**(14.4)**
Movement on available for sale financial assets	**(1.1)**	**–**	**–**	**(1.1)**
Foreign exchange gains recycled through the consolidated income statement	**–**	**(2.1)**	**–**	**(2.1)**
Effect of foreign exchange rate changes	**–**	**199.8**	**–**	**199.8**
At 31 December 2008	**(0.4)**	**194.1**	**79.4**	**273.1**

Available for sale reserve
Gains and losses on available for sale financial assets are recognised in the Available for sale reserve until the asset is sold or is considered to be impaired, at which time the cumulative gain or loss is included in the consolidated income statement.

Translation reserve
The Translation reserve is used to record foreign exchange rate changes relating to the translation of the results of foreign subsidiaries arising after 1 January 2004. It is also used to record foreign exchange differences arising on long-term foreign currency borrowings used to finance or hedge foreign currency investments.

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

26 Notes to the consolidated cash flow statement

a. Reconciliation of cash generated from operations

	2008 £m	2007 £m
Cash flows from operating activities		
Operating profit	**158.0**	269.9
Exceptional items	**82.5**	(4.9)
Amortisation	**3.7**	6.5
Depreciation	**27.5**	27.2
Profit on disposal of property, plant and equipment	**(2.6)**	(9.0)
Share-based payments (credit)/charge	**(0.9)**	4.5
Increase in inventories	**(27.9)**	(13.9)
Decrease/(increase) in trade and other receivables	**65.6**	(2.3)
(Decrease)/increase in trade and other payables	**(112.8)**	30.8
Increase in provisions	**7.9**	8.1
Decrease in post-retirement defined benefits*	**(16.2)**	(15.4)
Movement in vehicles subject to residual value commitments	**4.3**	(7.0)
Payment in respect of operating exceptional items	**(5.8)**	–
Other items	**0.4**	(1.5)
Cash generated from operations	**183.7**	293.0

* The decrease in post-retirement defined benefits includes additional payments of £16.1m (2007 – £14.8m).

b. Reconciliation of net cash flow to movement in net debt

	2008 £m	2007 £m
Net increase in cash and cash equivalents	**61.3**	23.6
Net cash inflow from borrowings and finance leases	**(274.5)**	(181.0)
Change in net cash and debt resulting from cash flows	**(213.2)**	(157.4)
Effect of foreign exchange rate changes on net cash and debt	**33.7**	8.8
Loan notes issued on acquisition	**–**	(4.5)
Net movement in fair value	**2.8**	(0.3)
Net loans and finance leases relating to acquisitions and disposals	**(17.6)**	(41.1)
Movement in net debt	**(194.3)**	(194.5)
Opening net debt	**(213.5)**	(19.0)
Closing net debt	**(407.8)**	(213.5)

Net debt has been restated for this note to include the derivative relating to the Private Placement borrowing and is analysed as follows:

	2008 £m	2007 £m
Cash at bank and in hand	**351.3**	273.0
Short-term bank deposits	**106.7**	70.4
Bank overdrafts	**(145.2)**	(144.8)
Cash and cash equivalents	**312.8**	198.6
Bank loans	**(858.0)**	(409.0)
Other loans	**(9.2)**	(5.1)
Finance leases	**(9.0)**	(6.0)
	(563.4)	(221.5)
Fair value of cross-currency interest rate swap	**155.6**	8.0
Net debt	**(407.8)**	(213.5)

27 Acquisitions and disposals

a. Acquisitions

On 8 July 2008, 75.1% of the issued share capital of Musa Motors was purchased for a cash consideration of US$200.0m. This US$200.0m is an initial down payment, with a further payment due which is dependent on 2008 EBITA less acquired debt, subject to a cap of US$250m in total. The remaining 24.9% is to be acquired in early 2011, with payment dependent on 2010 EBITA, capped at US$250m. Estimates of these future payments, based on current earnings and forecasts, are set out below.

