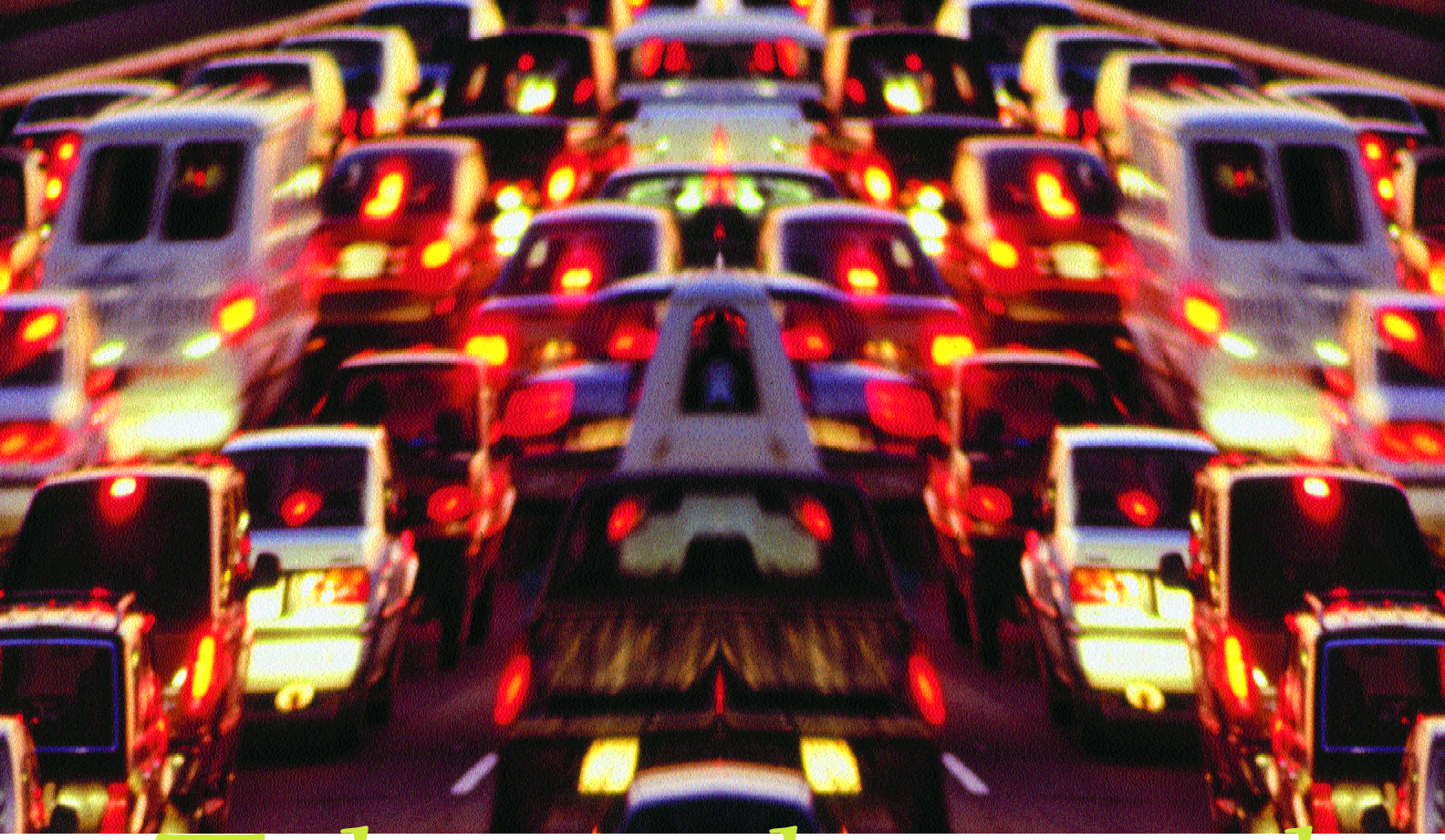
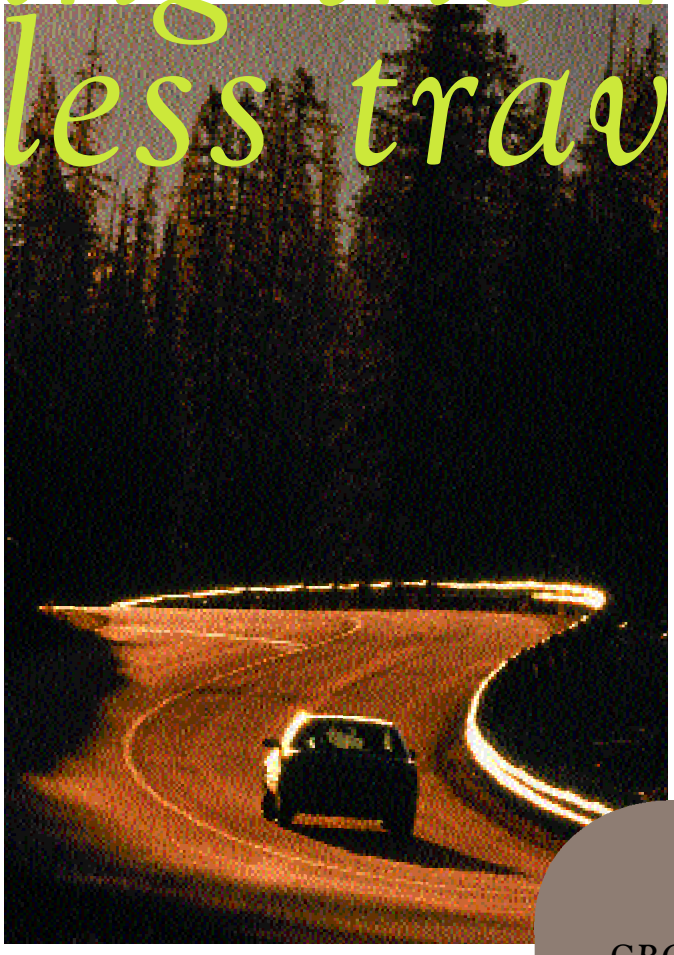


