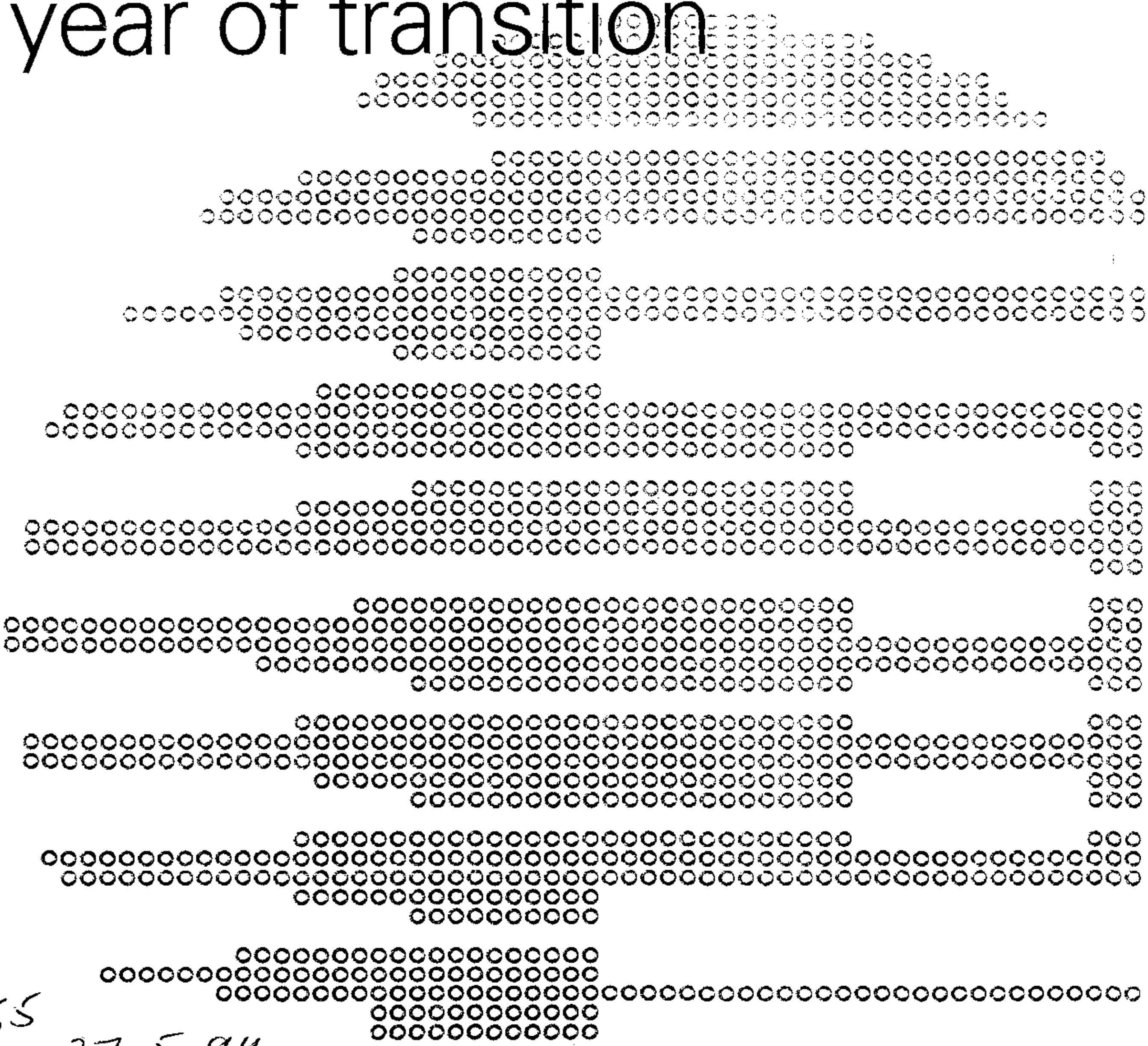
Annual report and accounts 1998

Inchcape

A year of transition



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Key messages
1998 – a year of transition

Disposals of Bottling, Marketing Asia-Pacific and Shipping agreed

Remaining divestments to be completed in 1999

Substantial return of cash to be made to shareholders

Motors operating profits affected by
- economic downturn in Asia and South America
- strong sterling
- reduction in the shareholding in Toyota (GB)

Financial highlights*

Turnover including associates and joint ventures £m

1998	OOOO	5506.4
1997		6051.7
1996		6475.7

Operating profit by activity £m 1998**

Motors	OOOOOOO	115.9
Marketing	OO	21.6
Bottling South America	OO	22.7
Office Automation	O	5.8
Shipping	O	6.1

Operating profit by region £m 1998**

Europe	OOOOOOO	53.3
Far East	OOOOO	36.2
South East Asia	OOO	20.4
Middle East	OO	15.8
The Americas	OOOO	26.9
Rest of the World	OOO	19.5

Headline profit before taxation* £m**

1998	OOOO	106.1
1997		163.8
1996		152.5

Headline earnings per share* p**

1998	OOO	8.4
1997		18.0
1996		16.5

Dividends per share** p**

1998	OOOOOOO	11.2
1997		11.0
1996		10.5

* comparatives have been adjusted to show results as if Inchcape had owned only its current 49% share of Toyota (GB) in 1997 and 1996

** profit is total operating profit before operating exceptional items, excluding discontinued operations (loss of £21.4m) and central costs (£15.5m)

*** Headline profit and earnings per share are defined in note 2e of the financial statements

**** before Foreign Income Dividend enhancement

Making the transition

In March 1998 we announced that Inchcape would focus the Group on its international Motors operations by disposing of all its non-Motors interests. Since then we have agreed four out of six transactions necessary to achieve this goal and expect that the programme will be largely complete by 30 June 1999.

As a result of these actions we anticipate making a substantial cash return to shareholders in 1999.

Progress of the divestment programme

Business stream	Action
Bottling Russia	Sold to The Coca-Cola Company for US$87m
Bottling South America	Sale to Embotelladora Arica SA ('Arica') agreed for US$750m subject to the approval of Inchcape's shareholders and the completion by Arica of its financing arrangements
Marketing Asia-Pacific	Sale to Li & Fung Distribution agreed for £93m (excluding the Timberland business – a separate announcement will be made in due course)
Shipping	Sale to Electra Fleming agreed for up to £47.5m

Outstanding disposals

Marketing Middle East and Office Automation	Inchcape is currently in negotiations to sell these businesses

Impact on the 1998 Accounts

The results for 1998 include the losses arising on the disposals of Bottling Russia and Marketing Asia-Pacific.

Inchcape in the future

Once the divestment programme is complete, Inchcape will become a Motors-only group. It will continue to be listed on the London Stock Exchange as Inchcape plc.

Inchcape is the world's largest independent importer and distributor of motor vehicles. Its Motors operations also include stand-alone retail, primarily in the UK, and financial services including consumer and dealer finance and insurance and warranty products.

"We strongly believe that all stakeholders will benefit from the greater focus and transparency brought about by the divestment programme."

Lord Marshall

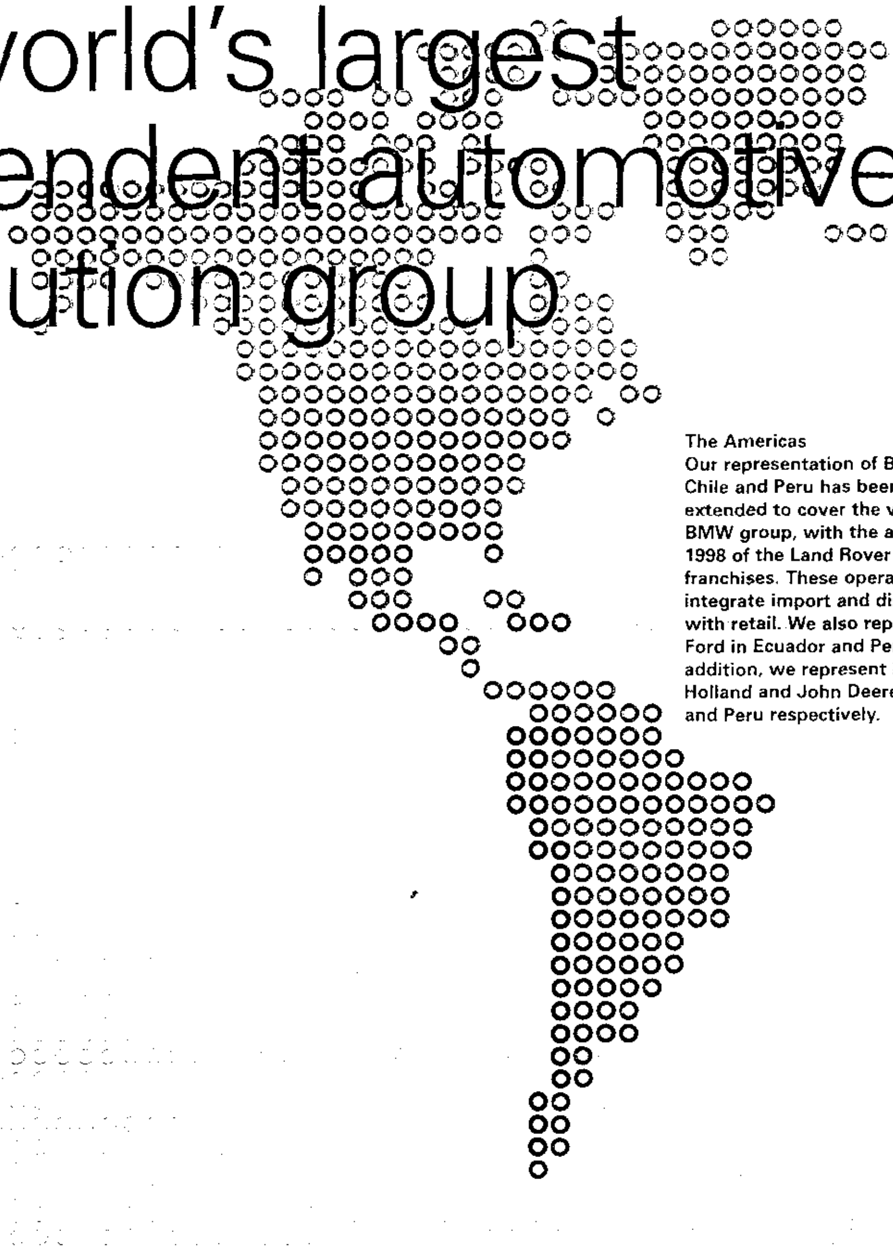
Motors role and activities

Import & Distribution
- brand representation and development
- logistics and supply chain management
- dealer network management
- after-sales support

Retail
- retailing of new and used cars
- after-sales operations
- provision of finance options

Financial Services
- financial products to dealers and retail customers
- leasing
- fleet management

The world's largest independent automotive distribution group

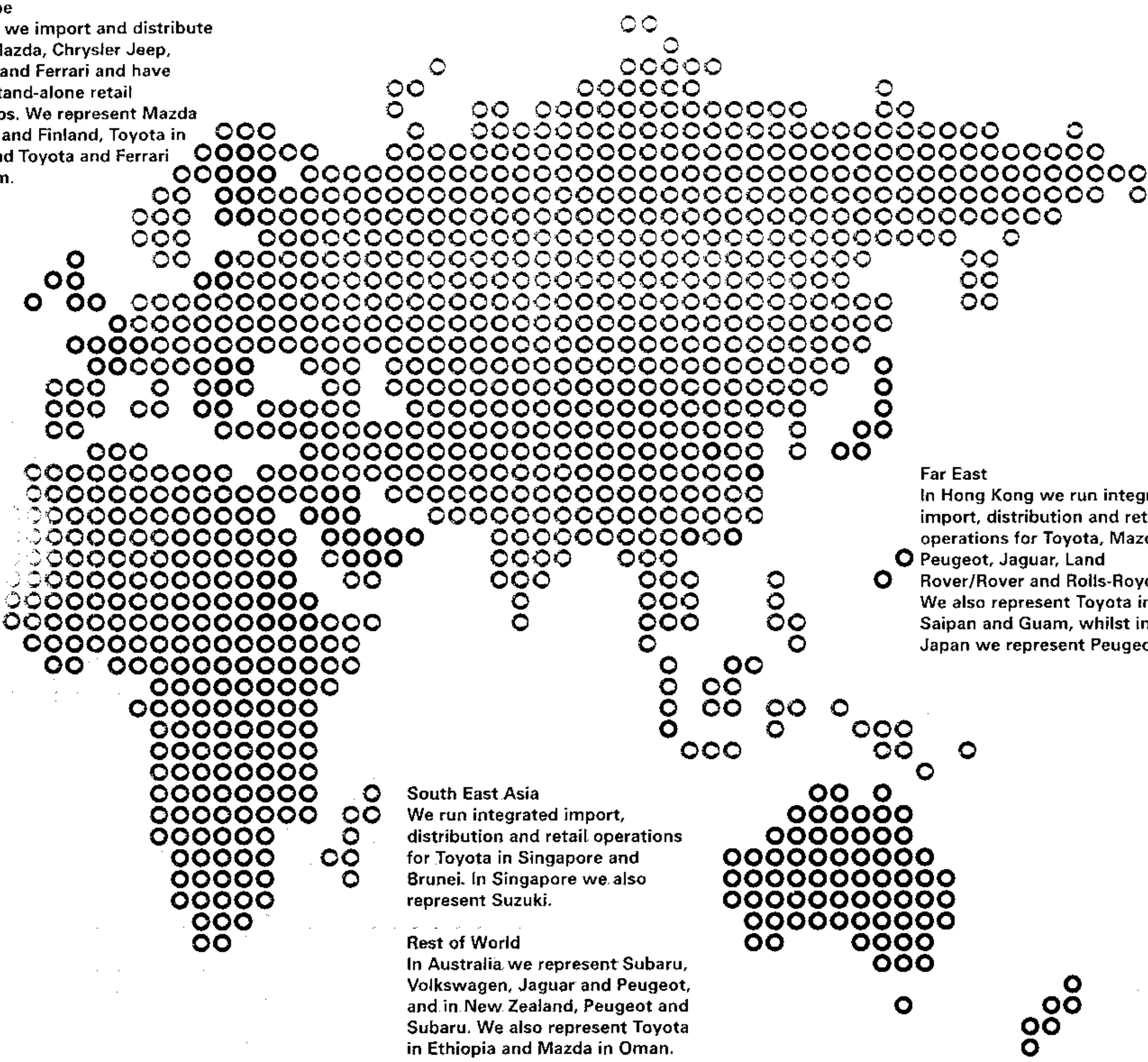


The Americas
Our representation of BMW in Chile and Peru has been extended to cover the whole BMW group, with the addition in 1998 of the Land Rover and Rover franchises. These operations integrate import and distribution with retail. We also represent Ford in Ecuador and Peru. In addition, we represent New Holland and John Deere in Chile and Peru respectively.

International presence

At the end of December 1998, Inchcape operated in 30 markets around the globe, representing 12 major car manufacturers. Worldwide, Inchcape employs more than 12,000 people in its Motors operations.

In 1998, the Group's total sales volume was over 360,000 vehicles. Of these, 180,000 were sold through Inchcape's Import & Distribution businesses; 124,000 through the two UK associate companies, Toyota (GB) and MCL Group Ltd; and 58,000 vehicles were sold through the stand-alone Retail operations.



Europe
In the UK we import and distribute Toyota, Mazda, Chrysler Jeep, Daihatsu and Ferrari and have over 50 stand-alone retail dealerships. We represent Mazda in France and Finland, Toyota in Greece and Toyota and Ferrari in Belgium.

Far East
In Hong Kong we run integrated import, distribution and retail operations for Toyota, Mazda, Peugeot, Jaguar, Land Rover/Rover and Rolls-Royce. We also represent Toyota in Saipan and Guam, whilst in Japan we represent Peugeot.

South East Asia
We run integrated import, distribution and retail operations for Toyota in Singapore and Brunei. In Singapore we also represent Suzuki.

Rest of World
In Australia we represent Subaru, Volkswagen, Jaguar and Peugeot, and in New Zealand, Peugeot and Subaru. We also represent Toyota in Ethiopia and Mazda in Oman.

Chairman's statement

1998 was a year of transition for Inchcape. Last March we set ourselves the goal of disposing of all our non-Motors interests to focus the Group on its international Motors operations and increase shareholder value. We have made substantial progress towards this objective and expect the process to be largely complete by 30 June 1999.

Meanwhile, Motors, the ongoing business of Inchcape, achieved strong profits growth in Continental Europe and Australasia in 1998, but this was more than offset by the impact of the economic downturn in Asia and South America [illegible] of our shareholding in Toyota (GB).

Strategy update

Since we announced our strategy to focus Inchcape entirely on its international Motors operations, the economic environment has changed substantially. Nevertheless, we have now agreed four out of six major disposals and believe that the divestment programme has so far produced a very satisfactory outcome for shareholders, given current trading conditions.

Bottling Russia

We announced on 5 October 1998 that we had finalised the sale of our Russian Bottling business to The Coca-Cola Company for US$87m. Although this was much lower than the outline agreement we announced at the time of our interim statement, the collapse of the Russian economy at the end of August led to a rapid increase in trading losses and your Board decided it was in the best interests of shareholders to cap Inchcape's exposure as quickly as possible. From 1 January 1998 to disposal this business made operating losses of £22.0m.

Marketing Asia-Pacific

Having investigated the various disposal options for the Marketing Asia-Pacific business in greater detail, we decided that it should be handled separately from the Marketing Middle East business and that a sale, rather than a demerger, was the best way to realise value for our shareholders. On 8 January 1999 we announced the sale of the Asia-Pacific business for a cash consideration of £95m to Li & Fung Distribution, a Hong Kong based private investor group. The transaction is expected to be completed in April 1999. The write-downs arising from this transaction are included in the financial statements.

Inchcape's regional Timberland business is not included in the sale and separate discussions are being held with The Timberland Company. An announcement of the outcome of those discussions will be made at the appropriate time.

In 1998 total operating profits from Marketing Asia-Pacific amounted to £9.4m.

Bottling South America

On 1 February 1999 we were pleased to announce an agreement to sell our Chilean and Peruvian bottling interests to Embotelladora Arica SA ('Arica') for US$750m in cash. The transaction is expected to complete during May 1999, subject to the approval of Inchcape's shareholders and the completion by Arica of its financing arrangements. Your Board believes this is an excellent outcome for shareholders. Further details will be included in the circular to be sent to shareholders convening the Extraordinary General Meeting required to approve the sale. In 1998 operating profits from these businesses amounted to £22.7m.

Shipping

On 8 February 1999 we announced an agreement to sell Inchcape Shipping Services to Electra Fleming, the London based venture capital firm, for up to £47.5m. This transaction is expected to be completed on 31 March 1999. In 1998 the business made operating profits of £6.1m.

"...the divestment programme has so far produced a very satisfactory outcome for shareholders..."

We are currently in negotiations to sell our interests in Marketing Middle East and Office Automation and will make further announcements in due course. In 1998 Inchcape's share of operating profits from Marketing Middle East was £12.2m and from Office Automation was £5.8m.

In the interim statement we indicated it was likely that shareholders will receive a substantial cash return from the disposals in 1999. Details will be included in the circular *to be sent to shareholders regarding the South* American Bottling transaction.

1998 review and prospects

Headline profit before tax fell from £184.1m to £106.1m and Headline earnings per share from 19.3p to 8.4p. After exceptional charges principally relating to disposals and a goodwill write-off in Motors, the loss per share was 69.1p.

The comparative numbers for 1997 include Toyota (GB) on a consolidated basis. Had Inchcape owned only its current 49% share in 1997, then operating profits in Motors Import & Distribution and Motors Financial Services would have been £14.6m and £4.5m lower respectively and Headline earnings per share would have been 18.0p.

In addition, Headline profit before tax was reduced by a substantially higher interest charge on an increased level of debt, weakness in Asian, South American and Russian markets and translation at higher sterling exchange rates. These factors more than outweighed a strong performance from the Motors Import & Distribution businesses in Europe and Australasia.

Headline earnings were also affected by a temporary increase in the Group's tax charge to 52.0% (1997 – 34.3%), mainly due to unrelieved losses.

In the review that follows, the operating profit comparatives have been adjusted for the reduction in the Toyota (GB) shareholding.

Motors

Motors achieved a creditable performance despite difficult conditions in several major markets. Operating profits fell 12% to £115.9m but nearly half the decline was due to the translation of profits at higher sterling exchange rates. Motors operating profits in Asia reached £40.3m (1997 – £57.8m), despite the economic slowdown in the region, amounting to 35% of the total, compared to 44% in 1997.

Import & Distribution – the Import & Distribution businesses, which accounted for nearly 80% of Motors operating profits, recorded a 7% fall in profits to £90.9m but profits would have been down only 1% at constant exchange rates. Particularly strong performances from the Toyota and Mazda franchises in Continental Europe and Subaru in Australasia helped to counteract the downturn in Asia and South America.

Retail – we continued our previously announced programme of investment in new and existing facilities in the UK, whilst exiting underperforming dealerships. The refurbishment programme, which will be completed by mid-1999, caused some operational disruption. This was the main factor in the profit fall from £12.2m to £8.3m.

Financial Services – there was an increased contribution from many of our financial products businesses in Europe and Australasia but this was more than offset by the downturn in Asia. Profits fell to £16.7m from £22.1m.

Exceptional items

The £403.7m of exceptional items are predominantly non-cash. They mainly relate to goodwill and to reductions in the value of assets being disposed. In 1998 there were some cash outflows related to the Marketing restructuring programme but these were fully offset by inflows as a result of reductions in related working capital. In addition, we received the proceeds from the disposal of Russian Bottling. For 1999 and beyond, only some £10m of the costs will give rise to cash outflows and these are more than offset by directly related cash inflows from the associated disposals.

The main item in the exceptionals is a write-off of goodwill relating to previous acquisitions amounting to £189.7m, of which an operating exceptional of £124.7m arose from a change in accounting practice. In addition, the imminent disposal of our Marketing Asia-Pacific business has caused us to write down the value of tangible assets in that business by £140.3m and the disposal of our Russian Bottling business gave rise to a loss of £43.2m. We also charged costs of £10.6m in relation to the Group restructuring programme.

Inchcape employees

On behalf of the Board I thank all the present and former employees of Inchcape for their contribution and their continued professionalism and dedication in what has been a difficult environment during the last year. Wherever possible we have arranged for the transfer of management and employees of divested businesses to the new owners.

Board changes

I am pleased to welcome Alan Ferguson as Group Finance Director. Alan joined the Board as an executive Director on 1 January 1999 having worked for Inchcape in a number of posts since 1983. He became Finance Director of Inchcape Motors International in 1995 and will succeed Les Cullen as Group Finance Director on 9 March 1999.

As we announced in March 1998, Philip Cushing, Group Chief Executive, Les Cullen and I, are responsible for leading and implementing the disposal programme. As expected, this programme will be largely complete by 30 June 1999 and at that point Philip Cushing and Les Cullen will be leaving the Board and the Group. Peter Johnson and Trevor Taylor, who are currently executive Directors and responsible for operational management of the Motors business, will then become Group Chief Executive and executive Deputy Chairman respectively.

"Motors achieved a creditable performance despite difficult conditions in several major markets."

I pay a special tribute to Philip Cushing for all he has done to develop and focus the Group since he joined in 1990 and particularly for his lead role in the disposal programme since early last year. I am also grateful to Les Cullen, who joined in 1997, for quickly bringing his broad international and commercial experience to bear on the issues facing the Group and for his strong support of our efforts.

Prospects

By 30 June 1999 we expect that the break-up of the Group will be largely complete and Inchcape will then be an international Motors group. In 1999 most of our major markets are forecast to decline in volume. However, the actions we continue to take to strengthen relationships with our motor manufacturer principals, to control working capital and to exit underperforming businesses, will help to mitigate the impact on profitability.