	Musa Motors		
	Book value £m	Fair value adjustments £m	Provisional fair value £m
Net assets acquired			
Intangible assets (i)	–	1.0	1.0
Property, plant and equipment (iv)	23.1	–	23.1
Trade and other receivables	19.4	–	19.4
Deferred tax assets	0.4	–	0.4
Inventories	55.3	–	55.3
Cash	4.6	–	4.6
Current tax asset	0.4	–	0.4
Trade and other payables	(55.6)	–	(55.6)
Current tax liability	(1.5)	–	(1.5)
Borrowings	(21.5)	–	(21.5)
Deferred tax liabilities (ii)	(4.2)	(3.9)	(8.1)
Net assets	20.4	(2.9)	17.5
Minority interest acquired			(0.6)
Goodwill (iii)			107.2
Purchase consideration			124.1
Satisfied by:			
Cash paid in 2008			100.3
Deferred consideration			17.2
Directly attributable costs			6.6
Purchase consideration			124.1
Net cash in businesses acquired			(4.6)
			119.5
Borrowings acquired			21.5
Total consideration			141.0

(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. Specifically, the goodwill represents the premium paid to expand the Group's presence in this growth market, achieve regional scale in the premium brand sector and deliver growth and improved returns far quicker than would have been achievable through organic expansion.

(iv) Prior to acquisition, the book values of the assets acquired were held at recently revalued amounts. Therefore, no further fair value adjustments were necessary upon acquisition.

On 25 March 2008, the Group acquired the remaining 24.9% stake in its St Petersburg business from its joint venture partner, Olimp Group, for total cash consideration of £28.5m, with goodwill arising on this acquisition of £20.9m. This eliminates the minority interest previously accounted for.

The remaining goodwill arising in the year is attributable to additional costs incurred relating to acquisitions in the previous year.

Business review 01-37
Governance 38-57
Financial statements 58-120
Shareholder information Inside back cover

27 Acquisitions and disposals continued

b. Pro-forma full year information

If the acquisition of Musa Motors had occurred on 1 January 2008, the approximate revenue and operating profit before exceptional items for the year of the Group would have been £6,690.0m and £259.1m respectively. This information has been estimated based on the unaudited management accounts as of the date of acquisition. The acquired business contributed revenues of £213.6m and operating profit before exceptional items of £6.8m to the Group for the period 8 July to 31 December 2008.

c. Disposals

The Group disposed of a number of dealerships and operations during the year, with net disposal proceeds of £27.3m, and a loss on disposal of businesses of £1.2m, which has not been disclosed as an exceptional item. These disposals include the disposal of the Group's business in France for a profit on disposal of £0.4m (after a £2.1m adjustment for historical foreign currency differences recycled to the consolidated income statement on disposal), satisfied by a pre-completion reduction in capital of £18m and disposal proceeds of £7.6m, and the disposal of various retail outlets in the UK for £18.9m (loss on disposal £2.5m). Additionally, an asset swap in Australia during the period gave rise to a net gain of £0.8m, recognised in the consolidated income statement.

28 Guarantees and contingencies

	2008 £m	2007 £m
Guarantees, performance bonds and contingent liabilities	**17.7**	8.1

Guarantees and contingencies largely comprise letters of credit issued on behalf of the Group in the ordinary course of business. £7.9m (2007 – £nil) of these letters of credit resulted due to the acquisition in the year of the remaining interest in the Red Sea Automotive business. The Group also has, in the ordinary course of business, commitments under foreign exchange instruments relating to the hedging of transactional exposures (see note 23).

29 Commitments

a. Capital commitments

Contracts placed for future capital expenditure at the balance sheet date but not yet incurred are as follows:

	2008 £m	2007 £m
Property, plant and equipment	**7.6**	7.9
Vehicles subject to residual value commitments*	**108.5**	103.7
Intangible assets	**0.1**	–

* Residual value commitments comprise the total repurchase liability on all vehicles sold subject to a residual value commitment, of which £65.4m (2007 – £57.0m) has been included within trade and other payables. These commitments are largely expected to be settled within the next 12 months, with a minority to be settled within three years.

b. Lease commitments

Operating lease commitments – Group as lessee

The Group has entered into non-cancellable operating leases for various offices, warehouses and dealerships. These leases have varying terms, escalation clauses and renewal rights.

Future minimum lease payments under non-cancellable operating leases are as follows:

	2008 £m	2007 £m
Within one year	**44.8**	35.6
In two to five years	**110.4**	87.8
After five years	**142.7**	128.4
	297.9	251.8

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:

	2008 £m	2007 £m
Within one year	**5.1**	3.3
In two to five years	**9.5**	6.1
After five years	**8.1**	3.4
	22.7	12.8

b. Lease commitments continued

Finance leases and hire purchase contracts

The Group has finance leases and hire purchase contracts for various items of property, plant and equipment. These leases have varying terms, escalation clauses and renewal rights. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments (included within borrowings) are as follows:

	2008 £m	2007 £m
Minimum lease payments:		
– Within one year	**4.1**	1.1
– In two to five years	**3.7**	2.9
– After five years	**7.0**	8.3
Total minimum lease payments	**14.8**	12.3
Less: future finance charges	**(5.8)**	(6.3)
Present value of finance lease liabilities	**9.0**	6.0

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	100.0%	Retail
Musa Motors Group	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 (see note 1).