Taking the road less traveled



GROUP 1 AUTOMOTIVE
ANNUAL REPORT
1998

Group 1 Automotive, Inc . is a leading operator and consolidator in the highly fragmented $600 billion automotive retailing industry. With 59 dealership franchises comprised of 23 different brands, located in Texas, Oklahoma, Florida, Georgia, New Mexico and Colorado, Group 1 is one of the top ten dealership groups in the United States. Through these dealerships, the company sells new and used cars and light trucks, provides maintenance and repair services, sells replacement parts and arranges related financing, insurance and vehicle service contracts. In 1998, the company sold over 71,000 retail new and used vehicles.

www.group1auto.com

Revenues grew 81%

Operating income more than doubled

Gross and operating margins expanded

Earnings per share increased 53%

Completed four "platform" and seven "tuck-in" acquisitions

Announced definitive agreements to acquire two dealership platforms and seven tuck-in dealerships

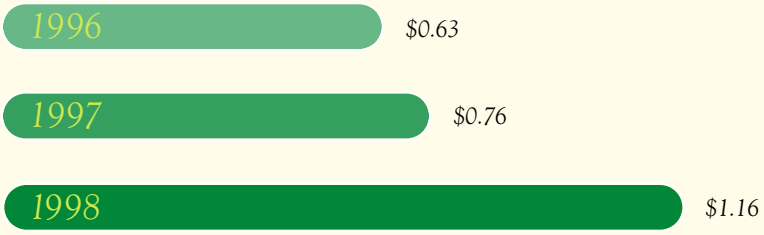
Revenue run rate over $2.4 billion

Expanded sources of capital

Financial Highlights

Year Ended December 31 *(in thousands except per share amounts)*	1998	1997	% Change
Revenues	$1,630,057	$902,295	81%
Operating Income	52,046	25,412	105%
Net Income	20,719	11,413	82%
Diluted Earnings per Share	$ 1.16	$ 0.76	53%
Shares Outstanding (diluted)	17,905	15,099	19%
Gross Margin	14.5%	14.1%	
Operating Margin	3.2%	2.8%	
Pretax Margin	2.2%	2.1%	
Working Capital	$ 48,251	$ 55,475	
Inventories	219,176	105,421	
Total Assets	477,710	213,149	
Stockholders' Equity	136,184	89,372	