Dividend

The Board recommends that a final ordinary dividend of 6.6p (1997 – 6.6p) should be paid, giving a total dividend for the year of 11.2p (1997 – 11.0p). The dividend is not covered by Headline earnings per share due to losses associated with the Russian Bottling business which has now been sold.

This dividend is the last ordinary dividend which will be paid before the Group becomes an international Motors group. In future, dividends will be based on the earnings from the new group. Your Board anticipates that these dividends will be covered 2.5 times by earnings and that the interim dividend will comprise about one third of the total.

Lord Marshall
8 March 1999

An interview with Philip Cushing and Peter Johnson

With Inchcape's transformation into a Motors-only group now almost complete, Group Chief Executive Philip Cushing will shortly be leaving the Company. He will be succeeded by Peter Johnson, who is currently Chief Executive of Inchcape Motors.

Peter Johnson and Philip Cushing

Philip Cushing

When you announced the restructuring of Inchcape in March 1998 you said your first priority was to deliver value to shareholders. Do you think you have achieved that?

Yes. When the restructuring is complete, when we have collected all the proceeds, and we have distributed the bulk of those proceeds to shareholders, I believe any objective analysis will show that we will have achieved what we set out to achieve.

In early 1998, despite two years of good progress in improving the performance of the Group, the improvement had not been reflected in our share price, nor did we expect it to be in the near future. In addition, with many of our markets looking increasingly volatile, we were concerned that shareholder value would be seriously eroded. We decided that firm and positive action had to be taken. Doing nothing was not an option.

The restructuring programme has been an enormous undertaking, involving long and complex negotiations with many different parties in many different parts of the world, all against a backdrop of major turbulence in the world economy. It has been a daunting task, and I would like to take this opportunity to thank all my colleagues involved in the programme for their hard work and dedication. At the end of the day, the test as to whether or not we have delivered shareholder value is not what the share price was when we announced the restructuring and what it is today; but rather, what the price is now and what it would have been had we not gone ahead. Add to that our significant cash return to shareholders, and I believe we have come through the test very well indeed.

Having presided over perhaps the most radical restructuring in Inchcape's history with many of the Group's oldest businesses divested, what are your feelings about the break up of the Group?

First of all, I am delighted at the value we have so far been able to achieve for our shareholders, which was our primary objective. At the same time, we had to look after the interests of our other stakeholders. So I am particularly pleased that, in addition to achieving a good price for the businesses, we have also helped ensure continuity for the vast majority of our operations and employees.

Naturally, we all feel a sense of sadness at saying goodbye to colleagues with whom we have worked for many years, and to businesses which are very much part of our heritage. Inchcape Shipping Services and our Marketing operations in Asia-Pacific and the Middle East have a long and proud history within the Group, and our South American Bottling operations, although more recent in comparison, are excellent businesses with very good people. There is consolation in the fact that we have sold all the businesses as going concerns with good potential for growth under new ownership.

"...I am delighted at the value we have so far been able to achieve for our shareholders..."

Where does all this leave Inchcape now? Do you think you are leaving Inchcape with the Group in good shape?

The restructuring has brought dramatic change, but it was absolutely essential for Inchcape going forward. We have suffered in the past from a lack of focus; now our focus will be absolute as a Motors group. For many years, Motors has been by far the largest and most successful part of the Group, and the fundamentals of the business are in very good shape. Although 1998 and 1999 are difficult years for the industry worldwide, I believe our Motors operations will have opportunities for significant long-term growth under the leadership of Peter Johnson.

Peter Johnson

We have heard that Inchcape is going to be a pure Motors group in the future. What exactly does that mean and what are the benefits?

From being a very complex group, with interests as diversified as Coca-Cola bottling plants in Chile to fashion retailing in Singapore, Inchcape will in future be focusing only on Motors and Motors related businesses. We are already the world's largest independent distributor of motor vehicles, representing many leading manufacturers in markets around the world. We also have significant retail operations in the UK, and a growing Financial Services business, providing leasing, hire purchase and insurance options for customers in several of our main operating markets.

The key benefit of the restructuring is one of focus. In future, the Group will be able to concentrate its financial resources, management skills, time and effort on a single business sector, which we feel is absolutely essential in today's fast changing, highly competitive business environment.

With the major changes taking place in the automotive industry, how is Inchcape preparing to face the challenges ahead?

The rapid pace of change in our industry is bringing many challenges, but also considerable opportunities. Challenges to the traditional way of thinking and doing things; opportunities for those who are prepared to think and act differently. This has significant implications for Inchcape. We must be increasingly innovative. We must be more customer focused, not simply product focused. We must add value, while working closely with manufacturers – our principals – to reduce costs and make the supply chain more responsive. And we must continue to improve our quality of service. Making sure all this happens will be one of my main tasks.

We are starting from a position of strength. We understand the changing dynamics of the industry; we have industry leading systems and logistics; we have the financial resources; and most importantly, we have the people and skills to enable us to deliver an innovative, customer focused service across our established businesses, whilst continuing to explore and develop new opportunities. At the same time, we are focusing hard on performance with a view to maximising the return on our assets. We will be taking firm action to deal with

"We are starting from a position of strength."

businesses that consistently underperform.

Within the Motors businesses, Import & Distribution is by far the biggest activity. How do you see that developing?

We will continue to build on our excellent relationships with leading manufacturers, developing true partnerships rather than simply being service providers. We will work closely with them to ensure faster response times for customers. On the back of this, we will drive organic growth through our existing businesses, and we will also look to invest in new markets – especially where this expands our relationship with a particular principal.

Toyota is our largest single principal and our relationship remains very strong. We have also been developing stronger relationships with manufacturers such as Jaguar, Subaru, Peugeot and Ferrari/Maserati.

Experience has shown that some of our most successful businesses in terms of maximising returns are those where we have been able to integrate import and distribution and retail activities. This has proved particularly effective for us in Hong Kong, Singapore and South America, and we are looking at opportunities for such vertical integration in other markets, whether it be on a national basis, in major conurbations or in particular regions.

Could you outline some of your other strategic initiatives for the future?

We are looking at opportunities to expand our ancillary businesses. These include new initiatives in after-sales operations and expanding our Financial Services business, both by market and product range.

Technology is also bringing exciting opportunities to our business, with electronic commerce – retailing via the Internet – playing an increasing role in the motor industry. We have a strategic investment in Autobytel USA, the world's premier on-line automotive purchasing and related services business, and have recently acquired the exclusive licence to operate Autobytel in the UK. Since it was launched in the US in 1995, Autobytel has generated nearly two million customer purchase requests, and we see significant potential for this innovative sales channel in the UK market.

Our investments in Autobytel will ensure we are at the forefront of developments in this area. Meanwhile, we will continue to explore the opportunities technology offers in order to improve efficiencies, reduce costs and build further growth for the future.

Motors

Despite unfavourable conditions in several key markets, 1998 saw a creditable performance from Motors, especially in Import & Distribution, which is by far our largest activity. We achieved excellent growth in Europe and Australasia, but this was more than offset by the downturn in Asia and South America; the reduction in our shareholding in Toyota (GB) from 75% to 49%; and the effects of currency translation.

Operating profit before exceptionals declined to £115.9m (1997 – £151.4m), with the reduction in our Toyota (GB) shareholding accounting for £19.1m of the shortfall, and the exchange rate impact on translation of profits into sterling representing a further £6.4m. The comparative numbers quoted in the operational review which follows have been restated for the impact of Toyota (GB). On a like for like comparison – and at constant exchange rates – overall profits declined by £10.0m or 7.6%.

Considering the difficult market conditions in which many of our businesses operated, this performance underlines the continued resilience of our Motors activities.

Import & Distribution

Resilience is evident in Import & Distribution, where the 1998 operating profit of £90.9m was 7% down on the restated figure for 1997. At constant exchange rates, profits would have shown only a 1% decrease, with gains in Europe and Australasia being outweighed by the downturn in Asia and South America.

In the **UK**, the passenger car market grew by 3.5% during 1998, bringing registrations of new cars up to 2.2 million for the year, the second highest level ever. Registrations in the first half were up 7.8%, but there was a significant slowdown in the second half.

Toyota was one of the UK's fastest growing marques in 1998. Sales increased 13.9% for a market share of 3.7%, making Toyota the ninth best-selling marque in the UK. These gains were a result of a change in the sales mix, with important advances being made in the fleet sector.

Chrysler's market share saw a decline from 0.8% to 0.7%, primarily due to the run-out of the Grand Cherokee and Neon, both of which are being replaced in 1999. However, in the highly competitive multi-purpose vehicle (MPV) sector, the Voyager and Grand Voyager achieved a combined share of 16.6% – a figure which is expected to increase following the introduction of a turbo diesel model Voyager in late 1998.

Daihatsu increased market share from 0.3% to 0.4% as it repositioned itself from a predominantly 4x4 and light commercial vehicle (LCV) franchise to focus on the mini-car segment. Several new cars were launched during the year with the associated marketing costs impacting on profitability.

Ferrari continues to make a strong contribution to our operating profits. During the year, we were also appointed as Maserati importers in the UK. We are confident that a relaunched, reinvigorated Maserati brand, backed by the professional management and specialist expertise of our Ferrari business, will offer good opportunities for growth.

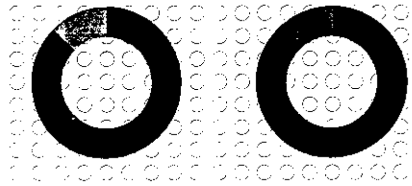
Profitability at our Mazda associate recorded strong growth, despite a slight erosion of market share from 1.4% to 1.3% and a decline in volumes of 1,331 units to 29,962. The improved profit performance was primarily due to the successful launch of the new MX5 and the availability of a model range more attractive to the European market.

Our Mazda business in **France** also performed well in a market that grew 13.5% to reach 1.94 million registrations. Mazda achieved a 16.7% increase in volume, albeit from a modest base, gaining an 8.7% share of the Japanese segment, compared to 8.1% in 1997.

In **Finland**, Mazda continues to make progress with greater sales volumes and profitability recorded during the year. Despite the downturn in the Baltic economies, export sales to the region have grown.

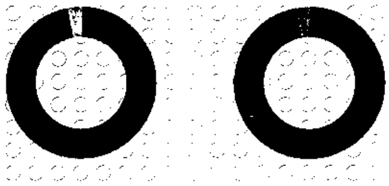
Strong market growth was seen in **Belgium**, with total registrations up 14.1%. Despite the absence of appropriate models in the diesel segment – which accounts for over 52% of the

Geography turnover



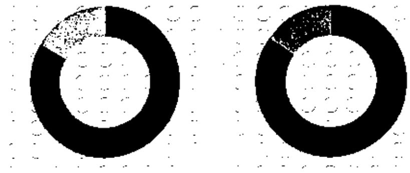
	1998	1997
Europe	71%	66%
Asia	16%	22%
Other	3%	12%

Business segment turnover



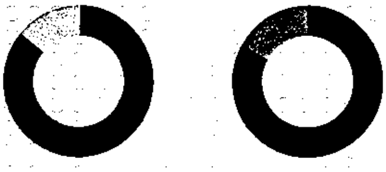
	1998	1997
Import & Distribution	77%	77%
Retail	20%	20%
Financial Services	3%	3%

Geography operating profit



	1998	1997
Europe	48%	41%
Asia	35%	44%
Other	17%	15%

Business segment operating profit



	1998	1997
Import & Distribution	79%	74%
Retail	7%	9%
Financial Services	14%	17%

market – Toyota Belgium increased its overall share of the passenger car market from 4.7% to 5.3% with sales of 26,400 units. The launch of the new Corolla and the Avensis made a significant contribution to the improvement.

In May we purchased the Ferrari franchise in Belgium, Garage Francorchamps, which has a long and distinguished association with Ferrari. This business complements our UK Ferrari business and the two are sharing management expertise.

Toyota Hellas in **Greece** won Toyota's coveted 'Best of the Best' award – the only European distributor to receive the honour in 1998 – as well as the prestigious 'Triple Crown' award (for market leadership in passenger cars, LCVs and total vehicle volumes) for the second consecutive year. With the market increasing by 10.7%, Toyota strengthened its share of the passenger car sector from 9.5% to 10.5%, while its share of the LCV sector rose from 25.7% to 31.5%. The launch of the Avensis and the popularity of the Hilux in the LCV sector were the most significant contributors to sales.

The car market in **Hong Kong** contracted in the face of the Asian economic downturn. Registrations fell 25% during the year, resulting in fierce price competition. Both Toyota and Mazda held market share in these difficult conditions, but lower volumes and margins hit profitability. Our Toyota franchise, Crown Motors, won Toyota's 'Triple Crown' market share award for a record seventh consecutive year.

Luxury car sales have been under particular pressure, with the sales of our Jaguar and Rolls-Royce businesses also adversely affected by the strength of sterling. Despite this, interest is running high in the Jaguar S-Type, which has already attracted many advance orders ahead of its Hong Kong introduction in mid-1999.

Singapore did not escape the region's economic difficulties, but in this highly regulated market, car sales volumes increased during the year by 7.7% as the government released more certificates of entitlement (COEs) into the market. Nevertheless, competition has been intense, especially amongst mid-range cars. Parallel imports have also caused some disruption to the market. Toyota retained its leadership of the overall vehicle market, but with a reduced share of 20.9%, down from 23.9%.

In **Australia**, the market grew strongly with registrations up 11.8% during the year to nearly 810,000. Subaru, Volkswagen, Peugeot and Jaguar all saw increased volumes. The all-terrain segment, in which Subaru is a significant player, showed a 35.5% increase. Subaru took a 9.7% share of the segment, up from 5.8% in 1997. Total Subaru volumes increased by over 40% to 20,445 for 1998, making Australia the third largest market worldwide for Subaru after Japan and the US. Subaru's trading profits for the year were aided by a weak Yen in the first nine months of 1998. The Australian dollar deteriorated in the latter part of the year and we anticipate a softer market in 1999.

Import & Distribution Key franchises and markets

Manufacturer	Actual number markets covered	UK/Ireland	France	Belgium	Finland	Baltic States	Greece	Middle East	Japan	Hong Kong	Singapore	Brunei	Australia/NZ	South America	Others
BMW	2													O	
Chrysler	2	O													
Daihatsu	4	O	O	O											
Ferrari	9	O		O				O							
Ford	2													O	
Jaguar	7				O	O				O			O		O
Mazda	9	O	O		O	O		O		O					
Peugeot	4								O	O			O		
Rover	4									O				O	
Subaru	2												O		
Toyota	12	O		O			O			O	O	O			O
Volkswagen	2											O	O		

Import & Distribution Business portfolio by manufacturer

	Number of markets	Years in relationship
BMW	2	4
Chrysler	2	5
Daihatsu	4	6
Ferrari	9	6
Ford	2	6
Jaguar	7	8
Mazda	9	25
Peugeot	4	7
Rover	4	14
Subaru	2	6
Toyota	12	32
Volkswagen	2	6

The severe economic difficulties in **Brunei** are reflected by the fact that car registrations fell by nearly 50% during 1998. This led to overstocking and pressure on pricing, which impacted on profits. Toyota remained the market leader, gaining an additional one point of market share to 22.7%. In January 1999 we exited from our Rover franchise.

Saipan and **Guam** have been adversely affected by the downturn in tourism, and neither economy is expected to show recovery during the coming year. Saipan saw a 29% decline in registrations in 1998. Toyota retained market leadership with a 31.1% share on reduced volumes. Registrations in Guam rose by 11% boosted by the demand for replacement vehicles in the wake of a severe typhoon. Again, Toyota retained market leadership and won the 'Triple Crown' award in both Saipan and Guam.

The economic environment in South America deteriorated dramatically in the second half of 1998, having a significant impact on vehicle markets, which declined between 30% and 50%. Sales of BMW in **Chile** were further held back by ongoing speculation that the luxury sales tax will be lowered. In **Peru**, luxury tax has increased, leading to a steep decline in demand. Profits from the region were also impacted by start-up costs for the Land Rover and Rover franchises in Chile and Peru, which commenced trading during the year. In December we sold our main agricultural equipment business in the region.

Retail

In the UK, which accounts for the bulk of our Retail operations, our major refurbishment programme continued apace in 1998. The programme is expected to be completed by summer 1999, providing us with an impressive network of modern showrooms and advanced after-sales facilities. With our focus on fewer, quality outlets we will be looking to significantly improve the returns on this business.

Encouragingly, in our ongoing dealerships, new sales volumes during the year were up 11.5% and used car sales increased 8.9%. However, volume increases for UK retailers have been counterbalanced by reduced margins on both new and used cars.

Disruption costs associated with the refurbishment programme continued to affect financial performance during 1998, with operating profits declining from £12.2m to £8.3m. The impact of disruption will carry through into 1999.

Financial Services

The past two years has been a period of investment and expansion in Financial Services with the launch of several new ventures. We are through the start-up phase for these businesses, and we are now looking to increase contributions from this division as the new businesses develop and mature.

On a pro forma basis, operating profits from Financial Services fell to £16.7m from £22.1m, mainly due to the economic downturn in Asia.

"...this performance underlines the continued resilience of our Motors activities."

Despite the Asian economic problems, our Hong Kong joint venture put in an acceptable performance – profits declining only 13.2%. The Financial Services operation in Brunei suffered from the very difficult economic environment in the country. Profitability was severely curtailed by losses incurred on selling repossessed vehicles into a declining market. Overall, however, the company remains in profit.

Chrysler Jeep and Inchcape Financial Services in the UK and our joint venture in Greece made improved contributions as the businesses matured and increased levels of penetration. During the year we launched Maranello Financial Services in the UK, as an additional service for our Ferrari customers.

Although the UK leasing industry has been affected by the fall in residual values, our conservative approach to residual values and our balanced portfolio of marques and models has helped limit the impact on our leasing business. As part of our policy to develop innovative, customer-friendly products, we have introduced a new personal contract purchase programme in 1999 called *Signature.* The scheme is designed to bring the benefits of car leasing to individuals, and take advantage of drivers' increasing desire for greater flexibility and options in purchasing and financing a vehicle.

New developments

We continue to explore opportunities for business development, especially in areas of new technology. In 1997, we took a strategic 3% holding in Autobytel USA, the world's premier on-line automotive purchasing and related services business, and in December 1998 acquired an exclusive 20-year licence to operate Autobytel in the UK. Since it was launched in the US in 1995, Autobytel has generated nearly two million customer purchase requests, and we see significant potential for this sales channel in the UK market. The service is due to be operational in the UK in the second quarter of 1999.

Businesses being discontinued

As part of the Group's strategy to focus on Motors the following businesses are being divested. The 1998 results arising from these businesses are included in the accounts as 'to be discontinued'. They will be treated as discontinued once the disposals are complete.

Marketing

Inchcape Marketing Services operates in two main regions – Asia-Pacific and the Middle East – providing a range of marketing and distribution services for leading manufacturers across four business areas.

Asia-Pacific

Operating profits in 1998 fell by 39% to £9.4m (1997 – £15.5m) primarily as a result of the severe economic downturn in the region compounded by translation of profits at higher sterling exchange rates. At constant exchange rates, operating profits would have been £2.0m higher.

Consumer/Logistics – sales and profits were affected by the fall in consumer demand across the region and by continuing tight credit controls in China. In addition, results in Japan were adversely affected by the loss of the Mars Petfood agency at the end of 1997 and by the loss of Pringles snack foods halfway through 1998.

Industrial – profits in Thailand were severely impacted by a collapse in the tractor market with volumes down by more than 80%. Profitability in the building supplies and land management products businesses was also affected by weak demand.

Branded Lifestyle – this business suffered from a significant drop in consumer demand and the fall in the number of tourists in the region, especially in Hong Kong and Singapore. This was partially offset by lower losses in the Timberland business in Japan.

Specialist Businesses – reduced demand caused a drop in profitability in the contract manufacturing business.

Middle East

1998 operating profits remained stable at £12.2m (1997 – £12.7m) despite weakness in the local economies.

Consumer/Logistics – there were improvements in performance from several major agencies, particularly Nestlé, which had another strong year. This was partially offset by start-up losses at our new logistics facility.

Industrial – profits improved overall, with good performances from the instrumentation and oil and gas services operations in Abu Dhabi.

Specialist Businesses – profits in our supermarkets business were depressed by the opening of new outlets in Lebanon and by increased price competition in Bahrain and Abu Dhabi.

Bottling South America

This business involves the bottling and distribution of soft drinks for The Coca-Cola Company in southern Chile and in Peru.

Operating profits in 1998 fell by 25% to £22.7m (1997 – £30.1m). The principal reason for the reduction was the slowdown in the Chilean and Peruvian economies. Costs for sugar and packaging also increased and concerns about regional economic problems affected consumer confidence. Profits would have been £2.5m higher if they had been translated at constant sterling exchange rates.

Chile – the market softened significantly in the second half of the year, particularly during the fourth quarter which is seasonally the most important. Volumes increased by only 1.7% overall for the year and competitive discounting led to margin erosion.

Peru – volumes increased by 54%, the majority of the increase being due to the merger with the Coca-Cola bottlers in the north and south of Peru which took place in January 1998. However, profits were adversely affected by a change in the sales mix and discounting. Higher distribution and freight costs were also incurred in the first half of the year due to bad weather caused by El Niño and the business incurred rationalisation and reorganisation costs in relation to the merger with the bottlers in the north and the south.

Office Automation

Inchcape has a 50% shareholding in Inchcape NBG, which has a direct presence in ten markets in Asia-Pacific and exports to more than ten others.

In 1998, Inchcape's share of operating profits fell by 6% to £5.8m (1997 – £6.2m) and would have been flat if translated at constant exchange rates. This was a very strong performance given economic conditions in the Asia-Pacific region. Underlying profits were flat in Australasia and grew in Hong Kong. However, this was offset by weakness in South East Asia, particularly in Thailand.

Shipping

Inchcape Shipping Services provides support services for vessels in port, handles containers for Liner principals and offers a portfolio of other shipping related services.

In 1998, operating profits fell 42% to £6.1m (1997 – £10.6m). This was partially due to translation at higher sterling exchange rates, which accounted for £0.8m of the reported decline.

Ship Services – there was good volume growth around the world but an underlying improvement in profits was offset by the impact of profits translation at higher sterling exchange rates resulting in a flat performance overall.

Liner – the Liner business accounted for two thirds of the downturn in profits which was principally due to increased investment in IT to prepare the business for the Year 2000. Margins also came under pressure in the second half of the year.

Others – the Machinery Services business suffered from postponed repeat orders in the Middle East and the downturn in Asia also affected profitability.

Financial review

The trading results of the businesses are explained in the Chairman's statement and operating reviews. This review gives further information on financial and accounting matters.

Disposals and discontinued activities

The only individually notable disposals were the 26% interest in Toyota (GB), as a result of which the Group's remaining 49% interest was accounted for as an associate with effect from 1 January 1998, Bottling Russia and an agricultural equipment business in South America. Discontinued activities in 1998 mainly comprised the Russian Bottling operation. In 1997 there were no operations that were sufficiently material to be treated as discontinued.

Post balance sheet events

Note 15 explains the disposals agreed since 31 December 1998 in respect of Marketing Asia-Pacific, Shipping and the Bottling South America operations.

Financial reporting and accounting standards

Given the previously announced strategy to focus on Motors activities, the results of all other operations are now classified as either 'discontinued' or 'to be discontinued' depending on the status of their disposal as at 8 March 1999. Central costs are shown in the segmental results together with Motors and will reduce once the Group restructuring is complete.

To aid understanding of the core Motors business, note 1e shows additional analysis of the activity's turnover, operating profit and net assets. In this note, to provide a year on year representative comparison, the 1997 comparative period has been restated on a pro forma basis as if Toyota (GB) had been a 49% associate for that year.