The ultimate parent company of the Group is Inchcape plc, a company incorporated and domiciled in England and Wales and listed on the London Stock Exchange.

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 42, details of transactions between the Group and other related parties are disclosed below:

	Transactions		Amounts outstanding	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Vehicles purchased from joint ventures and associates	**60.6**	65.3	**2.8**	2.2
Vehicles sold to joint ventures and associates	**429.9**	378.2	**1.1**	1.3
Other income paid to joint ventures and associates	**3.6**	3.1	**1.8**	0.7
Other income received from joint ventures and associates	**3.1**	11.9	**4.8**	7.7

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 (2007 – £nil).

c. Compensation of key management personnel
The remuneration of the Executive Directors and the Executive Committee was as follows:

	2008 £m	2007 £m
Short-term employment benefits	**4.5**	6.7
Post-retirement benefits	**1.0**	1.0
Share-based payments	**(1.5)**	2.6
Compensation for loss of office	**0.3**	0.2
	4.3	10.5

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	
	2008	2007	**2008**	2007
Australian dollar	**2.19**	2.39	**2.06**	2.27
Euro	**1.27**	1.46	**1.03**	1.36
Hong Kong dollar	**14.56**	15.63	**11.14**	15.52
Singapore dollar	**2.63**	3.02	**2.07**	2.87

32 Post balance sheet events
On 19 March 2009, the Group announced its proposal to raise net proceeds of approximately £232m through a Rights Issue. The Directors intend that the net proceeds would be used to reduce indebtedness, which in the short-term will increase headroom and delay refinancing of existing facilities. In the longer-term, the Group will be in a better position to take advantage of market recovery.

Financial statements
Five year record

The information presented in the table below is prepared in accordance with IFRS, as in issue and effective at that year end date.

Consolidated income statement	IFRS 2008 £m	IFRS 2007 £m	IFRS 2006 £m	IFRS 2005 £m	IFRS 2004 £m
Revenue	**6,259.8**	6,056.8	4,842.1	4,488.1	4,119.5
Operating profit before exceptional items	**240.5**	265.0	213.9	189.4	172.1
Exceptional items	**(82.5)**	4.9	–	(13.0)	(10.6)
Operating profit	**158.0**	269.9	213.9	176.4	161.5
Share of profit after tax of joint ventures and associates	**2.2**	3.5	5.9	6.2	7.8
Profit before finance and tax	**160.2**	273.4	219.8	182.6	169.3
Net finance costs before exceptional finance income	**(52.0)**	(33.4)	(5.9)	(5.3)	(10.3)
Exceptional finance income	**–**	–	–	–	4.2
Profit before tax	**108.2**	240.0	213.9	177.3	163.2
Tax before exceptional tax	**(49.3)**	(57.9)	(45.1)	(46.9)	(43.1)
Exceptional tax	**(3.6)**	–	8.0	–	(0.5)
Profit after tax	**55.3**	182.1	176.8	130.4	119.6
Minority interests	**(3.9)**	(5.7)	(2.9)	(3.8)	(3.2)
Profit for the year	**51.4**	176.4	173.9	126.6	116.4
Basic:					
– Profit before tax	**108.2**	240.0	213.9	177.3	163.2
– Earnings per share (pence)	**11.2p**	38.0p	37.5p	27.0p	24.8p
Adjusted (before exceptional items):					
– Profit before tax	**190.7**	235.1	213.9	190.3	168.4
– Earnings per share (pence)	**30.0p**	37.0p	35.7p	29.8p	26.0p
Dividends per share – interim paid and final proposed (pence)	**5.46p**	15.75p	15.0p	9.5p	8.3p
Consolidated balance sheet					
Non-current assets	**1,372.1**	1,037.0	666.0	521.7	468.4
Other assets less (liabilities) excluding cash (borrowings)	**55.3**	14.3	4.0	(88.5)	(105.6)
	1,427.4	1,051.3	670.0	433.2	362.8
Net (debt)/funds	**(407.8)**	(213.5)	(19.0)	158.0	151.9
Net assets	**1,019.6**	837.8	651.0	591.2	514.7
Equity attributable to equity holders of the parent	**995.5**	813.6	643.8	581.7	506.4
Minority interests	**24.1**	24.2	7.2	9.5	8.3
Total shareholders' equity	**1,019.6**	837.8	651.0	591.2	514.7

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 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the Accounting policies 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 2008 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 section of the Corporate Governance report.