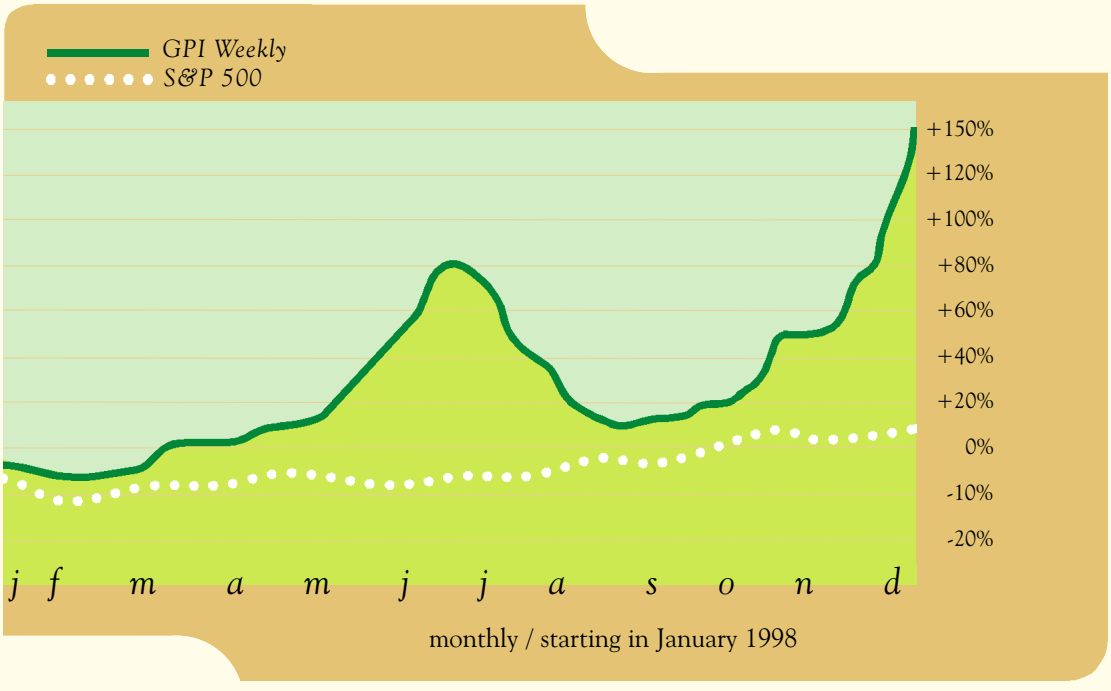
SOLID EPS GROWTH:



(in dollars)

CAGR=36%

STOCK PRICE HISTORY:



To Our Stockholders

In last year's annual report, we outlined our agenda for 1998 and shared our goal to produce revenue growth, while delivering increased shareholder value each year. We promised to achieve our goal by taking a different route than any other consolidator in our industry.

We went on record that we would execute our consolidation strategy by seeking only quality, accretive acquisitions that improve our geographic diversity and brand mix and leverage our economies of scale. We would not look to buy revenues or buy our way into a new market; we would seek to acquire earnings that would be delivered by profitable, well-run dealerships with entrepreneurial managers who plan to stay involved in their dealerships. We would retain these managers by creating an environment in which they can succeed.

1998 REPORT CARD

I am pleased to report that our decision to travel in a different direction delivered what was promised for 1998. We experienced an outstanding year and laid the groundwork to execute our strategy in the future.

Revenues grew 81% to $1.6 billion. Net income accelerated, reaching $20.7 million, or $1.16 per diluted share, a 53% increase. We are especially pleased with our margin improvement. Gross margin expanded to 14.5% from 14.1% last year due to a shift in the merchandising mix as revenues from value-added products and services increased more rapidly than lower-margin revenues.

Our operating leverage was significant and demonstrates that we have been successful integrating both our platform and tuck-in acquisitions. Income from operations more than doubled, resulting in the operating margin expanding to 3.2% from 2.8% last year.

Our balance sheet remained strong with total, non-floorplan debt to capitalization of 25%.

DECENTRALIZED OPERATIONS DELIVER REVENUES AND VALUE

Over the course of 1998, we acquired $800 million of revenues in the form of 33 dealership franchises with vehicle sales of over 35,000 retail units. Our platform acquisitions – Carroll Automotive Group, Maxwell Automotive Group, Johns Automotive Group and Luby Chevrolet – improved brand diversity and established platforms in the fast-growing markets of south Florida, Atlanta, Austin, Albuquerque and Denver. We also acquired seven tuck-in acquisitions to further improve brand diversity, facilitate operating efficiencies and exploit economies of scale.