The Group has adopted FRS 9 – Associates, Joint Ventures and Other Joint Arrangements. As a consequence, the presentation of operating profits and interest in the profit and loss account has been restated and gross balance sheet details and additional analysis of Toyota (GB), given its significance, have been provided.

The Group has adopted FRS 14 – Earnings per Share, which has no material effect.

The Group has also adopted FRS 10 – Goodwill and Intangible Assets and FRS 11 – Impairment of Fixed Assets and Goodwill. From 1 January 1998, goodwill arising from acquisitions is held as a fixed asset, less amortisation and, where necessary, any provisions for impairment.

Exceptional items

The exceptional items of £403.7m are set out in note 2d.

As part of the overall implementation of the new standard on goodwill, the Group's accounting practice has been changed so as to write off past goodwill that is permanently and totally impaired. Consequently, following a strategic review of the continuing Motors business, £124.7m has been written off as an operating exceptional charge in the year. The businesses to which this relates are certain European Motors operations predominantly purchased through the TKM acquisition in 1992.

Additionally, as part of the cost of disposals and terminations of businesses, £48.8m of goodwill has been written off in respect of

Marketing Asia-Pacific, £13.7m in Motors and £2.5m in other activities. Thus, in total, £189.7m of historic goodwill has been written off through the profit and loss account but this has no impact on Group net assets, because it had previously been charged to reserves.

In addition:
- £4.1m was realised on the sale of investments and properties;
- £6.6m has been provided as an operating exceptional item in relation to discontinued businesses;
- £140.3m has been provided as a provision for impairment in relation to the Marketing Asia-Pacific disposal;
- £43.2m was the loss on the sale of Bottling Russia;
- £18.0m was the gain on the sale of 26% of the Group's interest in Toyota (GB);
- £15.4m has been charged in relation to the sale and termination of certain Motors activities and £20.0m in relation to other businesses; and
- £10.6m has been charged for costs related to the fundamental reorganisation of the Group.

Cash flow

	£m	£m	£m
Net debt – 1 January 1998			(96.0)
Operating profit		74.3	
Depreciation and amortisation		54.2	
Dividends from joint ventures and associates		37.8	
Working capital			
– Marketing Asia-Pacific	20.9		
– Motors supplier related credit	(73.6)		
– Motors other trade creditors	31.0		
– other	17.3	(4.4)	
Capital expenditure and acquisitions		(149.6)	
Disposals of fixed assets and businesses		111.1	
Payments in respect of exceptional operating expenses and terminations		(34.7)	
Other items		(2.0)	
Interest		(25.1)	
Tax		(40.8)	
Dividends paid to shareholders and minorities		(68.2)	
Movement in net debt			(47.4)
Net debt – 31 December 1998			(143.4)

The reduction in Marketing Asia-Pacific working capital primarily resulted from the exit and terminations of businesses. The reduction in Motors interest-bearing supplier related credit followed the change in policy announced in 1997.

Expenditure in respect of fixed assets and acquisitions totalled £149.6m. Motors operational capital expenditure amounted to £60.4m including £19.8m in Retail and £16.4m for leased and rented vehicles. Bottling spent £32.5m of which £13.0m was in respect of Russia, £10.0m in Peru and £9.5m in Chile.

Acquisition investment amounted to £26.4m, of which £15.4m was in respect of Bottling Peru. The balance relates mainly to operational capital expenditure in the businesses to be discontinued.

Disposals generated £111.1m, of which sales of fixed assets amounted to £30.4m. These sales were predominantly in Motors, comprising £14.6m from the sale of properties and £13.6m from the disposal of leased and rented vehicles. The sale of businesses generated £80.7m of which £51.0m was received as consideration for Bottling Russia, the balance primarily arising from the disposal of an agricultural equipment business in South America.

Payments in respect of exits and terminations comprised £19.1m in respect of exceptional operating items and £15.6m for terminations. Of the former, £6.8m was paid on the previous year's revision of the Singapore government's levies and fees, and £5.2m for Motors Retail branch closures. Of the payments for terminations, £10.2m was paid out in respect of various exits in Marketing Asia-Pacific.

After the payment of interest of £25.1m, tax of £40.8m and dividends of £68.2m, the Group had an overall cash outflow in the year of £47.4m, resulting in net debt of £143.4m.

Interest

Net interest increased from £5.5m in 1997 to £29.1m in 1998. Of this increase, £1.2m arose from the deconsolidation of Toyota (GB). Some £2m resulted from the underlying operations, £4m was due to the use of debt rather than uneconomic supplier credit and £4m was the cost of funding investment in Russia. Specifically, £2.8m was incurred in relation to an interest rate swap which is discussed later, and £0.9m to put in place the new £400m committed facility. There was a further increase of £8.5m for reasons set out below.

The Group has managed a number of treasury issues which arose from volatile conditions, particularly in Asia. As was noted last year, the Group has ceased hedging overseas assets with foreign currency denominated borrowings. In the main, the US dollar had been used as a proxy for many of the Group's Asian currency denominated assets. During 1997 it became clear that this assumption was no longer valid and it was decided that these hedges should be unwound. Furthermore, where the Group had taken out foreign currency borrowings as a hedge against its foreign currency assets, the volatility of relevant interest rates such as the Thai baht exposed the Group to considerable uncertainty and high interest costs.

In addition, substantial cash balances and remittable earnings from overseas subsidiaries have been repatriated. This was in two stages, first to move the balances to the Netherlands, and secondly, during 1999, to repatriate them to the UK. The most significant single transaction was the substantial dividend from Hong Kong to the Netherlands in late 1997, and subsequent transfer to the UK in January 1999. This had the effect first, of moving surplus cash in Hong Kong earning a relatively high rate of interest to a European low interest rate environment, and secondly, of creating a borrowing with an average interest cost in 1998 of c.12%. This additional interest cost was incurred to protect shareholders from the risk of devaluation of the Hong Kong dollar. The impact is significantly lessened in 1999 because the Group has covered its interest exposure at average rates of c.8% in Hong Kong and the cash balances are now in the UK.

The combined effect of all these actions was to reduce gross cash and debt balances considerably and to significantly change the mix of net debt. In particular, the major economic change in Asia which prevented the Group from using US dollar borrowings to manage the balance sheet and the decision to protect the Group's sizeable Hong Kong dollar assets from speculation on the peg by repatriation of earnings, has increased finance costs.

Taxation

The tax rate on Headline profit increased to 52.0% from its more normal level in 1997 of 34.3%. The following table sets out a summarised tax rate reconciliation:

	%
Tax due at UK rate	31
Net effect of differing overseas rates	(4)
Unrelieved losses:	
– Russia	9
– Marketing – Hong Kong and Singapore	4
– UK	6
Non tax-deductible items	5
Other	1
Actual tax rate	52

Had all of the profits been taxed at the UK rate the charge would have been 31%. In fact, much of the Group's profit is earned in countries with different tax rates and this by itself would have reduced the rate by 4%.

The Group suffered unrelieved losses in Russia which increased the rate by 9%. Marketing in Hong Kong and Singapore incurred unrelieved losses which added 4% to the rate. The profits generated in UK trading subsidiaries were, in 1998, insufficient to shelter UK corporate costs. This was exacerbated by Inchcape being unable to group the profits from its UK associate companies for tax purposes. In consequence there were unrelieved losses which added 6% to the rate. These losses are available for the future. Finally, due to disallowable costs, for example in Greece and Australia, the rate increased by 5%.

These effects resulted in the temporarily high rate of 52%. However, much of this is non-recurring. The ongoing Motors group is expected to have a tax rate in the mid-thirties. In 1999 this may be significantly influenced by the restructuring programme.

As most of the exceptional items were non-deductible for taxation purposes, a net charge of £6.2m (1997 – £1.7m) arose on exceptional gains and losses.

As at 31 December 1998, Advance Corporation Tax (ACT) previously written off amounted to £10.9m (1997 – £25.2m). This reduction reflects the use of ACT against the tax otherwise payable on the overseas dividends remitted to the UK from the Netherlands. The remaining contingent asset may be partly used to offset UK tax liabilities arising on the divestments.

Minority interests

The charge reduced significantly to £6.5m (1997 – £17.0m) reflecting the change in status of Toyota (GB) and reduced profits in Singapore, Brunei and Peru. Motors accounted for £3.3m of the £6.5m.

Treasury policies and activities

Group Treasury operates within clearly defined policies and authority levels that are approved by the Board. The financial instruments used to manage interest rate, currency and liquidity risk are subject to Board approved operating parameters and under no circumstances will their use create additional financial exposures over and above those arising from the Group's normal trading activity. Use of derivative instruments is restricted to foreign currency and interest rate swaps, forward rate agreements and foreign currency options.

The Group uses foreign currency swaps to borrow in the foreign exchange markets in currencies other than sterling, which is cheaper than using bank debt in the relevant countries. Interest rate swaps and forward rate agreements are used to change the mix of fixed rate and floating rate borrowings without having to replace the actual borrowing.

Borrowing facilities

The Group has borrowed £103.2m (US$172m) through a private placement of US dollar denominated loan notes. These loan notes carry interest rates of 6.93% and 7.09%

and are due for repayment in May 2000 and May 2002.

The Group currently also has access to a £400m syndicated committed standby facility and £105m of bilateral committed standby facilities, all of which were undrawn in 1998, and remained undrawn up to 8 March 1999. The syndicated facility was completed in March 1998. This will reduce to £250m on completion of the Bottling South America disposal. The facility will be due for renewal in March 2003 and the bilateral committed facilities are due for renewal in November 2000.

The Group also has access to a large number of uncommitted facilities, in addition to its committed facilities, which are used to finance the business on a daily basis. The majority of these are provided by the Group's relationship banks who all participated in the syndicated facility. As part of the restructuring exercise the Group redeemed its £125m Convertible Bond in June 1998 at par.

Cash and debt

Net debt of £143.4m at 31 December 1998 comprised a large number of cash and debt balances that are held for operational and other purposes. They are summarised below:

£m	Debt	Cash	Net
Australian dollar	(3.7)	36.4	32.7
Dutch guilder	–	115.9	115.9
Greek drachma	(52.7)	20.4	(32.3)
Hong Kong dollar	(42.4)	1.4	(41.0)
Singapore dollar	(60.8)	76.2	15.4
US dollar	(71.8)	72.6	0.8
Other	(59.6)	73.0	13.4
Total – other than sterling	(291.0)	395.9	104.9
Sterling	(130.4)	–	(130.4)
Currency swaps	25.7	(143.6)	(117.9)
Total – sterling	(104.7)	(143.6)	(248.3)
Overall total	(395.7)	252.3	(143.4)

As previously noted, most of the Dutch guilder cash was remitted to the UK early in 1999 as a dividend. The Group has significant net borrowings in local currencies for working capital purposes in Greece and Hong Kong, and in US dollars in South America. The gross cash and debt position in Singapore dollars results from holding cash balances in Singapore in the listed Marketing company and borrowing in Brunei dollars (effectively pegged to the Singapore dollar) to support the local Motors Financial Services operation. The Group's US dollar cash balances are mainly in the South American Bottling and Shipping businesses and will be transferred on disposal of these businesses. Following the divestment of the non-Motors businesses the Group will be left with a net debt position in Greek drachma, Hong Kong dollar, Singapore dollar and sterling.

Other than US dollars, material cash and debt balances held overseas are in local currency.

The Group is not aware of any circumstances which would significantly delay remitting major cash balances to the UK other than from Singapore where cash is held in the separately listed company which forms part of the disposal of the Group's interests in Marketing. Any such remittances to the UK could advance the date on which tax payments would have to be made, or increase the absolute level of tax payable.

For major deposits, the Group's policy is to use only relationship banks, all of which have good long-term credit ratings.

Effective interest rates

The Group uses interest rate swaps and forward rate agreements to manage its interest cost. Hong Kong $250m (£19.4m) of floating rate debt has been converted to fixed rate debt using forward rate agreements until March 2000 at an average rate of c.8%. All other cash and borrowings are effectively at the relevant floating rates for the currencies concerned. A full review of interest exposure by currency is planned once all of the disposals have been concluded and cash returned to shareholders.

The interest exposure on the 6.93% US dollar loan notes was swapped initially from fixed rate to floating rate dollars when the borrowings were originally taken out, then subsequently swapped to floating sterling debt at no cost in 1998. The US dollar 7.09% loan notes were swapped from fixed rate dollars into floating rate sterling debt in 1998 at a cost of £2.8m, which has been accounted for as an interest expense in the year. This followed the disposal of Bottling Russia, the assets of which were reported in US dollars, and a review of the Group's currency financing requirements.

Balance sheet translation

The Group has a deliberate policy of not hedging the risk in translating the profit and loss account and balance sheet into sterling. This exposure is managed where possible by financing working capital requirements through local currency debt and by maximising remittances of overseas earnings.

The percentages of net assets by currency at 31 December 1998 for the Group in total and for the Motors businesses only are set out below:

	Total Group %	Motors %
Sterling	2.3	4.2
European	18.6	42.3
US dollar	4.8	(2.8)
Latin American	29.3	9.2
Asian and Australasian	37.7	42.7
Other	7.3	4.4
	100.0	100.0

Foreign currency transaction exposure

Transaction exposures are hedged when they are committed, mainly using the forward foreign exchange market. Pre-transaction exposures are monitored and cover taken when appropriate. The Group has sold forward US$700m at a rate of US$1.64 to sterling in anticipation of the receipt of funds from the sale of Bottling South America.

Over the past few years many of the Group's major Motors principals have moved to local currency billing for their vehicles. This has had the effect of transferring the direct transaction exposure management back to the principal. There are now relatively few operations that are still billed in foreign currency for vehicles.

The introduction of the Euro has not had a material effect on the Group's foreign currency transaction exposures.

Foreign currency earnings exposure

Had the average sterling rates in 1997 continued into 1998 the Group's operating profit for the year would have been £8.9m higher and Headline profit before tax £9.4m higher. The effect on profits after restating for Toyota (GB) is detailed below:

	1998 £m	Exchange translation effect £m	Change at 1997 rates £m	Toyota (GB) restatement £m	1997 £m
Total Motors	**115.9**	(6.4)	(10.0)	(19.1)	151.4
Central costs	**(15.5)**	–	1.7	–	(17.2)
Total ongoing businesses	**100.4**	(6.4)	(8.3)	(19.1)	134.2
To be discontinued:					
Bottling	**22.7**	(2.5)	(4.9)	–	30.1
Marketing	**21.6**	(2.1)	(4.5)	–	28.2
Office Automation	**5.8**	(0.3)	(0.1)	–	6.2
Shipping	**6.1**	(0.8)	(3.7)	–	10.6
Total	**156.6**	(12.1)	(21.5)	(19.1)	209.3
Discontinued operations	**(21.4)**	3.2	(4.9)	–	(19.7)
Total operating profit before exceptionals	**135.2**	(8.9)	(26.4)	(19.1)	189.6
Net interest	**(29.1)**	(0.5)	(21.9)	(1.2)	(5.5)
Headline profit before tax	**106.1**	(9.4)	(48.3)	(20.3)	184.1

Inchcape in the community

The primary objective of Inchcape's community involvement programme is to put something back into the communities from which we earn our living. At Group level, the Company's policy is to concentrate the majority of its funding on one international charity, where our support can make a significant difference and assist the charity in achieving key development objectives.

The Group programme is supplemented in local markets by a variety of sponsorships, donations and fund-raising activities by individual businesses. Wherever possible, Inchcape seeks to involve its employees and business partners in community activities.

The Inchcape Initiative, our partnership with youth development charity Raleigh International, is the Group's flagship sponsorship programme. Between 1996 and 2000, Inchcape is sponsoring five expeditions amounting to a total investment in the charity of £1.25m.

Inchcape's support enables Raleigh International to achieve one of its core aims – to increase the cultural diversity of participants on its expeditions by recruiting more young people from outside the UK. For Inchcape, the programme helps us strengthen links with many of the local communities in which we operate and enables us to involve both our business partners and our own employees. On each Inchcape Initiative expedition, Inchcape provides 50 fully-funded bursary places and donates £25,000 towards community building projects.

Successful expeditions have already taken place to Chile in 1996, Malaysia in 1997 and China in 1998 – the first such event ever to take place in China and therefore a truly ground-breaking expedition for Raleigh. From the early planning stage, where Inchcape's contacts helped Raleigh establish the necessary permissions to run the expedition in China, through to the expedition itself, Inchcape and Raleigh worked closely together to achieve a challenging and successful expedition. Inchcape's support meant an increased number of international participants, and four Inchcape employees from around the world joined the expedition. Meanwhile, in China, the support of our partner organisation, the China Youth Development Foundation (CYDF), contributed greatly to the success of the expedition.

In early July, a total of 159 young people from 12 different countries or territories met for the first time in Beijing, ready to begin the 10-week expedition in Jiangsu and Shandong provinces.

CYDF's Project Hope Primary Schools programme formed the basis of the community projects in which the young people (known as 'Venturers') became involved. Project Hope is a high profile initiative to improve the standard of primary school education throughout China by constructing schools in remote locations. The Venturers worked alongside local people in three school construction programmes and taught English to the local children.

Environmental conservation work involved developing the infrastructure of nature and bird reserves in Jiangsu Province to help in the preservation of endangered birds and animals – such as the Red-Crowned Crane and the indigenous Pere David's, or Milu, Deer which had become extinct in China before their reintroduction from Britain.

Plans are progressing well for the 1999 Inchcape Initiative expedition to Oman which takes place from 24 September to 10 December and will be Raleigh's first expedition in the country. The expedition in 2000 is scheduled for Brunei.

In addition to supporting the Inchcape Initiative, Group companies continue to support their local communities. For example, Inchcape Pacific has donated £73,000 to establish an Inchcape Chair in International Trade and Economic Development at Peking University. The Inchcape endowment will support the teaching and research activities of a faculty professor. During 1998, Inchcape Pacific also supported the University of Hong Kong's student exchange programme, the Hong Kong Arts Festival and Hong Kong Youth Arts Festival.

The chance to walk out onto the runway of Hong Kong's new international airport shortly before opening was turned into a charity event in aid of the territory's Community Chest. Fifty-four Inchcape Pacific employees gave up their weekend to join the fund-raising effort.

To encourage the study of Greek culture, Toyota Hellas supports the work and educational programmes of the Macedonian Museum of Contemporary Art. They also provide cars to assist with the transportation needs of the Hellenic Amateur Athletic Association, which organised the 16th International Peace Marathon in Athens; and the Special Olympics Team, which provides athletic training and competition for children and adults with special needs.

In the UK, Inchcape and its subsidiaries have given money during the year for charitable purposes amounting to £286,000 (1997 – £381,000). Total charitable donations made by the Group worldwide during the year were £537,000 (1997 – £780,000). No political donations were made.

Environment, health and safety

Policy

Inchcape is committed to pursuing sound environment, health and safety management policies and practices across our business. We also recognise that, by providing customers with access to leading products and services and through the consistent, high-quality services we provide to our principals, we can support the improvement of environment, health and safety standards in both developed and emerging markets.

It is the policy of Inchcape that we will:

- consider environment, health and safety issues within existing and future business activities through implementation of appropriate policies and procedures;
- monitor and manage the environment, health and safety impacts, risks and opportunities for our businesses for the benefit of employees, customers and principals and the local communities in which we operate;
- contribute to providing and promoting services which take account of environment, health and safety issues;
- promote awareness of the Environment, Health and Safety Policy amongst employees, customers and principals;
- regularly review implementation of the Environment, Health and Safety Policy across our businesses to assess performance and set practical targets for improvement; and
- report, as appropriate, on the status of environment, health and safety performance within the business.

Implementation of the Policy is the responsibility of management within each Group business, supported and monitored by the Group Board.

Progress

Management of each Inchcape business is responsible for implementation of the Group Policy within their own business. This devolved approach to environment, health and safety policy implementation has assisted all businesses divested during 1998, and those still to be divested to continue a sound basic framework for environmental management as they leave the Group's control.

The core Motors business, which is now the focus of the Group's activities, has continued to develop its environmental management policies and framework during 1998.

Detailed Guidance Notes have been circulated to every Motors business across the world. These set common standards on a wide range of environment, health and safety matters. Whilst compliance with local statutory requirements is a minimum standard, in some countries where we operate local standards are below international good practice. In these countries it is our policy to follow good UK practice.

Each business has undertaken to form an environment, health and safety Focus Group of employees and managers to monitor and develop local standards and organise training and other local input to continually develop performance. In the majority of businesses these groups are now operational and the level of interest and support is encouraging.

All Motors businesses carry out detailed half-yearly inspections and report progress against the guidelines. An action plan is produced for discussion with the Focus Group, and progressed. Copies of the reports and action plans are forwarded to Head Office for review. From these reports we can monitor trends and identify issues that may require appropriate investment decisions.

The future

Reflecting the new direction of Inchcape, we will continue re-evaluating our environment, health and safety targets and objectives to ensure that they reflect the focus of our business. In particular we will embrace environment, health and safety within our overall risk management processes. This will provide a further monitoring activity linked to our audit procedures. As we continue the development of environment, health and safety standards we will also monitor industry best practice and enhance our standards as appropriate.

Board of Directors

Chairman
Lord Marshall 1, 2, 3
Age 65. Joined the Inchcape Board in November 1995 and was appointed non-executive Chairman on 1 January 1996. Lord Marshall is Chairman of British Airways plc, having been Deputy Chairman and Chief Executive previously. He is also Chairman of BTR Siebe plc, Deputy Chairman of British Telecommunications plc, and a non-executive Director of HSBC Holdings plc and the New York Stock Exchange. He was President of the Confederation of British Industry from May 1996 until July 1998 and is currently Deputy President. In June 1998 he was created a Life Peer, having been made a Knight Bachelor in 1987.

Executive Directors

Group Chief Executive
Philip Cushing 3
Age 48. Joined the Group as Chief Executive of Inchcape Berhad in 1990 and was appointed to the Inchcape plc Board in May 1992. Philip Cushing was appointed Group Managing Director in March 1995 and Group Chief Executive in March 1996. He was previously with Norcros, LEGO Group and Norton Opax and is a non-executive Director of Ikon Office Solutions Inc. He will be leaving the Group on 30 June 1999 having led the Group's restructuring.

Group Finance Director (to 9 March 1999)
Les Cullen
Age 47. Joined the Inchcape Board in April 1997 and was Group Finance Director from 1 July 1997 to 9 March 1999. Les Cullen spent his early career with Black & Decker and Grand Metropolitan and since 1990 has, as an executive Director, been involved in significant strategic change in a number of major international companies. He will be leaving Inchcape on 30 June 1999 having played a major role in the Group's restructuring.

Group Chief Executive (Designate)
Peter Johnson
Age 51. Joined the Group in 1995 as Chief Executive of Inchcape Motors Retail, and became Chief Executive of Inchcape Motors International in 1996. He joined the Inchcape Board in January 1998. Peter Johnson was previously with the Rover Group, Applied Chemicals and Marshall Motor Group. He will become Group Chief Executive on 1 July 1999.

Group Finance Director (from 9 March 1999)
Alan Ferguson
Age 41. Joined Inchcape plc in 1983 and occupied several positions before being appointed Finance Director of Inchcape Motors International in 1995. He was appointed to the Board as an executive Director on 1 January 1999 and will succeed Les Cullen as Group Finance Director on 9 March 1999.

Executive Deputy Chairman (Designate) and Chief Executive, Inchcape Toyota Division
Trevor Taylor
Age 61. Joined the Group in 1987 as Deputy Managing Director of Toyota (GB), becoming Chief Executive in April 1993 and

Chief Executive of Inchcape Toyota Division in 1995. He joined the Inchcape Board in January 1998 and resigned his executive role with Toyota (GB) to become a non-executive Director. He was previously with Ford Motor Company and the Rover Group. On 1 July 1999, Trevor Taylor will become executive Deputy Chairman of Inchcape plc.