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 review and the 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, 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 Group Chief Executive's review, the Operating review, the Financial review, the Corporate responsibility, the Board of Directors, the Executive Committee, the Corporate Governance report, the Remuneration report, the Five year record and 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 judgements 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 2008 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

19 March 2009

Financial statements

Company balance sheet

As at 31 December 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Investment in subsidiaries	3	**1,870.9**	1,847.3
Current assets			
Available for sale financial assets	4	**–**	–
Debtors:			
– Amounts due within one year	5	**233.1**	29.5
– Amounts due after more than one year	5	**153.0**	144.0
Cash at bank and in hand	6	**14.4**	54.2
		400.5	227.7
Creditors – amounts falling due within one year	7	**(25.7)**	(13.1)
Net current assets		**374.8**	214.6
Total assets less current liabilities		**2,245.7**	2,061.9
Creditors – amounts falling due after more than one year	8	**(1,712.6)**	(1,637.2)
Provisions for liabilities and charges	10	**(9.5)**	(8.5)
Net assets		**523.6**	416.2
Capital and reserves			
Share capital	12, 14	**121.9**	121.6
Share premium	14	**126.1**	123.4
Capital redemption reserve	14	**16.4**	16.4
Profit and loss account	14	**259.2**	154.8
Total shareholders' funds		**523.6**	416.2

The Financial statements on pages 114 to 119 were approved by the Board of Directors on 19 March 2009 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 2008. 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).

Going Concern
In determining whether the Company is a going concern, the Directors have reviewed the Company's current financial position and have prepared detailed financial projections. These projections reflect the recent unprecedented downturn in economic conditions and credit availability across the Company's operations, the actions already taken to restructure the business and the plans in place to focus operations on the five core priorities of growing market share, growing aftersales, managing working capital and reducing overheads and capital expenditure (see page 8).

The projections also assume that: new car sales will continue to decline in 2009 and will not begin to recover until the second half of 2010; the service and parts business will be more resilient to the downturn; lower UK interest rates will continue; key brand partners will remain in production and supply on normal terms of trade; and there will be no further significant downturn in the global economic environment.

These projections, even after allowing for headroom to accommodate a reasonable downside scenario (including weaker trading and adverse movements in currency and interest rates), indicate that the Company would be able to manage its operations so as to remain within its current facilities and in compliance with its banking covenants.

Accordingly, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue as a going concern for the foreseeable future. As such, the Company continues to adopt the going concern basis in preparing the Financial statements.

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.

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 various share-based award schemes. The fair value at the date at which the share-based awards are granted is recognised in the profit and loss account (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. With the exception of the 'Save as you earn' scheme, the vesting of all share-based awards under all schemes is solely reliant upon non-market conditions therefore no expense is recognised for awards that do not ultimately vest. Where an employee cancels a 'Save as you earn' award, the charge for that award is recognised as an expense immediately, even though the award does not vest. In accordance with the transitional provisions of FRS 20 – Share-based Payment, no charge has 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 62 to 67.

Notes to the accounts

1 Auditors' remuneration

The Company incurred £0.1m (2007 – £0.1m) in relation to UK statutory audit fees for the year ended 31 December 2008.

2 Executive Directors' remuneration

	2008 £m	2007 £m
Wages and salaries	**1.2**	2.1
Social security costs	**0.2**	0.3
Pension costs	**0.4**	0.4
Other employment costs	**(0.9)**	0.9
	0.9	3.7

Further information on Executive Directors' emoluments and interests is given in the Board report on remuneration which can be found on pages 51-57 in the Group's Financial statements for the year ended 31 December 2008.

3 Investment in subsidiaries

	2008 £m	2007 £m
Cost		
At 1 January	**1,868.3**	1,221.1
Additions	**56.1**	684.2
Disposals	**(12.1)**	(37.0)
At 31 December	**1,912.3**	1,868.3
Provisions		
At 1 January	**(21.0)**	(50.0)
Disposals	**–**	29.0
Provisions for impairment	**(32.1)**	–
Reversal of provision for impairment	**11.7**	–
At 31 December	**(41.4)**	(21.0)
Net book value	**1,870.9**	1,847.3

Additions include £56.1m in respect of additional investments in existing Group companies.