Our philosophy of decentralized dealership operations added value. We seek quality dealerships as acquisition candidates. They are run by experienced, entrepreneurial managers who are encouraged to determine the best method to market their products and operate the dealerships. They delivered revenues and net income. And they proved that the platform/tuck-in strategy does work. By streamlining vendors, optimizing the use of facilities and personnel, consolidating training and pooling advertising dollars, we capitalized on regional economies of scale and realized immediate and significant cost savings from our newly acquired dealerships. The proof is in the expanded operating margin.

CORPORATE TEAM ADDSTO SYNERGY

While our dealership operations are decentralized, our corporate office is led by people with public-company experience and specifically experience in fragmented industries and geographically dispersed operations. Their mandate is to seek and close high-quality acquisitions, increase our capital base and liquidity and identify synergy on a national level. Their efforts also paid off for Group 1 in 1998.

In addition to the quality acquisitions that they completed during the year, our corporate team consolidated several administrative functions, such as floorplan financing, risk management and employee benefits on a national level. Revenue enhancement was also achieved by consolidating vendors who provide retail finance and vehicle service contracts. Their success is evident in our operating margin improvement.

During the first quarter of 1999, we announced the acquisition of 28 dealership franchises in ten markets. Once these transactions are complete, they will bring our annualized revenue run rate to over $2.4 billion, representing 100,000 retail units.

Our corporate team also expanded the company's capital sources. During 1998, we expanded our bank revolving credit facility from $125 million to $425 million, executed a sale/leaseback of nine dealership properties, raising $32 million and completed a shelf registration for up to $250 million in debt and/or equity securities. We recently issued $100 million in 10-year senior subordinated notes and 2 million shares of new common stock under the shelf, increasing capital by $140 million. These transactions along with our strong cash flow from operations give us substantial resources to support our disciplined acquisition strategy.

THE YEAR AHEAD

The successful execution of our consolidation strategy to date gives us a reason to be very excited about our prospects for the coming year. For 1999, we will continue down the different route we have chosen.

Our short-term goals remain the same. We will grow revenues through existing dealerships and through acquisitions. We will seek quality, accretive acquisitions and not focus on revenues at the expense of operating margins and earnings per share. We will continue to identify and minimize inefficiencies as we leverage our economies of scale. Because of our success in margin improvement, we have raised the bar on our operating margin goal from 3.5% to 4.0%.

Over the long-term, we will continue to consolidate while delivering shareholder value. Our target is to add $800 million to $1 billion in additional revenue per year through acquisitions. We intend to operate dealerships throughout the continental United States, sell all major brands in every market served and grow EPS between 20% and 30% per year.

We must give credit and thanks to our 3,200 co-workers who made 1998 a success. Their hard work, entrepreneurial spirit and dedication to customer service and satisfaction are essential for our continuing success.

To our stockholders, we offer our thanks for your support and look forward to a successful 1999.

B. B. Hollingsworth, Jr.
Chairman, President and Chief Executive Officer
Group 1 Automotive, Inc.
March 15, 1999

This is an enormous market

95% OF THE
TOTAL MARKET IS
STILL AVAILABLE FOR
CONSOLIDATION

Automotive retailing is the largest U.S. retail sector and significant industry dynamics are now driving it to consolidation

ENORMOUS MARKET OPPORTUNITY

Automotive retailing is the largest U.S. retail sector, amounting to over $600 billion a year in revenues. This enormous dollar amount represents only new and used vehicle sales. If other dealership revenues, such as parts, service, financing and insurance are factored in, the market size expands to over $1.0 trillion.

This huge market is also highly fragmented. There are over 22,000 dealerships, representing 49,000 franchises. The 100 largest dealership groups represent only 6% of total dealerships and account for just over 10% of total new and used vehicle sales. The top ten groups have only 4% of sales.