Non-executive Directors

Senior independent non-executive Director
Tony Alexander 1, 2, 3*
Age 60. Joined the Inchcape Board in January 1993. Formerly a Director and Chief Operating Officer UK of Hanson plc, he is now Vice Chairman of Imperial Tobacco Group plc. He is also a non-executive Director of Cookson Group plc and Misys plc.

Dr Raymond Ch'ien
Age 47. Joined the Inchcape Board in July 1997 and became Chairman of Inchcape Pacific Limited. Raymond Ch'ien is a member of the Executive Council of the Hong Kong Special Administrative Region and Chairman of the Hong Kong Industry & Technology Development Council. He is also Chairman of HSBC Private Equity Management Ltd, Co-Chairman of Beijing CAST Information Systems Technology Co. Ltd, and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited and HSBC Holdings plc.

Hugh Norton 1, 2*
Age 62. Joined the Inchcape Board in January 1995. A Managing Director of the British Petroleum Company plc until July 1995, he is a non-executive Director of Standard Chartered plc and of LASMO plc.

Simon Robertson 1, 3*
Age 58. Joined the Inchcape Board in May 1996. He was formerly Chairman of Kleinwort Benson Group plc. He is currently President of Goldman Sachs Europe Limited and Managing Director of Goldman Sachs International. He is also a non-executive Director of BTR Siebe plc, the London Stock Exchange and Berry Bros & Rudd Ltd.

Liam Strong 1, 2*
Age 54. Joined the Inchcape Board in January 1993. Formerly Chief Executive of Sears plc, he is Chief Executive of MCI WorldCom International.

Notes:
1 Member of the Audit Committee
2 Member of the Remuneration Committee
3 Member of the Nomination Committee

Tony Alexander is Chairman of the Audit Committee, Hugh Norton is Chairman of the Remuneration Committee and Lord Marshall is Chairman of the Nomination Committee.
*Independent

Corporate information

Directors

Lord Marshall, Tony Alexander and Liam Strong retire by rotation and offer themselves for re-election in accordance with the Articles of Association.

Alan Ferguson, who was appointed to the Board on 1 January 1999, being eligible, offers himself for election in accordance with the Articles of Association.

Rod O'Donoghue and Jürgen Hintz retired from the Board on 23 April 1998.

The names of the Directors, plus brief biographical details, are given on pages 26 and 27. Except as stated above they all held office throughout the year.

Corporate governance

In June 1998 the final version of the Principles of Good Governance and Code of Best Practice (the Combined Code), drafted by the Committee on Corporate Governance, was published. Relevant changes to the Listing Rules were made by the London Stock Exchange, following which the Directors reviewed the provisions of the Combined Code and considered the implications of the changes on the Group's governance practices. Set out below is an explanation of the way in which the Company applies the principles of the Combined Code.

The Board

The roles of the Chairman and of the Chief Executive are separate. In addition to the Chairman, who is non-executive, the Board includes five other non-executive Directors who bring a wide diversity of experience and expertise. Four of the other non-executive Directors are also independent of the management of Inchcape and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Raymond Ch'ien, the remaining non-executive Director, is not regarded as independent because he has a service contract with Inchcape Pacific Limited in Hong Kong. Tony Alexander has been appointed as the senior independent non-executive Director.

Non-executive Directors are usually appointed for an initial period of three years, which may be extended by agreement with the Board. All Directors currently on the Board have submitted themselves for election or re-election as applicable in accordance with the Company's Articles within the last three years.

The Board is responsible for leading and controlling the Group and meets regularly to deal with strategy and policy issues, to review the Group's financial performance and to examine significant acquisitions and disposals and major operational capital expenditure. In 1998 the Board had nine scheduled meetings and a number of ad hoc meetings to deal with particular matters. In addition a Board strategy conference was held. There is a procedure for Directors to take independent professional advice at the Company's expense where relevant to the execution of their duties. The Board has a schedule of matters required to be brought to it for its decision. The Board considers that it has been supplied with sufficient timely and accurate information to enable it to discharge its duties. Newly appointed Directors who have not previously held listed company Board appointments receive appropriate external training. A briefing process has been developed for newly appointed non-executive Directors to ensure they are fully apprised of the Group's activities and strategic direction. Training is available subsequently should either the Company or a Director feel it necessary.

All members of the Board have access to the services and advice of the Group Company Secretary.

Board Committees

The Board has three principal Committees all with defined written terms of reference. Membership of each of the Board Committees is indicated on pages 26 and 27. The Chairman of each of these Committees will be available to answer questions at the Company's Annual General Meeting on 14 May 1999.

The Audit Committee is responsible for reviewing a wide range of financial matters, including the interim and year-end accounts, material accounting issues, litigation reports, matters relating to the external audit, Corporate Governance matters, the preservation and promotion of good ethical practices and monitoring the Group's internal financial controls. The Group Chief Executive, the Group Finance Director, the Group Audit Director and the external auditors attend the meetings of the Committee. The non-executive Directors on the Committee also have the opportunity at each meeting to review any issues with the auditors in the absence of executive management. Part of the Committee's responsibility in relation to external auditors is to review the nature and extent of non-audit services provided. During the year, the Group's auditors have been substantially involved in the restructuring process as their knowledge of the Group was considered important to its success.

The Remuneration Committee is responsible for remuneration issues regarding executive Directors and senior management within the framework recommended by the Committee and approved by the Board as described in the Board report on remuneration. More details are given on pages 32 to 34.

The Nomination Committee is responsible for making recommendations to the Board on selection and nomination of Directors and their election or re-election at the Annual General Meeting and does so in accordance with agreed procedures.

The Audit Committee and the Remuneration Committee meet at least twice a year and the Nomination Committee meets at least once a year. In addition the Committees hold ad hoc meetings when required.

In addition to the above, the Board established two special committees each consisting of the Group Chief Executive or the Group Finance Director together with the Chairman or another non-executive Director. They have terms of reference set by the Board, to negotiate the final terms of the disposal or demerger of non-Motors streams and to determine appropriate Group restructuring, in order to effect the strategic divestment programme. The committees are required to report to the Board on all actions approved and to provide it with appropriate documentation on the transactions concerned.

The Company has open and regular dialogue with institutional shareholders. The investor relations manager and other senior executives are available to discuss the business with shareholders to assist them in understanding the Group's strategy and performance.

Internal financial control

The Board of Directors has overall responsibility for establishing key procedures designed to achieve a sound system of internal financial control. Such systems can provide only reasonable and not absolute assurance against any material misstatement or loss. The Board has delegated to executive management responsibility for the implementation of the systems of internal financial control. The Group's key internal financial control and monitoring procedures include the following:

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

Monitoring systems – the Audit Committee receives reports arising from Internal Audit's examination and evaluation of the adequacy and effectiveness of the Group's systems of internal financial control. The Internal Audit group works closely with management and the external auditors and significant issues are reported to the Committee twice a year. Where control weaknesses are identified follow up processes exist to ensure appropriate corrective action is taken. In addition, management is required to complete a self-assessment process annually, the results of which are reported to the Committee.

Operating unit controls – the overall financial control framework for the Group is detailed in the Group Finance and Information Systems manuals. Compliance is regularly assessed through the audit process and through a process of self certification and internal control questionnaires which requires business units and business stream management to assess annually the quality of key control elements in their area.

Risk management – a macro risk assessment for each business stream is updated twice a year in order to identify the significant risks to which the Group is exposed and to define the appropriate steps to mitigate, transfer or eliminate them. In addition, Internal Audit continuously reviews financial, commercial and systems developments in the Group's business units to ensure appropriate audit focus in the major risk areas.

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

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

Statement of compliance with the Combined Code

Pending guidance for Directors from the Turnbull Committee on the scope, extent, nature and review of internal controls to which Code principle D.2 and provision D.2.1 refer, the Directors have reported pursuant to the existing guidance on internal financial controls and financial reporting issued by the Rutteman Working Group in 1994 in accordance with the Listing Rules. The Company awaits the publication of the Turnbull Committee guidance for Directors on internal controls which is scheduled for mid-1999.

The Board has reviewed the effectiveness of systems of internal financial control in operation during the financial year through the processes set out above.

Other than in relation to the matters set out below, the Company was in compliance with the Combined Code throughout the year. The exceptions arise as the London Stock Exchange Listing Rules introducing the Combined Code provisions came into effect in June 1998 whilst the compliance statement refers to the whole of the year ended 31 December 1998.

The exceptions were as follows:
- as explained in the Board report on remuneration, Peter Johnson's service contract had a notice period of two years. This was revised on 23 December 1998 by agreement with Peter Johnson so that, with effect from 1 January 2000, the notice period will convert to one year; and
- the Notice of Annual General Meeting was sent to shareholders in March 1998, 17 working days before the Meeting rather than the minimum 20 days which the Combined Code now requires.

Transactions with Directors

No transaction, arrangement or agreement required to be disclosed in terms of the Companies Act 1985 was outstanding at 31 December 1998, or occurred during the year for any Director and/or connected person (1997 – none).

Transactions with Directors of subsidiaries

Pursuant to London Stock Exchange Listing Rules the following transactions with a director of a company which was and continues to be treated in the Group's accounts as a fully consolidated subsidiary, are notified:

In November 1998 the Group acquired 21 million (2.95%) shares in Embotelladora Latinoamericana SA (ELSA) from Mr Michael Mitchell, a director of ELSA, for a cash consideration of US$8.04m. Also in November 1998 the Group acquired a further 11.7 million shares in ELSA from parties controlled by Mr Mitchell, for a cash consideration of US$4.5m.

Creditor payment policy

The Company is responsible for agreeing the terms and conditions including terms of payment under which business transactions with the Group's suppliers are conducted. In line with Inchcape Group policy, payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. The number of days purchases outstanding at 31 December 1998 in respect of our UK businesses is calculated at 43 days (1997 – 48 days).

Year 2000

A Group-wide programme has been running since mid-1997 to address the impact of Year 2000. Responsibility for managing the issues arising is held by business stream management. A task force resourced by internal staff and external consultants, together with a central programme office, monitors progress and manages the defined quality assurance programme.

Almost half (45%) of business units have reported that their Year 2000 programmes are complete. The remainder have substantially completed their programmes and all expect to be completed by the end of July 1999. The ongoing businesses will be subject to independent post-implementation reviews throughout 1999.

The costs directly associated with Year 2000 compliance amounted to £11.5m in 1998 (1997 – £3.1m) of which £5.6m has been capitalised in accordance with the Group's policy for such expenditure (1997 – £1.8m). The total costs of the programme, which includes already scheduled projects, are expected to be less than the original estimates of external expenditure of £30m, of which approximately half is capital expenditure.

EMU

The introduction of the Euro in January 1999 has not had a material effect on the operation of businesses in Continental Europe. We continue to monitor the situation and exchange best practice between business units in countries expected to participate in European Monetary Union at later dates.

Annual General Meeting

The notice convening the Annual General Meeting of the Company together with an explanation of the items of special business, is set out in the circular which accompanies this Report and Accounts. The Annual General Meeting will be held at 11.00 am on Friday, 14 May 1999 at the Café Royal, 68 Regent Street, London W1R 6EL.

The special business will include proposals to renew the Directors' existing authorities to allot securities in the Company and for the Company to purchase its own shares. It will also include proposals to introduce new long term incentive arrangements and to amend the qualifying service period under the SAYE Share Option Scheme.

As a result of the merger of Coopers & Lybrand and Price Waterhouse on 1 July 1998, Coopers & Lybrand resigned as auditors and the Directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. In accordance with sections 379 and 388(3) of the Companies Act 1985, the Company has received special notice of the intention to propose the reappointment of PricewaterhouseCoopers as the Company's auditors to serve until the conclusion of the next general meeting at which accounts are laid before the Company. It is also proposed that the Directors be given authority to determine the auditors' remuneration.

Board report on remuneration

The members of the Remuneration Committee are Hugh Norton (Chairman), Lord Marshall, Tony Alexander and Liam Strong.

All the above members served during the whole of 1998. Hugh Norton was appointed Chairman of the Committee on 6 August 1998 in succession to Lord Marshall. The Committee has formal terms of reference and normally meets twice a year, in addition to ad hoc meetings as required. During the year it determined all matters relating to the remuneration and benefits of executive Directors and approved the remuneration and benefits of certain other senior executives. It approves awards under the Long Term Incentive Plan and share option allocations under the Executive Share Option Schemes, although none were made during the year in light of the Group restructuring. It is also responsible for approving the major compensation and benefits policies relating to senior managers generally in the Group.

The Group Chief Executive and the Group Human Resources Director are invited to attend meetings when their input is required. No one attends any discussion regarding his or her own remuneration.

Throughout 1998, the Company complied with the provisions of Schedule A of the Combined Code on Corporate Governance relating to the design of performance related remuneration. In preparing this report the Board has followed the provisions of Schedule B to the Combined Code.

Remuneration policy

When considering the remuneration packages of executive Directors, the Remuneration Committee follows the framework it has recommended and the Board has approved, as set out in this report. Its key features are:

- the packages should be competitive when compared with those in organisations of similar size, complexity and type;
- there should be a clear link between the level of remuneration and the performance of the Group and the individual;
- the interests of the shareholders should be safeguarded;
- 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 has access to three major surveys, regularly carried out by leading remuneration consultants, as well as to the services of an independent adviser, as required. These external sources of data and advice, together with consideration of the levels of pay increases for other employees and the principles outlined above, provide a framework for the decision-making process.

The remuneration packages for the executive Directors are made up of the following elements:

Base salary

This is based on the level of responsibility, experience, individual performance, and salary levels in comparable companies.

Annual bonus

In 1998 Peter Johnson and Trevor Taylor participated in a bonus plan which yielded a bonus of 30% of base salary for on-target performance, with a maximum bonus of 60% of base salary at 115% of target. The plan was based on profit and working capital targets for the year of the Group's Motors business. The bonuses paid under this plan for 1998 are shown in Table 1 on page 35. In 1999 the executive Directors of the ongoing Motors business will participate in a similar bonus plan.

Long Term Incentive Plan

Under the Plan participants have been contingently awarded a number of ordinary shares in the Company. Awards were made in 1996 and 1997. They are subject to a performance target based on the Company's total shareholder return (share price growth plus reinvested dividends over a three year performance period), subject to a minimum requirement of real growth in share price over that period.

The extent to which the performance target is achieved determines the extent to which the award may be exercised, if at all. Participants will be entitled to exercise their 1996 and 1997 awards in full if the Company's total shareholder return, when compared over the same period against the total shareholder returns of companies in the FTSE 100 Index, is ranked in the top quartile. The awards then vest on a reducing sliding scale according to the Company's rating. If the Company is ranked at 56 or below, no part of the award may be exercised.

The performance target is measured over three years. After that period the extent of the awards, including notional increases to allow for the dividends on the shares from the date of the award to the date of the exercise, is determined. In normal circumstances, participants will not receive their shares for a further two years.

Executive share options

Executive share options have been granted on a phased basis to senior managers throughout the Group who did not participate in the Long Term Incentive Plan.

The exercise of options granted from 1995 onwards is subject to a performance test based on the Inchcape share price outperforming the FT All Share Index over a rolling three year period.

New executive incentive arrangements

Details of intended new long term incentive arrangements to replace the existing Long Term Incentive Plan and Executive Share Option Schemes are set out in the accompanying circular and proposals will be put to shareholders for approval at the 1999 Annual General Meeting.

Special arrangements were put in place for Raymond Ch'ien in 1997 as part of the terms and conditions under which he was appointed Chairman of Inchcape Pacific Limited. It was agreed that he would be granted options over shares in Inchcape plc to a total value of £500,000 in two instalments, half on appointment and half a year later. In fulfilment of the first part of this commitment, on 1 July 1997 Inchcape Pacific Limited granted Raymond Ch'ien an option to acquire 88,028 shares in Inchcape plc at an exercise price of £2.84 per share. The second instalment due to be granted on 1 July 1998 was deferred until completion of the Group restructuring. The terms of these options are similar to those options granted under the Inchcape International Executive Share Option Scheme. Accordingly, the option will be exercisable between three and ten years after grant provided that the percentage growth in the Inchcape plc share price has, over any continuous three year period after the date of grant of the option, exceeded the percentage growth in the FT All Share Index over the same period.

Retirement benefits

The Group operates the Inchcape Group (U.K.) Pension Scheme (an approved final salary scheme) and the Inchcape Group UK Supplemental Pension Scheme (a funded unapproved retirement benefit scheme for executives whose benefits are limited by the earnings cap introduced under the 1989 Finance Act). Both schemes are non-contributory.

The Inchcape Group (U.K.) Pension Scheme provides benefits for executive Directors and senior executives at the normal retirement age of 60, equal to two-thirds of final basic salary, subject to completion of 20 years' service. A lump sum benefit of four times basic salary is provided on death in service, along with a spouse's pension of two-thirds of the member's pension. Children's pensions may also be payable.

Pensions in payment are guaranteed to increase in line with the lesser of 5% and the increase in the UK Retail Prices Index.

In the case of executive Directors and senior executives appointed after 1 June 1989 the benefits under the Scheme are in respect of capped basic salary. For those executive Directors and senior executives whose basic salary is capped, a separate life assurance arrangement exists to supplement the approved life cover to a total lump sum benefit of four times basic salary on death in service.

The Inchcape Group UK Supplemental Pension Scheme was established in April 1996. This is a funded defined contribution scheme, established under a central trust, but with individual retirement accounts for participating executives.

Trevor Taylor remains a member of the Toyota (GB) pension scheme, of which he became a member after joining the Group as Deputy Managing Director of Toyota (GB) Ltd in 1987. Under that scheme he enjoys similar terms to the UK scheme but 70% of his bonus is pensionable.

Taxable and other benefits

These include such items as company cars, and medical and life assurance premia. They are in line with the Remuneration Policy framework outlined above.

Chairman

Lord Marshall's appointment as Chairman was renewed for a further period of two years with effect from 1 January 1998. The Chairman's remuneration is dealt with by the other non-executive Directors.

Non-executive Directors

Non-executive Directors' fees are determined by the Board, within the restrictions contained in the Articles of Association, the non-executive Directors taking no part in the discussion or decision.

Service contracts

None of the non-executive Directors, including Tony Alexander and Liam Strong, who are proposed for re-election at the 1999 Annual General Meeting, are engaged on service contracts with the Company. With the exception of Raymond Ch'ien, neither they, nor the Chairman, are eligible for pension scheme membership, or participation in any of the Company's bonus, share option or other incentive schemes.

During the year Raymond Ch'ien, in his capacity as Chairman of Inchcape Pacific Limited, had a service contract with that company with a notice period of one year.

He also has options over shares in the Company as described above.

Until 23 December 1998, Peter Johnson had a service contract with a notice period of two years which he was given when he joined the Group in 1995. On 23 December 1998, by agreement between Peter Johnson and the Company, the terms of his service contract were revised so that the notice period will convert to one year with effect from 1 January 2000. The other executive Directors, including Alan Ferguson who was appointed on 1 January 1999, have service contracts with a notice period of one year.

With effect from 25 March 1998, the service agreements of Philip Cushing and Les Cullen were substantially revised to retain their leadership during the restructuring process; a process which will lead to their own redundancy. Each service agreement is now for a fixed term expiring on 30 June 1999. All existing bonus arrangements were discontinued and the service agreements provide for a lump sum payment on termination, the amount of which will be determined in part by the success of the restructuring. The maximum payments are £1,500,000 in respect of Philip Cushing and £750,000 in respect of Les Cullen.

The length of the notice period of executive Directors' service contracts is reviewed annually. The Committee has agreed in principle that to set notice periods at up to one year should be the objective.

It is the normal policy of the Company, in the event of termination, to seek fair mitigation of contractual rights. Within legal constraints the Committee tailors its approach in cases of early termination to the circumstances of each individual case.

Policy on external appointments

Inchcape recognises that its Directors may well be invited to become non-executive directors of other companies, and that this additional experience is likely to benefit the Company. Executive Directors are, therefore, allowed to accept one non-executive appointment (two in the case of the Group Chief Executive) as long as these are not likely to lead to conflicts of interest. Any fees received for these duties may be retained by the executive Director.

Notes to the Board report on remuneration

1 Directors' emoluments

The total emoluments of the Directors were as follows:

	1998 £'000	1997 £'000
Remuneration and non-executive Directors' fees	**1,900**	1,313
Bonus payments	**165**	434
	2,065	1,747

Table 1 – Individual emoluments for the year

The table below shows a breakdown of [illegible], including taxable and other benefits [illegible] Director. Details of pension entitlements, options held and [illegible] held under the Long Term Incentive Plan [illegible] Tables 2, 3 and 4 respectively on pages 36 and 37.

	Base salary		Bonus		Taxable and other benefits		Total remuneration	
	1998 £'000	1997 £'000	**1998 £'000**	1997 £'000	**1998 £'000**	1997 £'000	**1998 £'000**	1997 £'000
Tony Alexander	**27**	24	**–**	–	**–**	–	**27**	24
Raymond Ch'ien (a)	**162**	81	**–**	–	**11**	11	**173**	92
Les Cullen	**274**	186	**–**	92	**14**	10	**288**	288
Philip Cushing (highest paid Director)	**404**	379	**–**	200	**21**	16	**425**	595
Peter Johnson (appointed 1.1.98)	**267**	–	**89**	–	**43**	–	**399**	–
Lord Marshall	**200**	200	**–**	–	**37**	33	**237**	233
Hugh Norton (b)	**27**	24	**–**	–	**–**	–	**27**	24
Simon Robertson	**22**	22	**–**	–	**–**	–	**22**	22
Liam Strong	**24**	22	**–**	–	**–**	–	**24**	22
Trevor Taylor (appointed 1.1.98)	**225**	–	**76**	–	**4**	–	**305**	–
Directors who retired during the year:								
Rod O'Donoghue (retired 23.4.98)	**124**	272	**–**	142	**5**	11	**129**	425
Jürgen Hintz (retired 23.4.98)	**9**	22	**–**	–	**–**	–	**9**	22
Total	**1,765**	1,232	**165**	434	**135**	81	**2,065**	1,747

(a) The emoluments disclosed for Raymond Ch'ien include those in respect of his duties performed as Chairman of Inchcape Pacific Limited.

(b) In the year the Inchcape Group [illegible] Pension Scheme paid the sum of £2,500 to Hugh Norton [illegible] Scheme's Trustee Board.

2 **Table 2 – Directors' pension entitlement**

(i)

Contributions paid in year to or in respect of money purchase pension arrangements	1998 £'000	1997 £'000
Les Cullen	**110***	74
Philip Cushing (highest paid Director)	**159**	148
Peter Johnson	**72**	59
Rod O'Donoghue	**–**	–
Trevor Taylor	**–**	–
Total	**341**	281

* Of this total payment £61,200 was paid (subject to tax) directly to Les Cullen to allow him to make his own pension arrangements outside the Company plans.

(ii)

Accrued annual pension under defined benefit schemes	Age at 31.12.98	Years of service at 31.12.98	Increase in accrued pension during the year under defined benefit schemes (a) £'000	Transfer value of increase £'000	Accumulated total of accrued pension at 31.12.98 £'000	Accumulated total of accrued pension at 1.1.98 £'000
Philip Cushing (highest paid Director)	48	6	3	38	25	21
Peter Johnson	51	3	3	40	11	8
Rod O'Donoghue (retired 23.4.98)	60	11*	9*	158*	187*	175
Trevor Taylor	61	11	20	348	120	97
Total			35	584	343	301

(a) The increase in accrued pension during the year excludes [illegible]

* All figures are [illegible] in June 1998.