4 Available for sale financial assets

	2008 £m	2007 £m
Equity securities		
At 1 January	**–**	49.2
Transfer to investment in subsidiaries	**–**	(49.2)
At 31 December	**–**	–

5 Debtors

	2008 £m	2007 £m
Amounts due within one year		
Other debtors	**1.9**	2.1
Amounts owed by Group undertakings	**231.2**	27.4
	233.1	29.5
Amounts due after more than one year		
Deferred tax asset (note 9)	**1.5**	1.6
Amounts owed by Group undertakings	**151.5**	142.4
	153.0	144.0

6 Cash at bank and in hand

	2008 £m	2007 £m
Cash at bank and in hand	**14.4**	54.2

7 Creditors – amounts falling due within one year

	2008 £m	2007 £m
Amounts owed to Group undertakings	**20.1**	9.8
Other taxation and social security payable	**0.1**	0.4
Other creditors	**5.5**	2.9
	25.7	13.1

Business review 01-37
Governance 38-57
Financial statements 58-120
Shareholder information Inside back cover

8 Creditors – amounts falling due after more than one year

	2008 £m	2007 £m
Amounts owed to Group undertakings	**1,330.0**	1,348.0
Private Placement	**381.4**	284.8
Other loans	**1.2**	4.4
	1,712.6	1,637.2

The Company raised US$550m in a Private Placement: US$350m is repayable in 9 years and bears interest at a fixed rate of 5.94% per annum; and US$200m is repayable in 11 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.

9 Deferred tax

	Share-based payments £m	Other timing differences £m	Total £m
At 1 January 2008	**1.2**	**0.4**	**1.6**
(Charged)/credited to the profit and loss account	**(0.8)**	**1.0**	**0.2**
Charged to the profit and loss account reserve	**(0.3)**	**–**	**(0.3)**
At 31 December 2008	**0.1**	**1.4**	**1.5**

10 Provisions for liabilities and charges

	2008 £m
At 1 January	**8.5**
Charged to the profit and loss account	**1.0**
At 31 December	**9.5**

Provision has been made for warranties, indemnities and other litigation issues in relation to motors and non-motors business exits, based on expected outcomes. These provisions are expected to be settled within the next three years.

11 Guarantees and contingencies

	2008 £m	2007 £m
Guarantees of various subsidiaries' borrowings (against which £405.0m has been drawn at 31 December 2008, 2007 – £115.0m)	**535.0**	535.0

The Company is party to composite cross guarantees between banks and its subsidiaries. The Company's contingent liability under these guarantees at 31 December 2008 was £178.4m (2007 – £81.9m).

12 Share capital

a. Authorised

	Number of shares		Ordinary share capital	
	2008 Number	2007 Number	2008 £m	2007 £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	
	2008 Number	2007 Number	2008 £m	2007 £m
Ordinary shares of 25.0p each				
At 1 January	**486,188,977**	482,298,983	**121.6**	120.6
Allotted under share option schemes	**1,055,129**	3,889,994	**0.3**	1.0
At 31 December	**487,244,106**	486,188,977	**121.9**	121.6

c. Share buy back programme

At 31 December 2008, the Company held treasury shares with a book value of £99.4m (2007 – £83.4m). During the year, the Company repurchased 4,460,000 (2007 – 4,535,000) of its own shares through purchases on the London Stock Exchange. The total consideration paid was £16.0m (2007 – £18.5m) and this has been deducted from the Profit and loss account reserve. The shares repurchased during the year equate to 0.9% (2007 – 0.9%) 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 13 March 2009 under the provisions of the Companies Act 2006 have been disclosed in the substantial shareholdings section of the Directors' report.