CONSOLIDATION ONLY BEGINNING

Since December 1996, public companies have acquired dealerships with revenues in excess of $19 billion. Driving the market for consolidation are several industry dynamics:

- *Manufacturers want to streamline costly, overpopulated distribution networks.*
- *The aging dealership population is looking for an exit strategy and/or estate planning alternatives.*
- *Larger operators can achieve syngeries that create a competive advantage in the market place.*
- *Large, multiple dealerships, known as megadealers, looking to expand are limited by their reliance on private capital.*

While a significant amount of dealership revenue has been acquired, nearly 95% of the total market is still available for consolidation. Even if new participants enter the market, this huge retail sector will require decades to fully consolidate.

DISCIPLINED ACQUISITION STRATEGY

Group 1's disciplined acquisition strategy is designed to acquire dealership-level management talent, enhance brand and geographic diversity, create economies of scale and deliver immediate positive results to earnings per share.

First, the company pursues platform acquisitions. These are megadealers who are leaders in attractive regional markets where Group 1 is not represented. The company seeks to partner with profitable, quality owners and operators who are committed to continue to run and grow the dealerships and who have a significant equity stake in Group 1.

After Group 1 acquires the strong management and operations to establish a regional platform, it seeks tuck-in acquisitions. These are smaller, yet profitable dealerships that augment brands, products and services. By helping to create critical mass in a region, tuck-ins facilitate economies of scale, operating efficiencies and cost savings.

ACQUISITIONS DELIVER EARNINGS

Since its initial public offering in November 1997, Group 1 has acquired 39 dealership franchises in diverse geographic areas, doubled its annual revenue run rate and vaulted into the top ten dealership groups in the United States. All stores are performing well and have contributed to earnings.

The acquisitions also improved geographic diversity. At the time of the initial public offering, the company's operations were centered in Houston and Oklahoma. Platforms were added in south Florida, Colorado, New Mexico and Austin. Group 1 will continue its geographic expansion with a goal to have operations throughout the continental United States within the next five years.

And the acquisitions enhanced brand diversity. At the time of the initial public offering, Group 1's revenues were heavily derived from Toyota, General Motors and Honda. The 1998 acquisitions diversified the brand mix strategically.

REVENUE RUN RATE OVER $2.4 BILLION

In the first quarter of 1999, Group 1 announced agreements to acquire 28 dealership franchises in ten markets, including Messer Automotive Group, which will become the company's West Texas platform and the Sansing Automotive Group, which will become the second Florida platform. Combined, the acquisitions will boost Group 1's annual revenue run rate to over $2.4 billion.

UNIQUE OPERATING STRATEGY

Group 1 believes that a quality dealership group and corporate executive team can work in concert to accomplish public-company goals. Group 1's management team is a unique blend of consolidation and financing skills combined with dealership owner/operator experience. This combination allows the corporate side of the company to be run by business professionals and the operations end to be managed by experienced automotive retailers.

BUSINESS PROFESSIONALS RUN CORPORATE OFFICE

Corporate functions are centralized. The executive team raises capital, executes and integrates acquisitions, identifies cost-efficiencies and operating synergy and handles administrative functions for the entire company.

Our management team is a unique blend of both consolidation and financing skills combined with dealership owner/operator experience

Consolidating purchasing power on the national level accelerates cost savings. Group 1 has centralized certain functions on a national basis, such as financing, risk management and employee benefits. By consolidating risk management – property, casualty and liability insurance – the company has produced savings of 30% annually. Floorplan financing has also been consolidated, resulting in interest savings of as much as 300 basis points.

AUTOMOTIVE RETAILING PROFESSIONALS RUN DEALERSHIPS

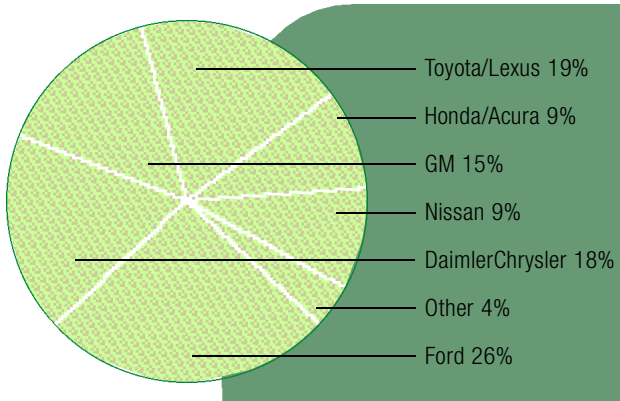
Relieved of capital-raising and administrative burdens, owner/operators are free to run their dealerships. Through its wealth of industry experience, Group 1's management has learned that local market conditions and dealership personnel drive automotive retailing. Experience in and knowledge of customers' needs in a particular market facilitate superior service, sales, marketing and inventory management.