3 **Table 3 – Directors' share options**

	Held at 1.1.98	Exercised during the year	Held at date of retirement or at 31.12.98	Option price £(e)	Price paid for option	When exercisable
Philip Cushing (highest paid Director)	64,200(a)		64,200	5.07	£1	May 1995-May 2002
	17,100(a)		17,100	5.85	£1	June 1996-June 2003
	29,000(a)		29,000	5.51	Nil	Apr 1997-Apr 2004
	203,700(a)		203,700	3.19	Nil	May 1998-May 2005
	1,659(c)		1,659	2.35	Nil	Aug 1999-Feb 2000
	4,140(c)		4,140	2.50	Nil	Aug 2000-Feb 2001
Raymond Ch'ien	88,028(d)		88,028	2.84	Nil	July 2000-July 2007
Peter Johnson	192,300(a)		192,300	3.12	Nil	Apr 1998-Apr 2005
	4,314(c)		4,314	2.26	Nil	Aug 2000-Feb 2001
Rod O'Donoghue*	59,427(a)	59,427(f)		1.62	£1	June 1991-June 1998
	7,428(a)		7,428	2.38	£1	May 1992-May 1999
	65,157(a)		65,157	3.12	£1	May 1994-May 2001
	19,700(a)		19,700	5.07	£1	May 1995-May 2002
	23,900(a)		23,900	5.85	£1	June 1996-June 2003
	18,200(a)		18,200	5.51	Nil	Apr 1997-Apr 2004
	64,500(a)		64,500	3.19	Nil	May 1998-May 2005
	2,489(c)		2,489	2.35	Nil	Aug 1999-Feb 2000
	1,725(c)		1,725	2.26	Nil	Aug 2000-Feb 2001
Trevor Taylor	48,600(a)		48,600	5.07	£1	May 1995-May 2002
	12,000(a)		12,000	5.85	£1	June 1996-June 2003
	3,800(a)		3,800	5.51	Nil	Apr 1997-Apr 2004
	4,140(c)		4,140	2.50	Nil	Aug 2000-Feb 2001
	1,725(c)		1,725	2.26	Nil	Aug 2000-Feb 2001

* Rod O'Donoghue retired as a Director on 23 April 1998 and left the Group in June 1998. His options were exercisable within six months following the date of retirement in accordance with the rules of the Scheme.

On 1 January 1999 Alan Ferguson was appointed as an executive Director and his share options as at that date and the date of this report are set out below:

		Option price £(e)	Price paid for option	When exercisable
Alan Ferguson	17,934(a)	3.63	£1	Nov 1994-Nov 2001
	11,300(a)	5.07	£1	May 1995-May 2002
	7,600(a)	5.85	£1	June 1996-June 2003
	7,800(a)	5.51	Nil	April 1997-April 2004
	9,600(a)	3.12	Nil	April 1998-April 2005
	11,100(a)	3.14	Nil	April 1999-April 2006
	19,000(b)	2.63	Nil	April 2000-April 2007
	1,380(c)	2.50	Nil	Aug 2000-Feb 2001

(a) Under the Inchcape Executive Share Option Scheme.

(b) Under the Inchcape International Executive Share Option Scheme.

(c) Under the Inchcape SAYE Share Option Scheme.

(d) Under a Deed dated 1 July 1997.

(e) Option prices are determined in accordance with the Rules of the relevant Share Option Scheme and on an equivalent basis for the Deed in favour of Raymond Ch'ien.

(f) At the date of exercise (30 April 1998), the market price of the shares was £2.225 and the gain on exercise in the year was £35,953.

(g) No options under any of the Company's Schemes were granted or lapsed during 1998.

Notes on share options

The table above shows Directors' options over ordinary shares of 25p. The mid-market price of the shares at 31 December 1998 was £1.285. The price range during 1998 was £0.91 to £2.335.

Under the Inchcape Executive Share Option Scheme and the Inchcape International Executive Share Option Scheme, options are granted on a discretionary basis to full-time senior executives based respectively within, and outside, the United Kingdom and, prior to 1995, were granted to Directors of Inchcape plc; such options are exercisable between three and ten years of grant.

Both Executive Share Option Schemes were renewed, with shareholder approval, during 1994. Options granted since the date of renewal are subject to the performance target that they may normally only be exercised if, following any three year period after their date of grant, the percentage increase in the market value of the shares has exceeded the percentage change in the FTSE Actuaries All Share Index over the same period.

The Inchcape SAYE Share Option Scheme, which was also renewed with shareholder approval in 1994, is open to employees in the United Kingdom with at least one year's service. Up until and including 1995, participants made savings for a five year period. For the 1996 and 1997 invitations, monthly savings are made for a three year period. At the end of the savings period options become exercisable within six months. At the Annual General Meeting shareholders will be asked to approve a change in the qualifying service period for joining the scheme.

4 **Table 4 – Awards under the Long Term Incentive Plan**

Details of the Company's ordinary shares contingently awarded by way of notional increase for dividends during the year to Directors under the Long Term Incentive Plan and the maximum number of shares to which the Directors will be entitled five years after award provided the Company's performance criteria are fully met are as follows:

Director	Total at 1.1.98 (a)	Notional increase for dividends during the year	Total at 31.12.98 transferable at the end of five years after award (b)	Total value at 31.12.98 (c) £'000
Les Cullen	82,302	5,932	88,234	113
Philip Cushing (highest paid Director)	218,464	15,749	234,213	301
Peter Johnson	144,192	10,394	154,586	199
Trevor Taylor	120,159	8,661	128,820	165
Rod O'Donoghue (retired 23.4.98)	157,894	11,381	169,275	218

(a) Includes notional increase for dividends.

(b) The maximum figure represents all the shares, (excluding future notional increases for dividends) which will transfer to the Director in 2001 (1996 awards) and 2002 (1997 awards) provided the Company's performance criteria are fully met.

(c) Based on mid-market price of the shares on 31 December 1998 – £1.285 and provided the Company's performance criteria are fully met.

(d) No awards were made during the year.

(e) Amounts totalling £0.6m (1997 – £0.2m) have been expensed in the financial statements in respect of the awards made to the above Directors under the Long Term Incentive Plan.

Directors' interests

The table below shows the interests other than options or awards under the Long Term Incentive Plan, including family interests, on the dates indicated, in the shares of the Company and its subsidiaries, of the persons who were Directors at 31 December 1998. All the interests are beneficial.

	Ordinary shares fully paid of Inchcape plc of 25p each	
	31.12.98	1.1.98
Tony Alexander	10,000	10,000
Raymond Ch'ien	(d) Nil	Nil
Les Cullen	33,500	33,500
Philip Cushing	(e) 58,000	58,000
Peter Johnson	23,496	(a) 23,496
Lord Marshall	22,462	22,462
Hugh Norton	3,000	3,000
Simon Robertson	6,000	Nil
Liam Strong	1,744	1,744
Trevor Taylor	46,245	(a) 45,926

Notes:

(a) Held at date of appointment.

(b) The executive Directors of the Company, together with other employees of the Group, are potential beneficiaries of the Inchcape Employee Trust and, as such, are deemed by the Companies Act 1985 to be interested in any shares held by the Trustees. At 31 December 1998, the Trustees' shareholding totalled 758,415 (1 January 1998 – 758,415).

(c) Alan Ferguson was appointed on 1 January 1999 and at that date he had a beneficial interest in 6,851 ordinary 25p shares of Inchcape plc.

(d) Raymond Ch'ien has a beneficial interest in respect of 50,000 fully paid ordinary shares of Singapore S$0.50 each in Inchcape Marketing Services Ltd, Singapore.

(e) Philip Cushing is a trustee of a trust which holds 6,000 ordinary shares (1 January 1998 – 6,000) on behalf of his adult children. He has no beneficial interest in the relevant shares.

There have been no changes in Directors' interests between 1 January and 8 March 1999.

By order of the Board
Roy Williams
Secretary
8 March 1999

Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of 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 whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors to the members of Inchcape plc

We have audited the financial statements on pages 41 to 70 which have been prepared in accordance with the accounting policies set out on page 45.

Respective responsibilities of Directors and Auditors
The Directors are responsible for preparing the Annual Report including, as described on page 38, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

We review whether the statement on page 30 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

Basis of audit opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the 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 financial statements are free from material mis-statement, 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 financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1998 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
8 March 1999

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Consolidated profit and loss account

for the year ended 31 December 1998

Notes		Continuing operations Ongoing 1998 £m	To be discontinued 1998 £m	Discontinued operations 1998 £m	Total 1998 £m	1997 restated £m
1a	**Turnover including share of joint ventures and associates**	4,156.9	1,278.3	71.2	5,506.4	6,650.9
	Less:					
1a	– share of joint ventures	(106.7)	(179.9)	–	(286.6)	(329.6)
1a	– share of associates	(814.8)	(148.0)	–	(962.8)	(389.9)
1a,2a	Group subsidiaries' turnover	3,235.4	950.4	71.2	4,257.0	5,931.4
2a	Cost of sales	(2,720.1)	(618.5)	(51.3)	(3,389.9)	(4,831.9)
1b.2	Exceptional cost of sales	–	–	–	–	(7.7)
		(2,720.1)	(618.5)	(51.3)	(3,389.9)	(4,839.6)
	Gross profit	515.3	331.9	19.9	867.1	1,091.8
2a	Operating expenses	(456.2)	(301.4)	(41.3)	(798.9)	(974.8)
1b.2	Exceptional operating expenses	(124.7)	–	(6.6)	(131.3)	(32.9)
		(580.9)	(301.4)	(47.9)	(930.2)	(1,007.7)
2a	Utilisation of termination provisions	4.9	1.2	–	6.1	10.6
2a	**Operating (loss) profit**	(60.7)	31.7	(28.0)	(57.0)	94.7
1c	Share of profits of joint ventures	7.2	15.1	–	22.3	33.2
1c	Share of profits of associates	29.2	9.4	–	38.6	21.1
1b	**Total operating (loss) profit**	(24.3)	56.2	(28.0)	3.9	149.0
2c	Net profit on disposal of properties and investments	2.6	1.5	–	4.1	3.8
2c	Net (loss) including provisions on sale and termination of operations	(7.5)	(200.1)	(58.3)	(265.9)	(57.7)
2d	Costs of fundamental reorganisation	–	(10.6)	–	(10.6)	–
	(Loss) profit on ordinary activities before interest	(29.2)	(153.0)	(86.3)	(268.5)	95.1
3c	Interest				(29.1)	(5.5)
2a,2e	**(Loss) profit on ordinary activities before taxation**				(297.6)	89.6
4a	Tax on profit on ordinary activities				(61.4)	(64.8)
	(Loss) profit on ordinary activities after taxation				(359.0)	24.8
13b	Minority interests				(6.5)	(17.0)
13d	**(Loss) profit for the financial year**				(365.5)	7.8
13a	Dividends				(59.4)	(58.3)
13f	**Retained (loss) for the financial year**				(424.9)	(50.5)

Notes		Total 1998	1997
	Headline profit before tax (£m)	106.1	184.1
2e	Headline earnings per share (pence)	8.4p	19.3p
	FRS3 (loss) profit before tax (£m)	(297.6)	89.6
2e	Basic and diluted (loss) earnings per share (pence)	(69.1)p	1.5p

Statement of total recognised gains and losses

for the year ended 31 December 1998

Notes		1998 £m	1997 £m
	(Loss) profit for the financial year	**(365.5)**	7.8
	Effect of foreign exchange rate changes:		
	– results for the year	**(0.5)**	6.5
	– foreign currency net investments	**9.5**	(56.7)
13f	Unrealised (deficit) on impairment of revalued properties	**(10.0)**	–
	Total recognised losses	**(366.5)**	(42.4)

Note of historical cost profits and losses

for the year ended 31 December 1998

Notes		1998 £m	1997 £m
	Reported (loss) profit on ordinary activities before taxation	**(297.6)**	89.6
7	Reversal of revaluation element of impairment of Marketing Asia-Pacific property	**34.2**	–
13f	Realisation of property revaluation surpluses	**1.3**	8.6
	Difference between the historical cost and the actual depreciation charge	**1.5**	1.8
	Historical cost (loss) profit on ordinary activities before taxation	**(260.6)**	100.0
	Historical cost (loss) after taxation, minority interests and dividends	**(387.9)**	(40.1)

Consolidated and Company balance sheets

as at 31 December 1998

Notes		Group 1998 £m	Group 1997 restated £m	Company 1998 £m	Company 1997 £m
	Fixed assets:				
6	Intangible assets	**40.7**	22.4	**–**	–
7	Tangible assets	**450.9**	549.9	**–**	–
8	Investments:				
	– subsidiaries	**–**	–	**848.4**	130.1
	– joint ventures: share of gross assets	**579.2**	764.0		
	share of gross liabilities	**(533.1)**	(696.8)		
	share of net assets	**46.1**	67.2	**–**	–
	– associates	**112.3**	84.3	**–**	–
	– other investments	**11.1**	14.8	**1.0**	1.5
		661.1	738.6	**849.4**	131.6
	Current assets:				
9a	Stocks	**778.2**	1,218.8	**–**	–
9b	Debtors:				
	– amounts due within one year	**471.4**	693.2	**152.1**	496.8
	– amounts due after more than one year	**96.4**	91.7	**128.4**	649.9
8b(ii)	Investments	**16.2**	–	**–**	–
3a	Cash at bank and in hand	**252.3**	483.1	**–**	0.1
		1,614.5	2,486.8	**280.5**	1,146.8
	Creditors – amounts falling due within one year:				
3a,9c	Borrowings	**(271.8)**	(318.0)	**(1.2)**	–
9c	Other	**(926.6)**	(1,495.6)	**(194.6)**	(444.5)
		(1,198.4)	(1,813.6)	**(195.8)**	(444.5)
	Net current assets	**416.1**	673.2	**84.7**	702.3
	Total assets less current liabilities	**1,077.2**	1,411.8	**934.1**	833.9
	Creditors – amounts falling due after more than one year:				
3a,10	Borrowings	**(123.9)**	(261.1)	**–**	(126.4)
10	Other	**(100.8)**	(82.8)	**(9.9)**	(20.0)
		(224.7)	(343.9)	**(9.9)**	(146.4)
11	**Provisions for liabilities and charges**	**(162.0)**	(145.1)	**(40.8)**	(17.2)
1d	**Net assets**	**690.5**	922.8	**883.4**	670.3
	Capital and reserves:				
13e,13f	Called-up share capital	**132.5**	132.5	**132.5**	132.5
13f	Share premium account	**106.9**	106.7	**106.9**	106.7
13f	Revaluation reserve	**139.7**	125.9	**–**	–
13f	Profit and loss account	**175.2**	425.2	**644.0**	431.1
	Equity shareholders' funds	**554.3**	790.3	**883.4**	670.3
	Minority interests	**136.2**	132.5	**–**	–
		690.5	922.8	**883.4**	670.3

The financial statements on pages 41 to 70 were approved by the Board of Directors on 8 March 1999 and were signed on its behalf by:

Directors
Philip Cushing
Les Cullen

Consolidated cash flow statement

for the year ended 31 December 1998

Reconciliation of operating profit to operating cash flows

Notes		1998 £m	1997 restated £m
	Operating profit before exceptional operating items	**74.3**	135.3
6,7	Amortisation and depreciation	**54.2**	53.3
2b	Loss on sale of tangible fixed assets other than property	**–**	1.7
	Decrease (increase) in stocks	**35.8**	(268.5)
	Decrease (increase) in debtors	**77.5**	(47.0)
	(Decrease) increase in creditors	**(117.7)**	235.5
11	Payments in respect of exceptional operating items	**(19.1)**	(15.4)
11	Payments in respect of termination of operations	**(15.6)**	(38.5)
	Other items	**(8.2)**	10.6
	Net cash inflow from operating activities	**81.2**	67.0

Consolidated cash flow statement

Notes		1998 £m	1997 restated £m
	Net cash inflow from operating activities	81.2	67.0
	Dividends from joint ventures	**23.5**	21.9
	Dividends from associates	**14.3**	6.8
3d(iv)	Returns on investments and servicing of finance	**(33.9)**	(15.0)
	Taxation	**(40.8)**	(35.2)
7	Capital expenditure and financial investment	**(89.3)**	(103.6)
		(45.0)	(58.1)
14b(i)	Acquisitions and disposals	**73.3**	9.1
	Equity dividends paid	**(59.4)**	(54.2)
	Net cash (outflow) before use of liquid resources and financing	**(31.1)**	(103.2)
3d(v)	Net cash inflow from the management of liquid resources	**3.1**	450.5
3d(vi)	Net cash (outflow) from financing	**(155.8)**	(135.1)
3d(i)	**Net (decrease) increase in cash**	**(183.8)**	212.2

Reconciliation of net cash flow to movement in net funds and debt

Notes		1998 £m	1997 restated £m
	Net (decrease) increase in cash	**(183.8)**	212.2
	Net cash outflow from increase in debt and lease financing	**156.0**	138.2
	Net cash (inflow) from the management of liquid resources	**(3.1)**	(450.5)
	Change in net funds and debt resulting from cash flows	**(30.9)**	(100.1)
	Effect of foreign exchange rate changes on net debt	**4.0**	2.4
	Inception of finance lease contracts	**(1.5)**	(0.5)
	Net loans and finance leases of subsidiaries acquired and sold	**(8.6)**	(0.2)
	Liquid resources of subsidiaries sold	**(10.4)**	(0.2)
	Movement in net (debt)	**(47.4)**	(98.6)
	Net (debt) funds at 1 January	**(96.0)**	2.6
3d(i)	**Net (debt) at 31 December**	**(143.4)**	(96.0)

Accounting policies

a Accounting convention The financial statements have been prepared on the historical cost basis, modified to include the revaluation of certain tangible fixed assets, in accordance with applicable UK accounting standards which have been applied on a consistent basis for all Group operations. FRS's 9, 10, 11 and 14 have been adopted in these financial statements. FRS's 12 and 13 will be adopted in the next financial statements.

b Basis of consolidation The results of businesses acquired or sold are included in the profit and loss account from, or up to, the date control passes. All undertakings over which the Group exercises control or has a dominant influence are consolidated as subsidiary undertakings ('subsidiaries').

In accordance with FRS 9, associates are now accounted for by the equity method and joint ventures by the gross equity method, with comparative figures restated.

In accordance with FRS 10, historic goodwill previously charged to a separate reserve is now transferred to the profit and loss reserve. On disposal, or in the event of identification of total and permanent impairment, a charge is taken to the profit and loss account. New goodwill is capitalised and together with certain brands, where separately identifiable, is normally amortised over its separately evaluated useful life of up to 20 years. In exceptional circumstances the goodwill and brands may be carried forward unamortised subject to annual impairment tests.

c Turnover and cost of sales Turnover is the total amount receivable for goods sold and services provided including Motors Financial Services interest and leasing income. It excludes sales related taxes and intra-Group transactions. Correspondingly, interest expense in respect of Motors Financial Services is treated as cost of sales.

d Foreign currencies The results and cash flows of overseas operations are translated into sterling at the average for the year of the month end rates of exchange, except when results are adjusted for the impact of hyperinflation by using an alternative functional currency. Assets and liabilities in foreign currencies are translated into sterling at closing rates of exchange except where rates are fixed by contract.

The difference between the profit and loss account translated at average and at closing rates of exchange is included as a reserve movement in the statement of total recognised gains and losses. Exchange differences arising from the retranslation to closing rates of exchange of opening net assets, long-term foreign currency borrowings used to finance foreign currency investments, and foreign currency borrowings and instruments that provide a hedge against net assets are also reflected as a reserve movement. All other exchange differences are dealt with in the profit and loss account.

e Financial instruments are used to manage the Group's exposure to fluctuations in interest rates and foreign currency exchange rates. Gains and losses are accounted for when the hedged transaction itself is recognised or at the time when the instrument ceases to be an effective hedge.

f Tangible fixed assets are stated at cost or valuation less depreciation, which is provided, except for freehold land, on a straight line basis over their estimated useful lives, mainly at the following annual rates:

Freehold buildings and long leasehold land and buildings	2%
Short leasehold land and buildings	term of lease
Plant, machinery and equipment	5% – 33.3%
Major computer software applications	33.3%

Land and buildings were revalued in 1996 on an open market existing use basis by local firms of professionally qualified surveyors in accordance with the Group's policy of triennial valuation. Diminution in value of individual properties below cost is charged to the profit and loss account.

Fixed asset investments are stated at cost, less provisions for impairment.

g Vacant leasehold property is provided to the extent of the value of the estimated future net cost.

h Stocks and work in progress are valued at the lower of cost and net realisable value. Cost comprises expenditure incurred in bringing stocks and work in progress to their present location and condition.

i Leases As lessee – assets held under finance leases are treated as if they had been purchased at the present value of the minimum lease payments. This cost is included under tangible fixed assets and depreciation is provided over the shorter of the lease term and the estimated useful life. The corresponding obligations under these leases are included within borrowings. The finance charge element of rentals payable is charged to the profit and loss account to produce a constant rate of interest. Rental payments arising from operating leases are charged on a straight line basis.

As lessor – the net investment in finance leases and hire purchase contracts is included under debtors and represents the total amount outstanding under lease agreements and hire purchase contracts less unearned income. Finance lease and hire purchase income is allocated to accounting periods to give a constant periodic rate of return on the net cash investment. Rentals receivable from operating leases are credited to the profit and loss account on a straight line basis.

j Deferred taxation is provided using the liability method at current taxation rates on timing differences to the extent that it is probable that a liability or asset will crystallise.

k Trade finance provided by manufacturers or suppliers or related finance houses is treated as a creditor and the cost of such credit is included in cost of sales.

l Post-retirement benefits Liabilities under defined contribution pension schemes are charged when incurred. The Group has a number of defined benefit pension schemes for which contributions are based on triennial actuarial valuations. Pension charges in the profit and loss account are calculated at a substantially level percentage of current and expected future pensionable payroll, with variations from regular cost spread over the expected remaining service lives of employees. Other post-retirement benefits are accounted for on a similar basis to defined benefit pension schemes.

Notes to the accounts

1 **Segmental analysis**

a **Turnover**

(i)

Turnover	Group subsidiaries		Share of joint ventures		Share of associates		Total	
	1998	1997 restated	**1998**	1997 restated	**1998**	1997 restated	**1998**	1997 restated
By activity:	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Ongoing – Motors:								
Import & Distribution	**2,323.7**	3,502.3	**52.8**	51.0	**813.7**	206.9	**3,190.2**	3,760.2
Retail	**847.0**	861.5	**–**	–	**–**	–	**847.0**	861.5
Financial Services	**64.7**	63.9	**53.9**	85.3	**1.1**	0.9	**119.7**	150.1
Total ongoing	**3,235.4**	4,427.7	**106.7**	136.3	**814.8**	207.8	**4,156.9**	4,771.8
To be discontinued:								
Bottling South America	**225.6**	201.5	**–**	–	**6.7**	7.0	**232.3**	208.5
Marketing	**587.9**	1,058.6	**171.8**	186.3	**60.5**	77.6	**820.2**	1,322.5
Office Automation	**–**	–	**–**	–	**80.0**	96.5	**80.0**	96.5
Shipping	**136.9**	143.7	**8.1**	7.0	**0.8**	1.0	**145.8**	151.7
Total to be discontinued	**950.4**	1,403.8	**179.9**	193.3	**148.0**	182.1	**1,278.3**	1,779.2
Total continuing	**4,185.8**	5,831.5	**286.6**	329.6	**962.8**	389.9	**5,435.2**	6,551.0
Discontinued	**71.2**	99.9	**–**	–	**–**	–	**71.2**	99.9
	4,257.0	5,931.4	**286.6**	329.6	**962.8**	389.9	**5,506.4**	6,650.9

(ii)

By geographical market:								
Europe:								
– United Kingdom	**1,260.6**	2,365.7	**18.0**	37.9	**811.6**	204.8	**2,090.2**	2,608.4
– Continent	**883.8**	770.5	**6.8**	25.0	**1.3**	0.8	**891.9**	796.3
Far East	**808.2**	1,323.5	**75.5**	73.8	**40.1**	46.8	**923.8**	1,444.1
South East Asia	**400.2**	610.3	**5.0**	7.0	**54.2**	85.6	**459.4**	702.9
Middle East	**20.8**	19.4	**178.0**	184.4	**22.7**	17.5	**221.5**	221.3
The Americas	**364.5**	351.9	**0.9**	0.9	**6.9**	7.2	**372.3**	360.0
Rest of World	**447.7**	390.2	**2.4**	0.6	**26.0**	27.2	**476.1**	418.0
Discontinued	**71.2**	99.9	**–**	–	**–**	–	**71.2**	99.9
	4,257.0	5,931.4	**286.6**	329.6	**962.8**	389.9	**5,506.4**	6,650.9

Geographical analysis of turnover is by origin and is not significantly different to turnover by destination.