Financial statements

Notes to the accounts continued

12 Share capital continued

e. Share options

At 31 December 2008, 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 of 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
103,124	20 May 2014	262.0p
33,180	29 September 2014	259.1p
163,713	6 March 2015	342.6p
36,282	11 September 2015	358.0p
248,034	29 March 2016	445.3p
6,772	21 May 2016	443.0p
13,128	10 August 2016	457.0p
217,545	12 April 2017	577.0p
424,767	3 April 2018	428.0p
11,764	31 July 2018	255.0p
– unapproved (Part I – UK)		
14,616	31 August 2013	205.1p
157,680	20 May 2014	262.0p
6,750	29 September 2014	259.1p
426,720	6 March 2015	342.6p
368,712	11 September 2015	358.0p
1,127,322	29 March 2016	445.3p
340,857	21 May 2016	443.0p
29,539	10 August 2016	457.0p
1,467,295	12 April 2017	577.0p
1,954,698	3 April 2018	428.0p
25,125	24 April 2018	398.0p
145,098	31 July 2018	255.0p
– unapproved overseas (Part I – Overseas)		
15,462	7 September 2009	64.6p
31,680	9 August 2010	47.3p
54,684	21 March 2011	64.0p
74,412	17 March 2012	114.1p
153,648	19 March 2013	127.0p
551,202	20 May 2014	262.0p
640,210	6 March 2015	342.6p
648,012	29 March 2016	445.3p
720,783	12 April 2017	577.0p
30,060	18 December 2017	369.0p
1,343,905	3 April 2018	428.0p
53,458	24 April 2018	398.0p
130,272	5 October 2018	198.0p

Number of ordinary shares of 25.0p each	Exercisable until	Option price
The Inchcape SAYE Share Option Scheme – approved		
2,346	1 December 2008	274.1p
165,570	1 May 2009	282.5p
160,986	1 December 2009	345.3p
100,141	1 May 2010	368.0p
123,223	1 December 2010	441.0p
292,346	1 May 2011	383.0p
267,961	1 December 2011	315.0p
1,312,126	1 May 2012	203.0p

Included within the Profit and loss account reserve are 2,315,380 (2007 – 1,718,739) 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 2008 was £9.3m (2007 – £6.8m). The market value of these shares at 31 December 2008 was £0.9m and at 18 March 2009 was £1.2m (31 December 2007 – £6.5m, 25 February 2008 – £6.8m).

13 Dividends

The following dividends were paid by the Company:

	2008 £m	2007 £m
Interim dividend for the six months ended 30 June 2008 of 5.46p per share (2007 – 5.25p per share)	**25.0**	24.5
Final dividend for the year ended 31 December 2007 of 10.5p per share (2006 – 10.0p per share)	**48.1**	46.6
	73.1	71.1

There is no proposal to pay a final dividend for the year ended 31 December 2008.

Dividends paid above exclude £4.6m (2007 – £3.0m) 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 2007	120.6	115.9	16.4	301.1	554.0
Loss 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 1 January 2008	**121.6**	**123.4**	**16.4**	**154.8**	**416.2**
Profit for the financial year	**–**	**–**	**–**	**198.8**	**198.8**
Dividends	**–**	**–**	**–**	**(73.1)**	**(73.1)**
Issue of ordinary share capital	**0.3**	**2.7**	**–**	**–**	**3.0**
Net purchase of own shares by ESOP Trust	**–**	**–**	**–**	**(4.2)**	**(4.2)**
Share-based payments credit (net of tax)	**–**	**–**	**–**	**(1.1)**	**(1.1)**
Share buy back programme	**–**	**–**	**–**	**(16.0)**	**(16.0)**
At 31 December 2008	**121.9**	**126.1**	**16.4**	**259.2**	**523.6**

15 Principal subsidiaries at 31 December 2008

The Company is a limited company incorporated in England and Wales 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 Limited	United Kingdom	100.0%	Intermediate holding company
Inchcape Finance plc	United Kingdom	100.0%	Central treasury company
Inchcape International Holdings Limited	United Kingdom	100.0%	Intermediate holding company
Inchcape Overseas Limited	United Kingdom	100.0%	Intermediate holding company

16 Post balance sheet events

On 19 March 2009, the Company announced its proposal to raise net proceeds of approximately £232m through a Rights Issue. The Directors intend that the net proceeds would be used to reduce indebtedness which in the short-term will increase headroom and delay refinancing of existing facilities. In the longer-term, the Company will be in a better position to take advantage of market recovery.

Financial statements

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 2008 which comprise the Company balance sheet, the Accounting policies 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 2008.

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report, the 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 Directors' responsibilities section of the Corporate governance report.

Our responsibility is to audit the parent Company Financial statements and the part of the 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 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 review and the 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 Remuneration report, the Chairman's statement, the Group Chief Executive's review, the Operating review and the Financial review, the Corporate responsibility, the Board of Directors, the Executive Committee, the Corporate governance report, the Remuneration report, the Five year record and 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 Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements 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 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 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 2008;
- the parent Company Financial statements and the part of the 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

19 March 2009

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Solicitors
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Financial advisors
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Corporate brokers
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 Financial Services Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.
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More information is available at www.shareview.com

Financial calendar
Annual General Meeting
14 May 2009

Announcement of 2009 interim results
July 2009

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