Managers are charged with leveraging synergy between their platforms and the tuck-in dealerships. By streamlining vendors, optimizing the use of facilities and personnel, consolidating training and pooling advertising dollars, managers can capitalize on regional economies of scale and realize immediate and significant cost savings from newly acquired dealerships.

RELATIONSHIP-DRIVEN CONSOLIDATOR IN PARTNERSHIP WITH MANUFACTURERS

A cornerstone of Group 1's growth strategy is its strong relationships with automobile manufacturers. Thanks to the founding dealers' reputations in the industry, Group 1 has an excellent rapport with automobile manufacturers. The company is committed to working in partnership with the manufacturers to execute its consolidation plan.

Ford recently awarded one of its new prototype dealerships to Group 1's Carroll Automotive Group. When completed, this south Florida dealership will be one of the largest for Ford in the United States.



Our acquisition strategy is designed to maintain appropriate product diversity

We allow our dealers to preserve and expand their identity, individuality and success

With 59 dealership franchises in 6 states, Group 1 is one of the top ten dealership groups in America

An excellent relationship with Toyota allowed Group 1 to be awarded a new Lexus companion dealership in South Houston. Toyota only awards its companion dealerships to operators who have successful full-size dealerships in the area, such as Group 1's McCall Lexus.

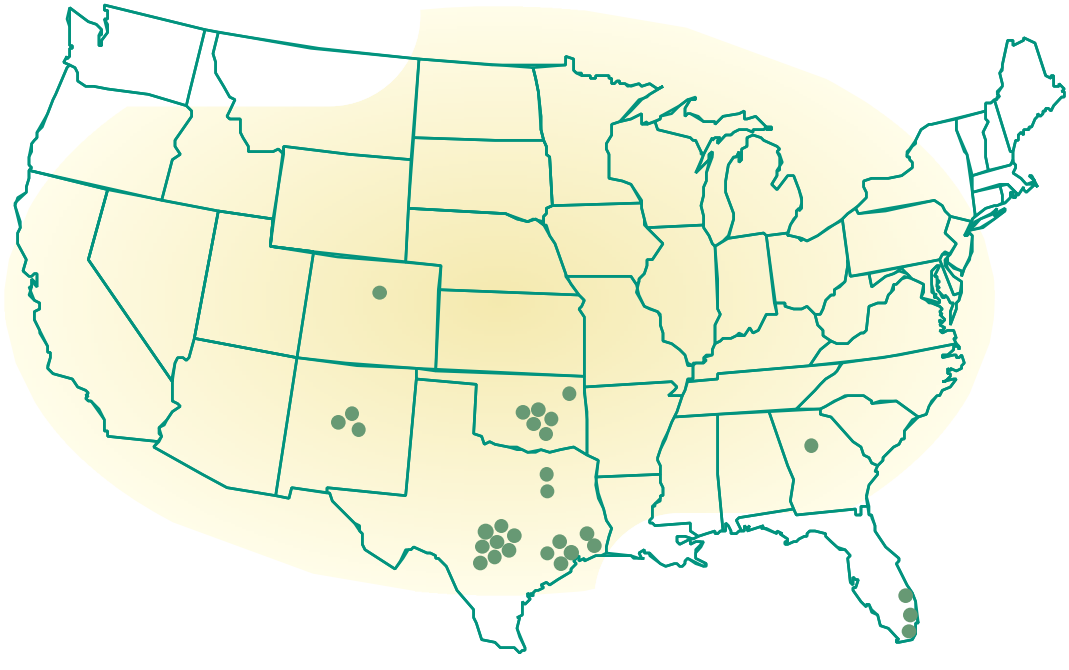
To maintain its relationships with all manufacturers, Group 1 appointed Charles Smith, one of the founding dealers, to the new position of Senior Vice President's Industry Relations. Smith's family has been in the automotive retailing business since 1917. He is the past chairman of the American International Automobile Dealers Association and is vice chairman of the Texas Automobile Dealers Association. Smith's mandate is to lead the company's efforts as it strives to become the manufacturers' number one choice for industry consolidation.