Comparatives have been adjusted for a joint venture in the Middle East, previously included in the Marketing stream, which has been transferred to Motors Import & Distribution.

Discontinued activities in 1998 comprised primarily Bottling Russia. In 1997 there were no operations that were sufficiently material to be treated as discontinued.

1 **Segmental analysis continued**

b **Total operating profit**

(i)

	Share of joint ventures		Share of associates		Total operating profit		Exceptional operating items	
	1998	1997 restated	**1998**	1997 restated	**1998**	1997 restated	**1998**	1997
By activity:	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Ongoing:								
Motors:								
Import & Distribution	**(0.5)**	0.1	**25.2**	7.8	**90.9**	112.6	**(124.7)**	(10.6)
Retail	**–**	–	**–**	–	**8.3**	12.2	**–**	(10.5)
Financial Services	**7.7**	16.8	**4.0**	1.2	**16.7**	26.6	**–**	–
Total Motors	**7.2**	16.9	**29.2**	9.0	**115.9**	151.4	**(124.7)**	(21.1)
Central costs	**–**	–	**–**	–	**(15.5)**	(17.2)	**–**	4.2
Total ongoing	**7.2**	16.9	**29.2**	9.0	**100.4**	134.2	**(124.7)**	(16.9)
To be discontinued:								
Bottling South America	**–**	–	**(0.1)**	0.3	**22.7**	30.1	**–**	(1.0)
Marketing	**12.6**	14.5	**3.5**	4.8	**21.6**	28.2	**–**	(19.8)
Office Automation	**–**	–	**5.8**	6.2	**5.8**	6.2	**–**	–
Shipping	**2.5**	1.8	**0.2**	0.8	**6.1**	10.6	**–**	(2.9)
Total to be discontinued	**15.1**	16.3	**9.4**	12.1	**56.2**	75.1	**–**	(23.7)
Total continuing	**22.3**	33.2	**38.6**	21.1	**156.6**	209.3	**(124.7)**	(40.6)
Discontinued	**–**	–	**–**	–	**(21.4)**	(19.7)	**(6.6)**	–
	22.3	33.2	**38.6**	21.1	**135.2**	189.6	**(131.3)**	(40.6)
Exceptional operating items – note 2d	**–**	–	**–**	–	**(131.3)**	(40.6)		
Total operating profit	**22.3**	33.2	**38.6**	21.1	**3.9**	149.0		

(ii)

	Share of joint ventures		Share of associates		Total operating profit		Exceptional operating items	
	1998	1997 restated	**1998**	1997 restated	**1998**	1997 restated	**1998**	1997
By geographical market:								
Europe:								
– United Kingdom	**1.9**	10.4	**28.6**	8.2	**34.5**	60.6	**(24.9)**	(13.7)
– Continent	**1.3**	1.5	**0.2**	0.1	**18.8**	9.0	**(99.8)**	(3.2)
Far East	**3.3**	5.0	**4.0**	3.8	**36.2**	50.4	**–**	(11.5)
South East Asia	**(0.4)**	–	**1.3**	3.3	**20.4**	32.0	**–**	(14.9)
Middle East	**16.1**	16.2	**2.4**	2.8	**15.8**	15.9	**–**	–
The Americas	**0.1**	0.1	**(0.1)**	0.3	**26.9**	39.6	**–**	(1.5)
Rest of World	**–**	–	**2.2**	2.6	**19.5**	19.0	**–**	–
Discontinued	**–**	–	**–**	–	**(21.4)**	(19.7)	**(6.6)**	–
Central costs	**–**	–	**–**	–	**(15.5)**	(17.2)	**–**	4.2
	22.3	33.2	**38.6**	21.1	**135.2**	189.6	**(131.3)**	(40.6)

c **Average number of employees**

	Group subsidiaries		Joint ventures		Associates		Total	
	1998	1997 restated	**1998**	1997 restated	**1998**	1997 restated	**1998**	1997 restated
Ongoing:								
Motors:								
Import & Distribution	**5,913**	6,081	**346**	340	**1,431**	879	**7,690**	7,300
Retail	**3,834**	4,448	**–**	–	**–**	–	**3,834**	4,448
Financial Services	**351**	326	**207**	194	**13**	23	**571**	543
Total Motors	**10,098**	10,855	**553**	534	**1,444**	902	**12,095**	12,291
Corporate	**98**	97	**–**	–	**–**	–	**98**	97
Total ongoing	**10,196**	10,952	**553**	534	**1,444**	902	**12,193**	12,388
To be discontinued:								
Bottling South America	**4,061**	2,824	**–**	–	**70**	81	**4,131**	2,905
Marketing	**6,856**	7,546	**4,526**	4,536	**3,793**	3,265	**15,175**	15,347
Office Automation	**–**	–	**–**	–	**2,740**	2,857	**2,740**	2,857
Shipping	**2,372**	2,252	**390**	364	**49**	273	**2,811**	2,889
Total to be discontinued	**13,289**	12,622	**4,916**	4,900	**6,652**	6,476	**24,857**	23,998
Total continuing	**23,485**	23,574	**5,469**	5,434	**8,096**	7,378	**37,050**	36,386
Discontinued	**1,656**	1,503	**–**	–	**–**	–	**1,656**	1,503
	25,141	25,077	**5,469**	5,434	**8,096**	7,378	**38,706**	37,889

1 **Segmental analysis continued**

d

Net assets	Share of joint ventures		Share of associates		Group	
	1998	1997 restated	**1998**	1997 restated	**1998**	1997 restated
(i) **By activity:**	**£m**	£m	**£m**	£m	**£m**	£m
Motors:						
Import & Distribution	**(3.1)**	(0.5)	**39.8**	25.9	**384.7**	363.3
Retail	**–**	–	**–**	–	**119.5**	102.7
Financial Services	**33.4**	53.0	**20.4**	7.1	**72.8**	83.3
Total Motors	**30.3**	52.5	**60.2**	33.0	**577.0**	549.3
Bottling South America	**–**	–	**1.4**	1.8	**163.7**	134.0
Marketing	**15.7**	14.5	**26.5**	28.3	**124.3**	278.4
Office Automation	**–**	–	**24.0**	20.9	**24.0**	20.9
Shipping	**0.1**	0.2	**0.2**	0.3	**20.9**	12.2
Total continuing	**46.1**	67.2	**112.3**	84.3	**909.9**	994.8
Discontinued	**–**	–	**–**	–	**(3.2)**	116.3
	46.1	67.2	**112.3**	84.3	**906.7**	1,111.1
Net debt*	**–**	–	**–**	–	**(116.5)**	(64.4)
Other unallocated assets and liabilities	**–**	–	**–**	–	**(99.7)**	(123.9)
	46.1	67.2	**112.3**	84.3	**690.5**	922.8

(ii) **By geographical market:**						
Europe:						
– United Kingdom	**2.4**	26.2	**56.6**	32.3	**222.3**	227.8
– Continent	**6.1**	5.8	**1.1**	1.9	**159.2**	122.3
Far East	**25.3**	25.9	**4.8**	5.5	**164.3**	256.1
South East Asia	**1.4**	1.6	**30.7**	20.7	**107.3**	182.0
Middle East	**10.8**	7.6	**8.1**	13.1	**28.9**	27.7
The Americas	**0.1**	0.1	**1.5**	1.9	**219.5**	172.4
Rest of World	**–**	–	**9.5**	8.9	**8.4**	6.5
Discontinued	**–**	–	**–**	–	**(3.2)**	116.3
Net debt*	**–**	–	**–**	–	**(116.5)**	(64.4)
Other unallocated assets and liabilities	**–**	–	**–**	–	**(99.7)**	(123.9)
	46.1	67.2	**112.3**	84.3	**690.5**	922.8

* Reconciled to debt as follows:		
Net debt as above	**(116.5)**	(64.4)
Motors Financial Services debt in respect of consumer financing	**(58.2)**	(60.4)
Shipping cash in respect of principal funds	**31.3**	28.8
Net debt as reported – note 3a	**(143.4)**	(96.0)

Other unallocated assets and liabilities include central provisions, taxation and dividend liabilities, and assets not directly related to operating activity.

Comparatives above have been adjusted to reflect the reclassification of borrowings to net operating assets for a Motors finance subsidiary, and to reclassify an associate in the UK, whose Motors finance joint venture was previously included in Import & Distribution, which has been transferred to Motors Financial Services.

1 Segmental analysis continued

e Motors supplemental segmental analysis before exceptional items and central costs – comparatives restated for change in shareholding in Toyota (GB)

(i)

Motors segmental analysis	Turnover including share of joint ventures and associates		Total operating profit		Operating assets	
	1998	1997 pro forma	**1998**	1997 pro forma	**1998**	1997 pro forma
By activity:	**£m**	£m	**£m**	£m	**£m**	£m
Import & Distribution	**3,190.2**	3,194.2	**90.9**	98.0	**384.7**	338.8
Retail	**847.0**	861.5	**8.3**	12.2	**119.5**	102.7
Financial Services	**119.7**	116.9	**16.7**	22.1	**72.8**	70.6
	4,156.9	4,172.6	**115.9**	132.3	**577.0**	512.1
By geographical market:						
Europe:						
– United Kingdom	**2,078.6**	1,992.9	**38.5**	46.3	**216.5**	191.9
– Continent	**877.3**	782.2	**17.2**	7.8	**158.7**	118.7
Far East	**431.6**	611.0	**27.2**	37.1	**109.3**	101.7
South East Asia	**227.8**	295.7	**13.1**	20.7	**54.8**	79.1
Middle East	**16.5**	17.0	**0.8**	0.8	**(1.2)**	(2.1)
The Americas	**84.1**	93.5	**1.0**	3.3	**43.5**	30.4
Rest of World	**441.0**	380.3	**18.1**	16.3	**(4.6)**	(7.6)
	4,156.9	4,172.6	**115.9**	132.3	**577.0**	512.1

(ii)

Analysis of Motors total operating profit	**1998 £m**	1997 pro forma £m
Subsidiaries' turnover	**3,235.4**	3,313.5
Cost of sales	**(2,720.1)**	(2,771.3)
Gross profit	**515.3**	542.2
Operating expenses	**(440.7)**	(450.0)
Utilisation of termination provisions	**4.9**	5.5
Operating profit	**79.5**	97.7
Share of profits of joint ventures	**7.2**	7.4
Share of profits of associates	**29.2**	27.2
Total operating profit	**115.9**	132.3

(iii)

Motors operating assets	**1998 £m**	1997 pro forma £m
Fixed assets:		
Intangible fixed assets	**3.7**	–
Tangible fixed assets	**248.6**	240.5
Joint ventures: share of gross assets	**519.1**	447.2
share of gross liabilities	**(488.8)**	(421.5)
share of net assets	**30.3**	25.7
Share of net assets of associates	**60.2**	51.6
	342.8	317.8
Stocks	**684.2**	701.1
Debtors	**287.4**	289.0
Creditors	**(737.4)**	(795.8)
	234.2	194.3
Operating assets	**577.0**	512.1

Pro forma comparatives have been presented to illustrate the effect of the reduction in the interest in Toyota (GB) from 75% to 49%, effective from 1 January 1998, which is now equity accounted as an associate.

2 Profit and loss

a Analysis of operating (loss) profit

	Continuing operations 1998 £m	Discontinued operations 1998 £m	Total 1998 £m	Continuing operations 1997 restated £m	Discontinued operations 1997 restated £m	Total 1997 £m
Turnover	**4,185.8**	**71.2**	**4,257.0**	5,831.5	99.9	5,931.4
Cost of sales	**(3,338.6)**	**(51.3)**	**(3,389.9)**	(4,752.2)	(79.7)	(4,831.9)
Exceptional cost of sales – note 2d	**–**	**–**	**–**	(7.7)	–	(7.7)
	(3,338.6)	**(51.3)**	**(3,389.9)**	(4,759.9)	(79.7)	(4,839.6)
Gross profit	**847.2**	**19.9**	**867.1**	1,071.6	20.2	1,091.8
Distribution costs	**(373.6)**	**(5.1)**	**(378.7)**	(484.9)	(9.0)	(493.9)
Administrative expenses	**(395.2)**	**(36.2)**	**(431.4)**	(458.8)	(30.9)	(489.7)
Exceptional administrative expenses – note 2d	**(124.7)**	**(6.6)**	**(131.3)**	(32.9)	–	(32.9)
	(519.9)	**(42.8)**	**(562.7)**	(491.7)	(30.9)	(522.6)
Other operating income	**11.2**	**–**	**11.2**	8.8	–	8.8
Utilisation of termination provisions	**6.1**	**–**	**6.1**	10.6	–	10.6
Operating (loss) profit	**(29.0)**	**(28.0)**	**(57.0)**	114.4	(19.7)	94.7

b Supplemental information

	1998 £m	1997 £m
(Loss) profit on ordinary activities before taxation is stated after the following charges (credits):		
Wages and salaries	**306.0**	342.5
Social security costs	**27.8**	30.9
Other pension costs	**13.1**	17.2
Total employment costs of the Company and its subsidiaries	**346.9**	390.6
Amortisation of intangible fixed assets – goodwill	**1.2**	–
Depreciation of tangible fixed assets:		
– owned	**52.6**	52.0
– held under finance leases	**0.4**	1.3
Loss on sale of tangible fixed assets other than property	**–**	1.7
Hire of plant, machinery and equipment	**5.2**	4.1
Other operating lease rentals:		
– payable	**47.1**	54.6
– receivable	**(8.8)**	(7.4)
Auditors' remuneration:		
Statutory audit (Company: £0.1m, 1997 – £0.1m)	**2.4**	2.7
UK non-audit fees:		
– due diligence and other audit-related work	**2.0**	0.1
– tax advice	**0.2**	0.1
– management consultancy services	**0.3**	0.2
Total PricewaterhouseCoopers fees	**4.9**	3.1
Audit fees and expenses – firms other than PricewaterhouseCoopers	**0.2**	0.2

PricewaterhouseCoopers has been substantially involved in the divestment process because of their prior knowledge of the Group. The UK non-audit fees included above, paid to PricewaterhouseCoopers and its associates (being the predecessor partnerships of Price Waterhouse and Coopers & Lybrand) during the year were £2.5m of which £0.3m related to work done by Coopers & Lybrand, the previous auditors, and its associates. UK non-audit fees in 1997 of £0.4m comprise solely amounts paid to Coopers & Lybrand. The £2.7m statutory audit fee for 1997 comprises solely amounts paid to Coopers & Lybrand.

As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented for the Company.

c Directors

Information on Directors' emoluments and interests, which form part of these audited financial statements, are given on pages 35 to 37.

2 Profit and loss continued

d

Exceptional items	1998 £m	1997 £m
Exceptional operating expenses:		
Goodwill write-off	**(124.7)**	–
Other exceptional operating expenses	**(6.6)**	(40.6)
Total exceptional operating expenses	**(131.3)**	(40.6)
Net profit on disposal of properties and investments	**4.1**	3.8
Net loss including provisions on the sale and termination of operations:		
Provision for impairment on impending sale of Marketing Asia-Pacific (includes goodwill written off: £48.8m)	**(189.1)**	–
Bottling Russia disposal	**(43.2)**	–
Sale of 26% interest in Toyota (GB)	**18.0**	–
Motors sales and terminations (includes goodwill written off: £13.7m, 1997 – £nil)	**(29.1)**	(2.7)
Other (includes goodwill written off: £2.5m, 1997 – £8.0m)	**(22.5)**	(55.0)
Total net loss on the sale and termination of operations	**(265.9)**	(57.7)
Costs of fundamental reorganisation	**(10.6)**	–
Total exceptional items – note 2e	**(403.7)**	(94.5)

Provision for impairment on impending sale of Marketing Asia-Pacific comprises:	£m
Tangible fixed assets – note 7	**44.3**
Stock – note 9a	**38.1**
Trade debtors	**54.0**
	136.4
Goodwill	**48.8**
Costs	**3.9**
Total	**189.1**

The exceptional operating charge of £124.7m relates to the total impairment of historic goodwill relating to certain European Motors operations predominantly purchased through the TKM acquisition in 1992.

Motor terminations include a number of exits from both Import & Distribution and Retail businesses, primarily in Europe. Other sales and terminations include a number of withdrawals from other businesses and costs arising on earlier disposals.

Exceptional items in 1997 mainly comprised a £59.0m restructuring charge in respect of Marketing Asia-Pacific and £18.2m incurred in respect of Motors Retail closures and a revision of government levies and fees in Singapore.

Goodwill written off included above had been charged against reserves in previous years.

e

Earnings per ordinary share	Headline 1998 £m	Headline 1997 £m	FRS3 1998 £m	FRS3 1997 £m
Headline profit before tax	**106.1**	184.1	**106.1**	184.1
Exceptional items – note 2d	–	–	**(403.7)**	(94.5)
Profit (loss) before tax	**106.1**	184.1	**(297.6)**	89.6
Taxation – note 4a	**(55.2)**	(63.1)	**(61.4)**	(64.8)
Minority interests	**(6.6)**	(18.7)	**(6.5)**	(17.0)
Earnings (loss)	**44.3**	102.3	**(365.5)**	7.8
Headline earnings per share	**8.4p**	19.3p		
Basic and diluted (loss) earnings per share			**(69.1)p**	1.5p

The weighted average number of fully paid shares in issue during the year, excluding those held by the Inchcape Employee Trust (note 8a), was 529,306,833 (1997 restated – 528,805,341).

Options have no dilutive effect on basic earnings per share as the exercise prices of all outstanding options are greater than the average share price during the period of 171p.

Headline profits and earnings (before total exceptional items and after the utilisation of termination provisions) are adopted in that they provide a representation of underlying performance.

3 Treasury information

a Maturity of net borrowings

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Borrowings and finance leases:				
Repayable within one year:				
Bank loans and overdrafts	**160.3**	214.8	**–**	–
Other loans	**110.3**	101.3	**1.2**	–
Finance leases	**1.2**	1.9	**–**	–
	271.8	318.0	**1.2**	–
Repayable over one year and up to two years:				
Bank loans	**5.8**	8.4	**–**	–
Other loans	**59.7**	2.5	**–**	1.4
Finance leases	**0.9**	1.4	**–**	–
	66.4	12.3	**–**	1.4
Repayable over two years and up to five years:				
Bank loans	**8.5**	14.8	**–**	–
Other loans	**43.5**	104.3	**–**	–
Finance leases	**2.4**	2.6	**–**	–
	54.4	121.7	**–**	–
Repayable beyond five years:				
Bank loans	**–**	–	**–**	–
Other loans	**–**	125.0	**–**	125.0
Finance leases	**3.1**	2.1	**–**	–
	3.1	127.1	**–**	125.0
Total borrowings and finance leases	**395.7**	579.1	**1.2**	126.4
Cash and deposits	**(252.3)**	(483.1)	**–**	(0.1)
Net borrowings	**143.4**	96.0	**1.2**	126.3

A US private placement was made in May 1995, consisting of US$100m (£59.7m: 1997 – £60.6m) of 6.93% loan notes, due May 2000 and US$72m (£43.5m 1997 – £43.6m) of 7.09% loan notes, due May 2002.

In June 1998 the Company redeemed its £125m 6.25% Convertible Subordinated Bonds Due 2008 at par.

Other loans are at various rates of interest, linked to interbank market rates. Net obligations under finance leases are at various local prevailing rates of interest.

Of the total Group borrowings, £7.4m is secured (1997 – £32.5m). The Company's borrowings are unsecured.

b Facilities

The Group has committed stand-by credit facilities of £505m in total (1997 – £325m), £105m expiring in 2000 and £400m in 2003. During the year £nil was drawn (1997 – £nil). On completion of the Bottling South America disposal, the £400m facility will reduce to £250m.

3 Treasury information continued

c Interest

Interest	1998 £m	1997 restated £m
Interest payable and other charges:		
On bank loans, overdrafts and other loans falling due within five years	**81.8**	54.8
On finance leases mainly repayable within five years	**0.7**	1.0
Cost of swapping fixed rate US$ borrowings into floating rate sterling on sale of Bottling Russia	**2.8**	–
Other interest	**13.4**	22.8
	98.7	78.6
Less amounts included in cost of sales for Motors Financial Services subsidiaries	**(5.3)**	(4.2)
	93.4	74.4
Interest receivable	**(79.7)**	(84.3)
Less amounts included in:		
– Motors Financial Services subsidiaries' turnover	**13.5**	11.7
– Shipping subsidiaries' interest on principal funds included in other operating income	**1.5**	1.6
	(64.7)	(71.0)
The Company and its subsidiaries	**28.7**	3.4
Share of joint ventures' net interest	**1.5**	1.7
Share of associates' net interest	**(1.1)**	0.4
	29.1	5.5

d Cash flow

(i)

Analysis of net (debt)	At 1 January 1998 £m	Cash flow £m	Acquisitions and disposals (excluding cash and overdrafts) £m	Other non-cash movements £m	Exchange movement £m	At 31 December 1998 £m
Cash in hand and at bank	**341.9**	**(219.9)**			**3.7**	**125.7**
Overdrafts	**(64.2)**	**36.1**			**0.3**	**(27.8)**
		(183.8)				
Debt due within one year	**(251.9)**	**15.9**	**(8.5)**		**1.7**	**(242.8)**
Debt due after one year	**(255.0)**	**138.8**	**(0.9)**		**(0.4)**	**(117.5)**
Finance leases	**(8.0)**	**1.3**	**0.8**	**(1.5)**	**(0.2)**	**(7.6)**
		156.0	**(8.6)**			
Liquid resources	**141.2**	**(3.1)**	**(10.4)**		**(1.1)**	**126.6**
Net (debt) funds	**(96.0)**	**(30.9)**	**(19.0)**	**(1.5)**	**4.0**	**(143.4)**

Liquid resources are principally term deposits at bank which are not available for immediate withdrawal without penalty.

(ii)

Cash and deposits	1998 £m	1997 £m
Cash at bank and in hand	**125.7**	341.9
Liquid resources	**126.6**	141.2
Cash and deposits as per balance sheet	**252.3**	483.1

(iii)

Borrowings – amounts repayable within one year	1998 £m	1997 £m
Bank loans repayable within one year	**132.5**	150.6
Loans other than from banks	**110.3**	101.3
Debt due within one year	**242.8**	251.9
Finance leases	**1.2**	1.9
Bank overdrafts	**27.8**	64.2
Borrowings – amounts repayable within one year as per balance sheet	**271.8**	318.0

3 Treasury information continued

d Cash flow continued

(iv) Returns on investments and servicing of finance

	1998 £m	1997 restated £m
Interest received	**68.3**	70.4
Interest paid	**(93.6)**	(74.6)
Dividends received from other fixed asset investments	**0.2**	–
Dividends paid to minority interests	**(8.8)**	(10.8)
	(33.9)	(15.0)

(v) Management of liquid resources

	1998 £m	1997 £m
Decrease in liquid resources	**3.1**	450.5

(vi) Net cash (outflow) inflow from financing

	1998 £m	1997 £m
Issue of ordinary share capital	**0.2**	0.5
Capital subscribed by minority interests	**–**	2.6
Decrease in debt – note 3d(i)	**(154.7)**	(132.6)
Capital element of finance lease rental payments – note 3d(i)	**(1.3)**	(5.6)
	(155.8)	(135.1)

e Operating lease commitments

	Property leases		Other operating leases	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Operating lease rentals payable in the next year in respect of commitments expiring:				
– within one year	**11.3**	9.3	**1.9**	1.7
– in two to five years	**22.3**	29.9	**2.2**	1.5
– after five years	**11.5**	11.4	**0.1**	–
	45.1	50.6	**4.2**	3.2

4 Taxation

a Current taxation

	1998 £m	1997 £m
United Kingdom corporation tax at 31% (1997 – 31.5%)	**16.8**	28.1
Double taxation relief	**(17.4)**	(14.4)
	(0.6)	13.7
Advance Corporation Tax written (back) off	**(17.0)**	10.9
	(17.6)	24.6
Overseas taxes	**39.7**	30.1
Deferred taxation	**27.9**	(0.4)
	50.0	54.3
Adjustments to prior year liabilities	**(2.0)**	(0.1)
The Company and its subsidiaries	**48.0**	54.2
Share of joint ventures' taxation	**2.7**	5.4
Share of associates' taxation	**10.7**	5.2
	61.4	64.8

The tax charge includes £6.2m in respect of exceptional items (1997 – £1.7m).

The tax charge in 1998 was impacted by unrelieved losses from trading operations in various countries, and exceptional costs which were not deductible for tax purposes.

b Deferred taxation liability (asset)

	1998 £m	1997 £m
Balance at 1 January	**(3.8)**	(5.5)
Charged (credited) to profit and loss account	**27.9**	(0.4)
Advance Corporation Tax written back	**(17.0)**	–
Adjustments to prior year liabilities	**–**	2.1
Subsidiaries sold	**0.8**	–
Balance at 31 December – provision (debtor)	**7.9**	(3.8)

The potential amount of deferred tax liability (asset) on timing differences and the amount which has been provided in the accounts comprise:	Potential 1998 £m	Potential 1997 £m	Recognised 1998 £m	Recognised 1997 £m
Excess capital allowances	**6.4**	4.0	**1.7**	1.1
Revalued assets	**11.2**	1.1	**–**	–
Tax effect of losses carried forward	**(5.1)**	–	**–**	–
Other timing differences (Company: potential and recognised £5.0m, 1997 – £nil)	**(7.3)**	(13.8)	**6.2**	(4.9)
	5.2	(8.7)	**7.9**	(3.8)

Advance Corporation Tax written off to date amounts to £10.9m (1997 – £25.2m) and is available for offset against future UK corporation tax liabilities subject to the restrictions of the 'shadow' ACT regulations.

Except for deferred tax on accrued overseas dividends, no account has been taken of taxation which would be payable if profits of overseas operations were distributed, as there is currently no intention to remit such profits.

5

Pensions and other post-retirement benefits

The Group operates pension schemes for its employees in most subsidiaries. Schemes are mainly of the defined benefit type with assets held under trust in separately administered accounts. Some overseas employees are covered by defined contribution schemes which are principally linked to local statutory arrangements. The Group also has some unfunded arrangements in the UK the cost of which are included in the pension cost figures below. The Group has no health and medical plans providing post-retirement benefits for current employees but does have a liability in respect of past employees under schemes which have been closed to new entrants.

Pensions – UK schemes

The pension costs for the main defined benefit schemes operated in the UK were determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit method.

Actuarial valuations for these schemes were carried out during 1997 using, in the main, per annum long-term assumptions of investment return of 8.5 – 10.0%, salary increase of 6.0 – 7.5%, dividend growth of 4.5 – 5.0% and pension increase of 4.5 – 5.0%. The actuarial valuations of the total assets covered 112% of benefits that had accrued to members. The market value of the assets held by the Group's UK schemes at March/April 1997 was £413.2m.

Pensions – overseas schemes

The assets of all overseas schemes had a market value of £150.0m based on the latest actuarial valuations carried out during 1997. The actuarial assumptions used for overseas schemes were consistent with local practice. The actuarial valuations of the total assets covered 95% of the benefits that had accrued to members.

Pension cost

The pension cost charged for 1998 was £13.1m (1997 – £17.2m) of which £10.4m (1997 – £14.7m) relates to schemes of a defined benefit nature and £2.7m (1997 – £2.5m) represents the amount attributable to defined contribution schemes. The significant decrease in cost in 1998 is mainly due to the disposal of businesses. A provision of £6.7m (1997 – £7.0m) is included in provisions for liabilities and charges, being the excess of the pension cost charge over the amount funded. Outstanding contributions to defined contribution schemes are £1.5m (1997 – £1.7m).

An amount of £nil (1997 – £3.8m) was credited to operating exceptional items and £2.7m (1997 – £3.0m) charged to non-operating exceptional items in respect of disposals and terminations.

6

Fixed assets – intangible assets

	Goodwill £m	Acquired brands £m	Total £m
Cost or valuation at 1 January 1998	–	22.4	22.4
Effect of foreign exchange rate changes	–	(3.2)	(3.2)
Acquisitions	22.7	–	22.7
Cost or valuation at 31 December 1998	22.7	19.2	41.9
Amortisation at 1 January 1998	–	–	–
Provided for the year	(1.2)	–	(1.2)
Amortisation at 31 December 1998	(1.2)	–	(1.2)
Book value at 31 December 1998	21.5	19.2	40.7
Book value at 31 December 1997	–	22.4	22.4

The goodwill and acquired brands relating to the South American Bottling operation have not been amortised as the values arising on their sale exceed cost to the Group.

7 Fixed assets – tangible assets

	Freehold and leasehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost or valuation at 1 January 1998	**363.4**	**386.7**	**750.1**
Effect of foreign exchange rate changes	**0.3**	**(0.5)**	**(0.2)**
Subsidiaries acquired	**7.2**	**10.2**	**17.4**
Subsidiaries sold	**(38.8)**	**(83.4)**	**(122.2)**
Additions	**29.4**	**84.1**	**113.5**
Disposals	**(6.2)**	**(44.0)**	**(50.2)**
Deficit on impairment of revalued properties	**(8.1)**	**–**	**(8.1)**
Cost or valuation at 31 December 1998	**347.2**	**353.1**	**700.3**
Analysed:			
Valuation 1993	11.0	**–**	**11.0**
Valuation 1996	**243.0**	**–**	**243.0**
Cost	**93.2**	**353.1**	**446.3**
	347.2	**353.1**	**700.3**
Depreciation at 1 January 1998	**(12.9)**	**(187.3)**	**(200.2)**
Effect of foreign exchange rate changes	**(0.5)**	**(2.4)**	**(2.9)**
Subsidiaries sold	**1.4**	**24.9**	**26.3**
Provided for the year	**(9.1)**	**(43.9)**	**(53.0)**
Impairment provision on Marketing Asia-Pacific disposal – note 2d	**(34.2)**	**(10.1)**	**(44.3)**
Disposals	**0.5**	**24.2**	**24.7**
Depreciation at 31 December 1998	**(54.8)**	**(194.6)**	**(249.4)**
Book value at 31 December 1998	**292.4**	**158.5**	**450.9**
Book value at 31 December 1997	350.5	199.4	549.9

	1998 £m	1997 £m
Book value of land and buildings analysed between:		
– freehold	**177.4**	176.4
– leasehold with over 50 years unexpired	**48.5**	84.1
– short leasehold	**66.5**	90.0
	292.4	350.5
Historic cost value of land and buildings analysed between:		
– cost	**292.4**	301.5
– less depreciation	**(53.2)**	(46.5)
	239.2	255.0
The book value of tangible fixed assets held for rental under operating leases amounted to:		
– cost	**13.4**	15.3
– less depreciation	**(0.5)**	(1.9)
	12.9	13.4

The book value of tangible fixed assets includes £10.8m (1997 – £11.8m) in respect of assets held under finance leases.

Capital expenditure and financial investment – cash flow	1998 £m	1997 £m
Expenditure on tangible fixed assets	**(113.5)**	(149.1)
Inception of finance leases	**1.5**	0.5
(Decrease) increase in creditors	**(1.1)**	2.2
Cash outflow on purchase of tangible fixed assets	**(113.1)**	(146.4)
Sale of tangible fixed assets	**26.4**	40.6
(Increase) decrease in debtors	**(2.6)**	2.2
	(89.3)	(103.6)

8 Fixed assets – investments

a Movement in book value

(i)

Group	Shares in joint ventures & associates £m	Loans to joint ventures & associates £m	Own shares £m	Other investments £m	Total £m
Cost less provisions at 1 January 1998	**89.6**	**26.2**	**1.7**	**13.1**	**130.6**
Effect of foreign exchange rate changes	**(0.6)**	**0.1**	**–**	**0.1**	**(0.4)**
Additions	**1.5**	**–**	**–**	**1.0**	**2.5**
Arising on sale of 26% interest in Toyota (GB)	**22.4**	**(25.0)**	**–**	**–**	**(2.6)**
Impairment provisions	**–**	**–**	**(0.6)**	**–**	**(0.6)**
Disposals	**(0.9)**	**–**	**–**	**(4.2)**	**(5.1)**
Cost less provisions at 31 December 1998	**112.0**	**1.3**	**1.1**	**10.0**	**124.4**
Share of post acquisition reserves:					
Balance at 1 January 1998	**51.9**				**51.9**
Effect of foreign exchange rate changes	**(1.0)**				**(1.0)**
Impairment of revalued fixed assets	**(1.9)**				**(1.9)**
Retained profit for the financial year – note 13d	**12.0**				**12.0**
Balance at 31 December 1998	**61.0**				**61.0**
Adjustment to cost in respect of net goodwill:					
Balance at 1 January 1998	**(16.2)**				**(16.2)**
Effect of foreign exchange rate changes	**0.3**				**0.3**
Balance at 31 December 1998	**(15.9)**				**(15.9)**
Book value at 31 December 1998	**157.1**	**1.3**	**1.1**	**10.0**	**169.5**
Book value at 31 December 1997	125.3	26.2	1.7	13.1	166.3

(ii)

Company	Own shares £m	Shares in subsidiaries £m	Total £m
At 1 January 1998	**1.5**	**130.1**	**131.6**
Effect of foreign exchange rate changes	**–**	**(0.1)**	**(0.1)**
Additions arising from reorganisation of Group companies	**–**	**783.6**	**783.6**
Provisions for impairment in the year	**(0.5)**	**(30.2)**	**(30.7)**
Disposals	**–**	**(35.0)**	**(35.0)**
At 31 December 1998	**1.0**	**848.4**	**849.4**

The share of post acquisition reserves of joint ventures and associates attributable to the Group after minority interests as at 31 December 1998 is £59.7m (1997 – £50.1m).

Certain joint ventures and associates that form part of Motors Financial Services are primarily financed by borrowings without recourse to any other Group company. Transactions with joint ventures and associates within the Motors Financial Services activity include vehicle purchases and net interest paid on stock financing totalling £17.1m (1997 – £20.1m), with £1.7m outstanding at 31 December 1998 (£0.8m at 31 December 1997), and vehicle sales and rental income totalling £324.8m (1997 restated – £266.4m), with £18.4m outstanding at 31 December 1998 (£13.3m at 31 December 1997). Debt factored through an associate amounted to £56.1m (1997 – £47.8m) of which £1.9m is outstanding at 31 December 1998 (£2.0m at 31 December 1997). Property sold to an associate amounted to £1.0m (1997 – £nil) of which none is outstanding at 31 December 1998 (£nil at 31 December 1997). Management fees and expenses received from Motors joint ventures and associates amounted to £1.6m (1997 – £6.1m), with £0.5m outstanding at 31 December 1998 (£0.5m at 31 December 1997).

Transactions with joint ventures and associates within the Marketing activity include sales, rental income and net interest totalling £3.0m (1997 – £3.5m), with £0.9m outstanding at 31 December 1998 (£2.5m at 31 December 1997), and management service and agency fees totalling £1.4m (1997 – £2.7m), with £0.4m outstanding at 31 December 1998 (£1.1m at 31 December 1997). In addition, net loans due from Marketing joint ventures and associates totalled £2.1m at 31 December 1998 (£0.4m at 31 December 1997).

Own shares are held by the Inchcape Employee Trust, a general discretionary trust whose beneficiaries include employees and former employees of the Group and their dependants. The total number of shares held by the Inchcape Employee Trust at 31 December 1998 was 758,415. The shares are held by the Trust to meet contingent awards under the Inchcape Long Term Incentive Plan. Their market value at 31 December 1998 was £1.0m and at 5 March 1999 was £1.1m. The shares have been written down to their estimated net realisable value.

The respective performance periods under the contingent awards made in 1996 and 1997 had not expired at 31 December 1998 and none of those awards had become exercisable at that date.

8 Fixed assets – investments continued

b Listed fixed and current asset investments

(i)

	Associates		Other fixed asset investments	
	1998	1997	**1998**	1997
Fixed asset investments	**£m**	£m	**£m**	£m
Book value	**7.6**	8.3	**5.7**	7.1
Market value	**25.8**	35.9	**5.8**	6.2

(ii)

Current asset investments				
Book value	**–**	–	**16.2**	–
Market value	**–**	–	**15.4**	–

c Group share of net assets of joint ventures and associates

	Joint ventures		Associates		Total	
	1998	1997	**1998**	1997	**1998**	1997
	£m	£m	**£m**	£m	**£m**	£m
Fixed assets	**31.4**	77.7	**74.7**	60.2	**106.1**	137.9
Current assets	**547.8**	686.3	**361.7**	141.6	**909.5**	827.9
Group share of gross assets	**579.2**	764.0	**436.4**	201.8	**1,015.6**	965.8
Liabilities due within one year	**(393.9)**	(587.4)	**(316.3)**	(107.7)	**(710.2)**	(695.1)
Liabilities due after more than one year	**(139.2)**	(109.4)	**(7.8)**	(9.8)	**(147.0)**	(119.2)
Group share of gross liabilities	**(533.1)**	(696.8)	**(324.1)**	(117.5)	**(857.2)**	(814.3)
Group share of net assets	**46.1**	67.2	**112.3**	84.3	**158.4**	151.5

d Results of significant associate – Toyota (GB)

	1998	1997 pro forma
	£m	£m
Turnover	**611.7**	546.0
Profit before taxation	**15.9**	19.5
Taxation	**(4.9)**	(6.2)
Profit after taxation	**11.0**	13.3
Fixed assets	**25.4**	17.7
Current assets	**220.2**	196.7
Liabilities due within one year	**(217.6)**	(191.8)
Liabilities due after more than one year	**(0.2)**	(0.2)
Net assets	**27.8**	22.4

Pro forma comparatives have been presented to illustrate the effect of the reduction in the interest in Toyota (GB) from 75% to 49%, effective from 1 January 1998, which is now equity accounted as an associate.

9 Net current assets

a Stocks

	1998 £m	1997 £m
Raw materials and work in progress	**34.7**	34.1
Finished goods and merchandise	**743.5**	1,184.7
	778.2	1,218.8

The only material difference between replacement cost and the amounts stated above relates to Marketing Asia-Pacific where a £38.1m provision for impairment has been made against current year stocks – note 2d.

Certain Motors subsidiaries have an obligation to repurchase at a guaranteed residual value certain vehicles which have been legally sold for leasing contracts. Although the credit risk is passed to the finance house, in substance these vehicles remain as assets of the Group, and have been included in stock at the guaranteed repurchase price, with the corresponding liability included within trade creditors. Stock includes £140.9m (1997 – £167.5m) of such vehicles.

Vehicles held on consignment which are in substance assets of the Group amount to £40.6m (1997 – £35.2m), and have been included in finished goods stocks with the corresponding interest-bearing liability included within trade creditors. Payment becomes due when title passes to the Group, which is generally the earlier of six months from delivery or date of sale.

b Debtors

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Amounts due within one year:				
Trade debtors subject to limited recourse financing	**4.1**	4.0	**–**	–
less: non-returnable amounts received	**(3.6)**	(3.5)	**–**	–
	0.5	0.5	**–**	–
Other trade debtors	**318.9**	499.2	**–**	–
Net investment in finance leases and hire purchase contracts	**19.4**	36.8	**–**	–
Amounts owed by – subsidiaries	**–**	–	**131.0**	481.4
– joint ventures and associates	**7.9**	8.8	**–**	–
Advance Corporation Tax recoverable	**16.4**	14.0	**16.4**	14.0
Other debtors	**56.8**	81.2	**–**	1.4
Prepayments and accrued income	**51.5**	52.7	**4.7**	–
	471.4	693.2	**152.1**	496.8
Amounts due beyond one year:				
Trade debtors subject to limited recourse financing	**36.8**	36.0	**–**	–
less: non-returnable amounts received	**(32.5)**	(31.5)	**–**	–
	4.3	4.5	**–**	–
Net investments in finance leases and hire purchase contracts	**63.5**	53.4	**–**	–
Amounts owed by – subsidiaries	**–**	–	**128.4**	645.7
– joint ventures and associates	**0.3**	–	**–**	–
Trade and other debtors	**28.3**	25.8	**–**	–
Deferred taxation asset – note 4b	**–**	3.8	**–**	–
Advance Corporation Tax recoverable	**–**	4.2	**–**	4.2
	96.4	91.7	**128.4**	649.9
Total debtors	**567.8**	784.9	**280.5**	1,146.7

Trade debtors subject to limited recourse financing represent hire purchase debtors discounted with banks, so that the majority of cash received by the Group on discounting is not returnable and carries interest at variable rates. The returnable element of the proceeds is recorded as bank loans and overdrafts due within and after one year as appropriate. It has been agreed with the banks that the Group is not required to make good any losses over and above the agreed recourse limit.

9 Net current assets continued

b Debtors continued

Net investment in finance leases and hire purchase contracts comprises:	1998 £m	1997 £m
Total amounts receivable	**107.3**	116.0
Less: interest allocated to future periods	**(24.4)**	(25.7)
	82.9	90.3

Rentals receivable during the year under finance leases and hire purchase contracts amounted to £41.8m (1997 – £51.9m).

The cost of assets acquired during the year for onwards finance leasing was £26.0m (1997 – £50.0m).

c Creditors – amounts falling due within one year:

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Borrowings and finance leases – note 3a	**271.8**	318.0	**1.2**	–
Other:				
Payments received on account	**46.3**	143.5	**–**	–
Other trade creditors	**631.9**	1,004.0	**–**	–
Amounts owed to – subsidiaries	**–**	–	**152.3**	395.3
– joint ventures and associates	**2.5**	1.6	**–**	–
Corporate taxation	**27.7**	32.0	**0.7**	–
Advance Corporation Tax	**6.1**	10.1	**6.1**	10.1
Other taxation and social security	**24.5**	37.9	**–**	–
Proposed final dividend	**35.0**	35.0	**35.0**	35.0
Dividends payable to minorities	**0.2**	7.7	**–**	–
Other creditors	**18.9**	30.9	**0.3**	2.8
Net proceeds arising on disposal of 26% Toyota (GB) shares to Toyota Motor Corporation	**–**	30.0	**–**	–
Accruals and deferred income	**133.5**	162.9	**0.2**	1.3
	926.6	1,495.6	**194.6**	444.5
Total creditors falling due within one year	**1,198.4**	1,813.6	**195.8**	444.5

10 Creditors – amounts falling due after one year:

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Convertible Subordinated Bonds Due 2008	**–**	125.0	**–**	125.0
Finance leases	**6.4**	6.1	**–**	–
Other borrowings	**117.5**	130.0	**–**	1.4
Total borrowings and finance leases – note 3a	**123.9**	261.1	**–**	126.4
Amounts owed to subsidiaries	**–**	–	**9.9**	20.0
Corporate taxation	**1.6**	1.4	**–**	–
Trade and other creditors	**99.2**	81.4	**–**	–
Total creditors falling due after more than one year	**224.7**	343.9	**9.9**	146.4

11 Provisions for liabilities and charges

	Pensions and other post-retirement benefits (note 5) £m	Product warranty £m	Exceptional operating and termination £m	Other £m	Group Total £m	Company Termination and other £m
Balance at 1 January 1998	**11.3**	**30.0**	**74.4**	**29.4**	**145.1**	**17.2**
Effect of foreign exchange rate changes	**0.4**	**(0.4)**	**2.3**	**0.1**	**2.4**	**–**
Charged to profit and loss account	**13.0**	**13.4**	**58.8**	**4.0**	**89.2**	**21.2**
Utilised during the year:						
– cash	**(13.7)**	**(8.2)**	**(34.7)**	**(8.8)**	**(65.4)**	**(2.6)**
– other	**(0.2)**	**(1.6)**	**(10.2)**	**(5.2)**	**(17.2)**	**–**
Balance at 31 December 1998	**10.8**	**33.2**	**90.6**	**19.5**	**154.1**	**35.8**
Deferred taxation – note 4b					**7.9**	**5.0**
Balance at 31 December 1998					**162.0**	**40.8**

12 Guarantees and contingent liabilities

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Guarantees of joint ventures' and associates' borrowings	**14.9**	13.6	**–**	–
Guarantees of various subsidiaries' borrowings (against which £13.8m has been drawn, 1997 – £47.4m)	**–**	–	**531.8**	373.5
Other guarantees, performance bonds and contingent liabilities	**65.3**	72.4	**–**	–

Commitments for capital expenditure entered into and not provided for in these accounts are estimated at £21.9m (1997 – £22.9m).

The Group also has, in the ordinary course of business, commitments under foreign exchange and interest rate instruments relating to the hedging of transactions, overseas earnings and interest exposures.

Certain claims have been notified by Intertek Testing Services Limited ('ITS') against the Group under warranties given in connection with the sale of Inchcape Testing Services in 1996. The claims by ITS relate principally to discrepancies which have been discovered in testing data provided to clients by various laboratories in the United States. These matters are under investigation by the US Department of Justice and the US Environmental Protection Agency and ITS may incur civil and criminal liabilities as a result. ITS may seek to recover costs which are alleged to arise from the discovery of the discrepancies, including liabilities to third parties, in repeating work for, or refunding fees to, customers, in investigating the data discrepancies and in dealing with governmental authorities. As yet insufficient information has been provided to enable the merits or value of any claims to be assessed fully. In the meantime, Inchcape intends to resist the claims vigorously and any proceedings that may be brought.

Inchcape Shipping Services (Shipbroking) Limited ('ISS(S)') has been served with two writs alleging that ISS(S) provided ship valuations negligently on the basis of which the plaintiff alleges they made certain secured loans. The claims in aggregate amount to US$18m. The basis of the quantum of the claims remains unclear and the claims are being defended strenuously.

The purchaser of Kenning Car and Van Rental, which was sold in 1994, brought proceedings in 1997 in respect of claims under warranties. The total claimed ranges from some £15m to some £28m. The Group has served an extensive defence, denying each of the allegations and disputing the alleged losses, and continues to defend the claim vigorously.

The Directors having reviewed the matters set out above and having made certain provisions consider, based on the information currently available, that they will not have a material impact on the financial position of the Group.

In addition to the above, there were at 31 December 1998 other contingent liabilities arising in the ordinary course of business, including those in respect of disposed businesses. These are not expected to give rise to any significant loss.