DEALERS PRESERVE INDIVIDUALITY

Group 1 recognizes that there is value in an established dealer's identity, enhanced over the years through customer satisfaction, service, price or even a catchy slogan or advertising jingle. By shunning national branding, Group 1 allows its dealers to preserve and expand their identity, individuality and success.

There is no cookie-cutter philosophy. Each Group 1 dealer is encouraged to use his entrepreneurial spirit by determining the best method to market products and operate the dealership.

This decentralized management approach allows dealership principals to retain a great deal of autonomy. Group 1 believes this approach will attract quality dealers, who are committed and motivated.



To support dealers to become the best they can be, Group 1 promotes sharing of proven best practices in all dealerships through its General Managers' Forum. The general managers are encouraged to conduct a free flow of ideas and share their collective knowledge through quarterly meetings. This same sharing of best practices also occurs at the platform level through the Presidents' Forum.

CO-WORKERS GIVEN INCENTIVE FOR SUCCESS

Group 1 is committed to providing a rewarding work experience for all of its co-workers. To give them incentive to make Group 1 a success, all employees are encouraged to own shares of the company.

The founding dealers received 95 percent of the consideration for their dealerships in Group 1 stock, accompanied by a two-year lock-up. This not only keeps the founding dealers intimately involved in the organization, but also aligns their interests with investors and sets the example for future acquisition candidates.

Platform principals receive a significant portion of their acquisition consideration in Group 1 stock and are subject to one- to two-year lock-ups.

All dealership general managers and department heads are eligible for stock options. In addition, all co-workers can participate in an employee stock purchase plan that allows them to invest as much as 10% of their salary through payroll deduction in Group 1 stock. At the end of 1998, one-third of eligible Group 1 employees owned shares through the plan.

We are invigorated by the significant opportunities we see ahead

BOARD OF DIRECTORS

Bennett E. Bidwell [1*, 2]
Retired Chairman of Chrysler Motors Corporation

John H. Duncan [1, 2*]
Private Investor

B. B. Hollingsworth, Jr .
Chariman, President and Chief Operating Officer

Robert E. Howard II
President of Howard Group

Sterling McCall, Jr .
Chairman, Sterling McCall Toyota and Lexus

Charles M. Smith
Senior Vice President – Industry Relations

EXECUTIVE OFFICERS

B. B. Hollingsworth, Jr .
Chairman, President and Chief Executive Officer

John S. Bishop
Senior Vice President – Operations

Charles M. Smith
Senior Vice President – Industry Relations

Scott L. Thompson
Senior Vice President – Chief Financial Officer and Treasurer

John T. Turner
Senior Vice President – Corporate Development

H. Clifford Buster, III
Vice President – Financial Operations

Randy L. Callison
Vice President – Corporate Development

Michael J. Poppe
Vice President – Corporate Controller

Frank R. Todaro
Vice President – Corporate Services

[1] Member Audit Committee
[2] Member Compensation Committee
* Committee Chairman

Board of Directors. Seated from left to right: John Duncan, Bennett Bidwell. Standing from left to right: Sterling McCall, Ben Hollingsworth, Bob Howard, and Charles Smith.

Group Presidents. Standing from left to right: Jim Carroll, Ken Johns, Bob Howard, and Ron Kutz. Seated from left to right: Dick Fleischman, Nyle Maxwell, Mike Smith, Kevin Whalen, and Randy Ross. Seated far right is John Bishop, SVP - Operations.

Platform Presidents

At the end of 1998, Group 1 had nine platform operations managed by presidents who, combined, have almost 200 years of automotive retailing experience. The presidents were either part of the founders group or they joined Group 1 over the year.

All of the platform presidents had some concerns before joining a public dealership group. "Even though the founding group I was with gave it a lot of thought, we were still uncertain if this was the right move," said Mike Smith. Nyle Maxwell, one of the new additions, added, "I admit I was nervous going in. While I liked what I heard from Group 1 management, I was still concerned that the corporate office would try to control me and my dealership. And it's difficult for an entrepreneur to fit into a corporate structure."