13 Dividends, minority interests and equity

a Dividends

	Per share			
	1998	1997	**1998**	1997
	pence	pence	**£m**	£m
Interim – paid 26 November 1998 (1997 paid – 31 December 1997)	**4.6**	4.4	**24.4**	23.3
Final – proposed – payable 9 June 1999 (1997 paid – 9 June 1998)	**6.6**	6.6	**35.0**	35.0
	11.2	11.0	**59.4**	58.3

If approved at the Annual General Meeting, the final ordinary dividend will be paid to ordinary shareholders registered in the books of the Company at the close of business on 21 May 1999.

b Minority interests

	1998	1997
	£m	£m
Paid or payable as dividends	**1.2**	12.4
Net retained profit for the year	**5.3**	4.6
	6.5	17.0

c Substantial shareholdings

The following notifications of substantial interests in the Company's issued ordinary share capital had been received by 8 March 1999 under the provisions of the Companies Act 1985:

Franklin Resources, Inc (formerly Templeton Global Investors, Inc)	21.88%
Toyota Motor Corporation	4.76%
Prudential Portfolio Managers Limited	4.51%

d Profit (loss) for the financial year

	1998	1997
	£m	£m
Dealt with in the accounts of:		
The Company	**272.3**	(8.0)
Subsidiaries	**(649.8)**	5.3
Joint ventures and associates – note 8a	**12.0**	10.5
	(365.5)	7.8

e Share capital

	Authorised		Allotted, called-up and fully paid	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
(i) **Summary**				
Ordinary shares – authorised 786,000,000 ordinary shares of 25p each (1997 – 786,000,000 ordinary shares of 25p each) and allotted, called-up and fully paid 530,108,568 ordinary shares of 25p each (1997 – 529,985,469 ordinary shares of 25p each)	**196.5**	196.5	**132.5**	132.5

(ii) During the year the 123,099 ordinary shares of 25p each in Inchcape plc were issued under the Inchcape Executive Share Option Scheme at a consideration of £0.2m.

13 Dividends, minority interests and equity continued

e Share capital continued

(iii) At 31 December 1998, options to subscribe for ordinary shares of 25p each in the Company under the following schemes were outstanding as follows:

Ordinary shares of 25p each	Exercisable until	Option price	Ordinary shares of 25p each	Exercisable until	Option price
Executive Share Option Scheme			**SAYE Share Option Scheme**		
21,224	18 May 1999	238.40p	32,898	1 June 1999	428.00p
21,224	11 May 2000	239.35p	27,930	1 January 2000	441.00p
63,674	21 November 2000	222.38p	163,630	1 February 2000	235.00p
19,897	29 May 2001	311.91p	45,230	1 June 2000	343.00p
17,934	22 November 2001	362.79p	265,705	1 February 2001	250.00p
592,000	22 May 2002	507.00p	291,320	1 February 2001	226.00p
44,100	30 October 2002	468.00p			
208,300	9 June 2003	585.00p			
90,900	21 October 2003	527.00p			
278,500	28 April 2004	551.00p			
594,200	27 April 2005	312.00p			
298,900	18 May 2005	319.00p			
9,800	9 November 2005	301.00p			
359,000	18 April 2006	314.00p			
139,258	17 April 2007	263.00p			
44,517	16 October 2007	292.00p			

International Executive Share Option Scheme (formerly Overseas Executive Share Option Scheme)

74,284	11 May 2000	239.35p
61,552	21 November 2000	222.38p
107,181	29 May 2001	311.91p
221,600	22 May 2002	507.00p
621,100	30 October 2002	468.00p
115,600	9 June 2003	585.00p
334,100	21 October 2003	527.00p
608,800	28 April 2004	551.00p
616,800	27 April 2005	312.00p
37,700	9 November 2005	301.00p
921,400	18 April 2006	314.00p
2,161,642	17 April 2007	263.00p
135,267	16 October 2007	292.00p

13 Dividends, minority interests and equity continued

f Movements in shareholders' funds

(i)

Group	Share capital 1998 £m	Share premium account 1998 £m	Revaluation reserve 1998 £m	Profit and loss account 1998 £m	Goodwill on consolidation 1998 £m	Total 1998 £m	Total 1997 £m
(Loss) profit for the financial year	–	–	–	**(365.5)**	–	**(365.5)**	7.8
Dividends – note 13a	–	–	–	**(59.4)**	–	**(59.4)**	(58.3)
Retained (loss) for financial year	–	–	–	**(424.9)**	–	**(424.9)**	(50.5)
Scrip dividend adjustment	–	–	–	–	–	–	2.3
	–	–	–	**(424.9)**	–	**(424.9)**	(48.2)
Effect of foreign exchange rate changes	–	–	**3.3**	**5.7**	–	**9.0**	(50.2)
New share capital issued	–	**0.2**	–	–	–	**0.2**	0.5
Goodwill on acquisitions	–	–	–	–	–	–	(6.6)
Goodwill on disposals and written off	–	–	–	**189.7**	–	**189.7**	8.0
Deficit on impairment of revalued properties	–	–	**(10.0)**	–	–	**(10.0)**	–
Transfers on realisation of property surpluses	–	–	**(1.3)**	**1.3**	–	–	–
Capitalisation on Inchcape Berhad demerger	–	–	**18.0**	**(18.0)**	–	–	–
Other transfers	–	–	**3.8**	**(3.8)**	–	–	–
Net change in shareholders' funds	–	**0.2**	**13.8**	**(250.0)**	–	**(236.0)**	(96.5)
Balance at 1 January:							
As previously reported	**132.5**	**106.7**	**125.9**	**841.4**	**(416.2)**	**790.3**	886.8
Prior year adjustment	–	–	–	**(416.2)**	**416.2**	–	–
Balance at 1 January restated	**132.5**	**106.7**	**125.9**	**425.2**	–	**790.3**	886.8
Balance at 31 December	**132.5**	**106.9**	**139.7**	**175.2**	–	**554.3**	790.3

Revaluation reserve includes other non-distributable reserves of £71.3m (1997 – £45.0m). Net foreign exchange losses on borrowings reported in reserves amount to £0.1m in 1998.

In accordance with FRS 10, the profit and loss account reserve has been restated to eliminate goodwill previously written off to a separate reserve. Goodwill contained within the profit and loss account reserve comprises:

	£m
Balance at 1 January 1998	**416.2**
Effect of foreign exchange rate changes	–
Goodwill written off in the year in exceptional operating expenses – note 2d	**(124.7)**
Goodwill on disposals – note 2d	**(65.0)**
Balance at 31 December 1998	**226.5**

Goodwill on consolidation above excludes £56.2m which was written off in 1988 against a special capital reserve and was then transferred to profit and loss account. This goodwill relates to earlier acquisitions for which no analysis is available.

(ii)

Company	Share capital 1998 £m	Share premium account 1998 £m	Profit and loss account 1998 £m	Total 1998 £m	Total 1997 £m
Retained profit (loss) for the year	–	–	**212.9**	**212.9**	(66.3)
Scrip dividend adjustment	–	–	–	–	2.3
New share capital issued	–	**0.2**	–	**0.2**	0.5
Net change in shareholders' funds	–	**0.2**	**212.9**	**213.1**	(63.5)
Balance at 1 January	**132.5**	**106.7**	**431.1**	**670.3**	733.8
Balance at 31 December	**132.5**	**106.9**	**644.0**	**883.4**	670.3

14 Acquisitions and disposals

a Goodwill arising on acquisitions

(i) Subsidiaries – principally Bottling South America	As acquired company's accounting records 1998 £m	Fair value adjustments 1998 £m	Fair value to the Group 1998 £m
Fixed assets	19.3	(1.6)	17.7
Stocks	11.2	(2.7)	8.5
Debtors	11.4	(6.0)	5.4
Cash at bank	(3.1)	–	(3.1)
Borrowings	(10.2)	–	(10.2)
Other creditors and provisions	(12.5)	0.8	(11.7)
Minority interests	7.3	–	7.3
	23.4	(9.5)	13.9
Fair value of consideration			36.6
Goodwill – note 6			22.7

The fair value adjustments relate mainly to valuation corrections arising from due diligence processed post completion.

(ii) Joint ventures and associates	
Share of net tangible assets – principally reclassification on sale of 26% interest in Toyota (GB)	23.9
Fair value of consideration	23.9
Goodwill	–

b Cash flow

(i) Net cash inflow (outflow) from acquisitions and disposals	1998 £m	1997 £m
Purchase of subsidiaries	(14.9)	(16.5)
Purchase of joint ventures, associates and other investments	(1.8)	(12.9)
Acquisition provision payments	–	(1.0)
Sale of subsidiaries	84.8	38.6
Sale of joint ventures and associates	5.2	0.9
	73.3	9.1

14 Acquisitions and disposals continued

b (ii)

Cash flow continued **Net assets acquired (disposed of) on acquisition (sale) of shares in Group companies**	Acquisitions 1998 **£m**	Disposals 1998 **£m**	Acquisitions 1997 £m	Disposals 1997 £m
Fixed assets and fixed asset investments (including Group share of joint ventures' and associates' net assets)	**41.6**	**(121.8)**	24.8	(9.4)
Stocks	**8.5**	**(376.0)**	0.1	(12.8)
Debtors	**5.4**	**(73.7)**	0.1	(12.9)
Cash less bank overdrafts	**(3.6)**	**13.2**	0.1	4.6
Liquid resources	**–**	**(10.4)**	–	(0.2)
Loans and finance leases	**(9.7)**	**1.1**	(0.2)	–
Other creditors and provisions	**(11.7)**	**408.4**	(0.4)	16.0
Minority shareholders' interests	**7.3**	**11.4**	(11.8)	0.8
Goodwill	**22.7**	**(1.0)**	5.9	(8.0)
Loss (profit) on disposal	**–**	**23.9**	–	6.2
Net consideration payable (receivable)	**60.5**	**(124.9)**	18.6	(15.7)
Satisfied by:				
Cash paid (received)	**12.3**	**(72.0)**	18.6	(15.2)
Transfer to associates	**22.4**	**(22.4)**	–	–
Shares issued in subsidiary companies	**23.9**	**–**	–	–
Non cash consideration	**1.9**	**(0.5)**	–	–
Deferred consideration payable (receivable) – 1998 Toyota (GB)	**–**	**(30.0)**	–	(0.5)
	60.5	**(124.9)**	18.6	(15.7)

Acquisitions of subsidiaries during the year had no material effect upon the Group's net operating cash flows, interest paid, taxation or capital expenditure.

Disposals above exclude provisions in relation to the impending sale of Marketing Asia-Pacific, and terminations.

Subsidiaries sold during the year absorbed £1.8m of the Group's net operating cash flows, paid £6.4m in respect of net returns on investments and servicing of finance, received £1.2m in respect of taxation and incurred £11.9m for capital expenditure.

Analysis of the net inflow of cash in respect of the sale of subsidiaries	**£m**
Cash consideration received (including receipts from purchasers outstanding at 31 December 1997)	**71.6**
Net overdrafts of subsidiaries sold	**13.2**
Net inflow of cash in respect of the sale of subsidiaries	**84.8**

Analysis of the net outflow of cash in respect of the purchase of subsidiaries	**£m**
Cash consideration paid (including payments to vendors outstanding at 31 December 1997)	**11.3**
Cash of subsidiaries acquired	**3.6**
Net outflow of cash in respect of the purchase of subsidiaries	**14.9**

15 **Post balance sheet events**

The following disposals have been agreed since 31 December 1998. They are treated as 'to be discontinued' as their completion will arise after the date of these financial statements.

On 8 January 1999 the Group announced the sale of its Marketing Asia-Pacific business, comprising its 63.3% shareholding in the Singapore listed Inchcape Marketing Services Limited, together with the other Marketing operations in Japan, Greater China and South East Asia, for a cash consideration of £93.0m. Given the £189.1m provision for impairment, and after charging previously written off goodwill of £51.4m, no material profit or loss is expected on the disposal.

On 1 February 1999 the Group announced the sale, subject to shareholder approval, and the purchaser arranging financing, of its Bottling South America business for a cash consideration of US$750.4m. The net gain on disposal is expected to be approximately £270m after charging goodwill of £14.1m previously written off.

On 8 February 1999 the Group announced the sale of its Shipping Services business for a cash consideration of up to £47.5m. After charging previously written off goodwill of £15.6m, the disposal is not likely to generate a material profit or loss.

The following table sets out the assets and liabilities of the above which were consolidated in the Group balance sheet at 31 December 1998. The aggregate operating profits of these businesses in 1998 was £34.8m.

	Marketing Asia-Pacific £m	Bottling South America £m	Shipping Services £m
Intangible fixed assets	–	35.0	1.8
Tangible fixed assets	97.2	109.2	17.6
	97.2	144.2	19.4
Current assets:			
Stocks	57.8	26.7	1.9
Debtors	86.5	30.3	110.4
Cash at bank and in hand	50.8	41.3	30.7
	195.1	98.3	143.0
Creditors due within one year:			
Borrowings	–	(3.4)	–
Other	(147.1)	(33.5)	(140.4)
	(147.1)	(36.9)	(140.4)
Net current assets	48.0	61.4	2.6
Total assets less current liabilities	145.2	205.6	22.0
Creditors due after more than one year:			
Borrowings	–	(0.8)	–
Other	–	(0.2)	–
	–	(1.0)	–
Provisions for liabilities and charges	(16.6)	(1.3)	(3.3)
Total net assets	128.6	203.3	18.7
Minority interests	(43.2)	(51.3)	(0.3)
Group share	85.4	152.0	18.4

16 Principal subsidiaries, associates and joint ventures

a Principal subsidiaries

Company	Country/ region	Share-holding	Description
Holding Companies			
Embotelladora Williamson Balfour SA	Chile	100%	Holding company whose subsidiaries' activities are Bottling
Williamson Balfour SA	Chile	100%	Holding company whose main subsidiaries' activities are Motors
Inchcape Pacific Ltd	Hong Kong	100%	Holding company whose subsidiaries' activities are Motors, Marketing and Shipping Services
Inchcape Holdings Sdn Bhd	Malaysia	100%	Holding company whose subsidiaries' activities are Marketing
Gray MacKenzie & Company Ltd (United Kingdom) and Spinneys 1948 Ltd (United Kingdom)	Middle East	100%	Holding companies for the Group's Middle East Motors, Marketing and Shipping Services businesses
Inchcape Marketing Services Ltd	Singapore	63%	Publicly quoted company whose subsidiaries' activities are Marketing and Shipping Services
Inchcape Motors Ltd (formerly Inchcape Berhad)	Singapore	63%	Publicly quoted company whose subsidiaries' activities are Motors
Inchcape Motors International Ltd	United Kingdom	100%	Holding company for the Group's European and Australian non–Toyota Motors companies
Inchcape Shipping Services (Europe) Ltd	United Kingdom	100%	Holding company for the Group's European and African Shipping Services
SS Acquisition Corporation	USA	100%	Holding company whose subsidiaries' main activity is North American Shipping Services (held directly by Inchcape plc)
Motors			
Inchcape Automotive Australia Pty Ltd	Australia	100%	Import & Distribution
Subaru (Australia) Pty Ltd	Australia	100%	Import & Distribution
Toyota Belgium NV/SA	Belgium	100%	Import & Distribution
France Motors SARL	France	95%	Retail and Import & Distribution
Toyota Hellas SA	Greece	100%	Import & Distribution
Crown Motors Ltd	Hong Kong	100%	Import & Distribution
Mazda Motors (Hong Kong) Ltd	Hong Kong	100%	Import & Distribution
Borneo Motors (Singapore) Pte Ltd	Singapore	63%	Import & Distribution
IRB Finance Berhad	Singapore	44%	Financial Services
CJ Imports UK Ltd	United Kingdom	100%	Import & Distribution
Kenning Leaseline Ltd	United Kingdom	100%	Financial Services
Mann Egerton Vehicle Contracts Ltd	United Kingdom	100%	Financial Services
Wadham Kenning Motors Group Ltd	United Kingdom	100%	Retail
Marketing			
Inchcape Marketing Services (Japan) KK	Japan	100%	Marketing
Inchcape Engineering Ltd	Thailand	100%	Marketing
Bottling			
Embotelladora Latinoamericana SA	Peru	48%	Bottling

16 Principal subsidiaries, associates and joint ventures continued

b Principal associates and joint ventures

Company	Country/ region	Shareholding	Description
Motors			
Inchcape Finance SA	France	49%	Financial Services
Inchroy Credit Corporation Ltd	Hong Kong	50%	Financial Services
Automotive Group Ltd	United Kingdom	40%	Import & Distribution
CJ Financial Services Ltd	United Kingdom	50%	Financial Services
Inchcape Financial Services Ltd	United Kingdom	49%	Financial Services
MCL Group Ltd	United Kingdom	40%	Import & Distribution
Toyota (GB) Ltd	United Kingdom	49%	Import & Distribution
Marketing/Shipping			
Gray MacKenzie & Partners (Abu Dhabi) LLC	Abu Dhabi	49%	Marketing and Shipping
Spinneys (Abu Dhabi) LLC	Abu Dhabi	49%	Marketing and Shipping
Bahrain Maritime & Mercantile International BSC	Bahrain	48%	Marketing and Shipping
Gray MacKenzie & Partners (Central Emirates) LLC	Dubai	49%	Marketing and Shipping
Spinneys (Dubai) LLC	Dubai	49%	Marketing and Shipping

Notes:

Only those companies that principally affect profit or assets are included. Embotelladora Latinoamericana SA and IRB Finance Berhad are consolidated as subsidiaries through the Group's control of the Board. All shareholdings represent the ultimate interest of the Group in the respective Company's ordinary shares, except for.

- Inchroy Credit Corporation Ltd, where the Group holds 50% of the company's non-voting deferred shares, and:
- Embotelladora Latinoamericana SA, where the Group has a holding of 1% of the company's labour shares which carry no voting rights, but rank pari passu with ordinary shares in all other respects.

17 Foreign currency translation

The main exchange rates used for translation purposes are as follows:	Average rates 1998	1997	Year end rates 31.12.98	31.12.97
Australian dollar	**2.63**	2.21	**2.71**	2.53
Belgian franc	**60.4**	58.5	**57.2**	61.0
Chilean peso	**763**	690	**787**	721
French franc	**9.82**	9.54	**9.29**	9.90
Hong Kong dollar	**12.85**	12.70	**12.89**	12.70
Japanese yen	**218**	199	**188**	214
Malaysian ringgit	**6.47**	4.62	**6.32**	6.40
Peruvian sol	**4.86**	4.38	**5.25**	4.49
Singapore dollar	**2.77**	2.44	**2.75**	2.77
US dollar	**1.66**	1.64	**1.66**	1.65

Five year record

Profit and loss account	1998 £m	1997 restated £m	1996 restated £m	1995 restated £m	1994 restated £m
Turnover:					
Group subsidiaries	**4,257.0**	5,931.4	6,263.2	6,295.9	6,101.6
Share of joint ventures and associates	**1,249.4**	719.5	704.6	598.8	568.6
Group plus share of joint ventures and associates	**5,506.4**	6,650.9	6,967.8	6,894.7	6,670.2
Total operating profit before exceptional operating items					
– continuing operations	**156.6**	209.3	180.5	153.5	222.7
– discontinued operations	**(21.4)**	(19.7)	27.3	51.7	56.4
	135.2	189.6	207.8	205.2	279.1
Interest	**(29.1)**	(5.5)	(42.7)	(58.4)	(48.5)
Headline profit before taxation	**106.1**	184.1	165.1	146.8	230.6
Exceptional operating items	**(131.3)**	(40.6)	–	(65.2)	–
Profit (loss) on sale of properties and investments	**4.1**	3.8	9.2	17.7	(4.3)
Net profit (loss) on the sale and termination of operations	**(265.9)**	(57.7)	(67.3)	(81.9)	2.1
Costs of fundamental reorganisation	**(10.6)**	–	–	–	–
Profit (loss) before taxation	**(297.6)**	89.6	107.0	17.4	228.4
Taxation	**(61.4)**	(64.8)	(71.0)	(49.6)	(73.7)
Profit (loss) after taxation	**(359.0)**	24.8	36.0	(32.2)	154.7
Minority interests	**(6.5)**	(17.0)	(13.5)	(11.8)	(13.7)
Profit (loss) for the financial year	**(365.5)**	7.8	22.5	(44.0)	141.0
Dividends	**(59.4)**	(58.3)	(61.1)	(60.8)	(78.3)
Retained profit (loss) for the financial year	**(424.9)**	(50.5)	(38.6)	(104.8)	62.7
Earnings (loss) per ordinary share:					
Headline	**8.4p**	19.3p	17.2p	14.0p	26.4p
Basic	**(69.1)p**	1.5p	4.3p	(8.3)p	26.8p
Dividends per ordinary share	**11.2p**	11.0p	10.5p	10.0p	15.0p

Balance sheet	1998 £m	1997 restated £m	1996 restated £m	1995 restated £m	1994 restated £m
Fixed assets	**661.1**	738.6	693.5	753.1	812.2
Other assets less liabilities other than cash (borrowings)	**172.8**	280.2	319.1	219.8	247.0
	833.9	1,018.8	1,012.6	972.9	1,059.2
Net cash (borrowings)	**(143.4)**	(96.0)	2.6	(311.4)	(310.6)
Net assets	**690.5**	922.8	1,015.2	661.5	748.6
Shareholders' funds	**554.3**	790.3	886.8	543.0	632.4
Minority interests	**136.2**	132.5	128.4	118.5	116.2
	690.5	922.8	1,015.2	661.5	748.6

* Before Foreign Income Dividend enhancement.

Shareholder information

Registered Office
Inchcape plc
33 Cavendish Square
London W1M 9HF
Tel: (44) 171 546 0022

Registrar
Computershare Services PLC
Registrar's Department
PO Box No 82
Bristol BS99 7NH
Tel: (44) 117 930 6666

Solicitors
Slaughter and May

Auditors
PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors

Merchant Bankers
ING Barings Limited

Stockbrokers
Warburg Dillon Read

Senior Motors executives

Chief Executive
Peter Johnson
Tel: (44) 171 546 0011
Fax: (44) 171 533 9105

Group Finance Director
Alan Ferguson
Tel: (44) 171 546 0011
Fax: (44) 171 533 9105

The following executives are responsible for operations:

Inchcape Toyota Division
Trevor Taylor
Tel: (44) 1737 768585
Fax: (44) 1737 771728

Financial Services and New Business Ventures
John Greenfield
Tel: (44) 171 546 0011
Fax: (44) 171 533 9105

UK Retail
David Newbury
Tel: (44) 1923 221144
Fax: (44) 1923 800622

Europe, Middle East, South America and Mazda
Chris Franklin
Tel: (44) 171 546 0011
Fax: (44) 171 533 9105

Asia and Australasia
Martin Ward
Tel: (612) 9828 9199
Fax: (612) 9725 2240

The following executives are responsible for staff functions:

Group Treasurer
Adrian Marsh

Group Tax Manager
Amanda Catterall

Group Financial Controller
Paul Wallwork

Group Audit & Risk Management
Tim Trounce

Business Development
Dale Butcher

Human Resources
Alan Schofield

Information Systems
Peter Wilson

Group Communications
Stephen Clark

Investor Relations
Bridget Gander

Group Company Secretary
Roy Williams

Inchcape PEPs
On 6 April 1999 Individual Savings Accounts will replace PEPs as the vehicle for tax-exempt individual savings. From that day no further savings to the Inchcape PEPs will be allowed but existing PEPs may be retained indefinitely. The management of the Inchcape PEPs will be transferred to The Share Centre, who can be contacted at PO Box 1000, Tring, Herts. HP23 4JR, tel. no. 01442 890800, as Bradford & Bingley, the previous PEP managers, have decided to withdraw from the PEPs market.

Inchcape ISA
With effect from 6 April 1999, Inchcape will establish a Corporate Individual Savings Account (ISA). This will be managed by Midland Bank Trust Company Limited who may be contacted for full details at Corporate PEPs and ISA Centre, 2nd Floor, Ridgeland House, 165 Dyke Road, Hove, East Sussex BN3 1UN, tel. no. 01273 363050

Financial Calendar

Ex-dividend date for 1998 final dividend
17 May 1999

Record date for 1998 final dividend
21 May 1999

Annual General Meeting
14 May 1999

Final 1998 ordinary dividend payable
9 June 1999

Announcement of 1999 half year results
9 August 1999

Inchcape

Inchcape plc
Registered number 609782
33 Cavendish Square
London W1M 9HF
Telephone 0171 546 0022
Facsimile 0171 546 0010