Smith, Maxwell and the other presidents say that these concerns never materialized. "Joining Group 1 is more like a merger, not a sale," said Jim Carroll. "I'm working with Group 1, not for them. "In fact, all the platform presidents agree that there has been very little change in their day-to-day operations. Instead, the dramatic changes have been outside the realm of the dealerships and have all been positive.

All of the platform presidents noted the significant financial benefits derived from economies of scale in the areas of cost savings on insurance and financing and having access to capital to grow the business. "Before joining Group 1, the ability to grow was limited," said Randy Ross. He noted that adding stores was difficult, as was providing growth opportunities for his associates. "Now, my associates have a career path that I was not able to offer as an independent dealer."

Because Group 1 shuns the "cookie-cutter"approach to dealerships, "I can empower people on the front line and make them accountable," said Ron Kutz. The other platform presidents joined Kutz in endorsing Group 1's stock ownership plans as exciting opportunities and motivating factors for all employees.

Ken Johns believes that large, public dealers can have stronger relationships with manufacturers than an independent dealer can. "Because Group 1 has many stores, we can cooperate with manufacturers to realign franchises to create fewer, but more profitable stores."

Johns also cited communication as a key positive aspect. "The communication within the organization helps us stay current on the changes in this fast-paced industry." Maxwell said that other forms of internal communication, such as benchmarks, forecasts and performance reports help give the platform presidents new challenges. "The forecasting and reporting activities have re-focused me on my business. When the monthly comparison reports come out, no one wants to be ranked last; car dealers have big egos. This competition has rejuvenated me and I just had my finest year in terms of revenues and profits."

Dick Fleischman echoed Maxwell's sentiments. "My competitive spirit has been reinvigorated. There's a little bit of sibling rivalry when the financials come out and that's exciting." Bob Howard agrees. "Our internal competition results in self-imposed pressure-to-succeed. It's a pride issue. And you don't want to let your partners down."

"The internal competition helps you do your part in reaching the company's overall objective," said Smith. "You don't want to let the team down."

"It's exciting to see us all charging down the same path and delivering results for the Group 1 team," said Kevin Whalen. "The atmosphere is very competitive, but that results in all of us being successful. Everyone is depending on everyone else to carry their weight. This atmosphere has made me a better businessman because my goals are no longer personal."

Kutz said that one of his initial concerns about the downside of public ownership was public scrutiny and how Group 1 would "stack up against its peers." He said this was quickly alleviated during dealership conventions. "I talk to dealers from across the country and was surprised that they were knowledgeable about Group 1. They say, 'Oh, that's the public company that's doing really well.' Those comments make me very proud to be part of this organization."

CORPORATE INFORMATION

Independent Accountants
Arthur Andersen LLP
Houston, Texas

Stock Transfer Agent Registrar
ChaseMellon Shareholder Services
2323 Bryan Street, Suite 2300
Dallas, Texas 75201
(214) 965-2220

Form 10-K
The 1998 Form 10-K report filed with the Securities Exchange Commission includes financial data that supplements the material included in the annual report. The Company will, without charge, provide a copy to any stockholder upon written request to Shareholder Relations at our Corporate Headquarters.

Corporate Headquarters
Group 1 Automotive, Inc.
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Houston, Texas 77024
(713) 467-6268
Website: www.group1auto.com

Common Stock Listing
Ticker Symbol: GPI
New York Stock Exchange

Common Stock Quarterly Data

Year Ended December 31, 1998

	HIGH	LOW
First Quarter	*11 1/2*	*8 5/8*
Second Quarter	*18 1/2*	*10 15/16*
Third Quarter	*18 1/2*	*11 3/8*
Fourth Quarter	*26*	*12 15/16*

Annual Meeting
Wednesday, May 12, 1999
10:00 A.M. Chase Bank of Texas, N.A.
707 Travis Street, Mezzanine Board Room
Houston, Texas

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements which involve known and unknown risks, uncertainties or other factors not under Group 1's control that may cause the actual results, performance or achievements of Group 1 to be materially different from the results, performance or other expectations implied by these forward-looking statements. Some of these risks, uncertainties and other factors include, but are not limited to, those disclosed in Group 1's Form 10-K for the fiscal year ended December 31, 1998.

www.group1auto.com

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Taking the road
less traveled

www.group1auto.com

GROUP 1 AUTOMOTIVE

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