Inchcape

Inchcape plc Annual report and accounts 2006

Industry leader

Industry leader

The leading independent international automotive retailer.

Industry leader
A truly international and independent automotive retailer and distributor, Inchcape operates in over twenty countries in developed and emerging markets and works around the world with the strongest brands in the industry. Our strong and experienced management teams have an in-depth knowledge of the automotive sector and of the markets in which we operate. As a result we have achieved leadership positions in key markets with best in class margins generated from multiple income streams.

Our enduring, long term relationships with leading automotive manufacturers are a testament to our ability to embody our partners' brands effectively. We have the scale, capability and market knowledge to make us the brand partner of choice for Distribution and Retail operations globally.

With our focus on customer service we aim to deliver an outstanding customer experience every day, every time, and in all of our global businesses. We have developed world-class retail operations across our core markets and are leading the way in customer service.

Inchcape has a long and vibrant history of innovation, constantly building on past experience and evolving our business model to stay at the forefront of our industry.

Our strong balance sheet, operating cash flows and financial capacity mean we can take advantage of the many scale opportunities for growth across both Retail and Distribution in developed and emerging countries. Seeking constant improvement and growth has enabled us to drive business performance and to maximise returns for our shareholders.

Inchcape

A unique business model

The Inchcape model offers major opportunities for growth.

A history of evolution and success

A Company steeped in a rich history, we pride ourselves on our ability to innovate and deliver outstanding value for our shareholders.

In 1999 Inchcape was transformed from a diverse distribution company to a business focused purely on the automotive industry. Today we operate Retail and Distribution businesses representing a number of brand partners in developed and emerging markets. This is what makes our business model truly unique in the automotive industry.

We have strong historical roots in Distribution in Hong Kong, Singapore, Australia, Belgium and Greece and we continue to be a leading automotive distributor and retailer in these markets.

Over the past six years the Company has increasingly focused on Retail, helping to lead the way in industry consolidation in developed markets such as Australia and the UK; establishing strong bases for growth in emerging markets such as the Balkans and the Baltics; and more recently entering the exciting high growth markets of Russia and China.

A model for growth

The Inchcape model offers major opportunities for growth. Our model for expansion is based around the concept of Distribution and Retail within developed and emerging markets and we see opportunities to grow our business across all these segments.

A decentralised and co-ordinated global organisation model

Our global organisational structure is what makes this unique model work. We follow a decentralised but co-ordinated approach. The balance is very important. It provides empowerment and resources in the markets, enabling fast decisions and freeing up local management to spend more time with our customers. At the same time, this structure enables us to leverage the many best practices we have across the Group and implement consistent, world-class standards.

Our operations

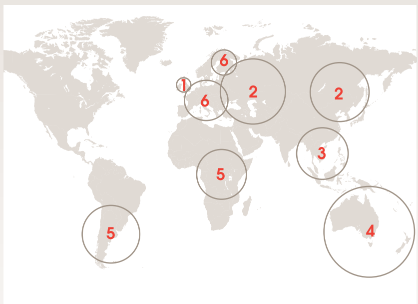
We operate Retail and Distribution businesses representing brand partners in developed and emerging countries.

Distribution

In our Distribution markets we not only import, distribute and market the brands we represent, but we also retail to all or part of the network, enabling a far stronger understanding of customer needs and opportunities. This 'vertically integrated retail model' delivers higher margins through the seamless management of the complete value chain, including supply and inventory.

The distribution process takes the product all the way from the factory and brings it to the marketplace. We are deeply involved in brand development and innovation with our brand partners, plus we develop the retail network's marketing and sales strategies for new and existing models, pricing, finance products, servicing, parts and accessories.

This truly customer-centric approach to Distribution enables us to provide a real competitive edge to our brand partners.



1
Inchcape in the UK
Retail
– Audi, BMW, Ferrari, Ford, Honda, Jaguar, Kia, Land Rover, Lexus, Maserati, Mercedes-Benz, MINI, Mitsubishi, Renault, smart, Toyota, Vauxhall, Volkswagen, Volvo

Distribution
– Inchcape Automotive, Inchcape Fleet Solutions

2
Inchcape in the Emerging Markets
Balkans

Distribution and Retail
– Bulgaria, Romania, Macedonia Toyota/Lexus

Baltics

Distribution and Retail
– Estonia, Latvia Jaguar, Land Rover, Mazda
– Lithuania Jaguar, Land Rover, Mazda

Russia

Retail
– Moscow Toyota/Lexus (opening 2008)
– St. Petersburg Toyota/Lexus

China

Retail
– Shaoxing Toyota (opened January 2007) and Lexus (opening 2008)

3
Inchcape in Asia
Hong Kong, Macau

Distribution and Retail
– Daihatsu, Hino, Jaguar, Mazda, Toyota/Lexus

Singapore

Distribution and Retail
– Hino, Suzuki, Toyota/Lexus

4
Inchcape in Australasia
Australia

Distribution
– Subaru

Retail
– Hyundai, Kia, Mitsubishi, Subaru, Volkswagen

New Zealand

Distribution
– Subaru

5
Inchcape in the Rest of the World
Chile, Peru

Distribution and Retail
– BMW/MINI

Brunei, Ethiopia, Guam and Saipan

Distribution and Retail
– Toyota/Lexus

6
Inchcape in Europe
Belgium and Greece

Distribution and Retail
– Toyota/Lexus

Finland

Distribution and Retail
– Jaguar, Land Rover, Mazda

Luxemburg

Distribution and Retail
– Jaguar, Toyota/Lexus

France

Retail
– Audi, Volkswagen

Poland

Retail
– BMW/MINI

Retail
The focus for our Retail operations is on scale.

Consolidation in developed markets is proving the case for fewer, bigger, better retail operations. It provides for an improved customer experience, creates scale vehicle and aftersales activity and promotes investment in good management and infrastructure, which ultimately generates higher returns.

We build scale regionally in our markets by channelling our investment into specific geographic areas to provide economic and operational advantage.

We also build scale relationships with our core brand partners where we aspire to represent around 10% of their network in each country. This provides real marketing efficiencies. We operate a dedicated brand management structure to ensure focus, a better understanding of our partner's brand values and the establishment of enduring relationships.

Our approach to retailing is totally customer-centric. We aim to create a differentiated customer experience through our Inchcape Advantage programme and, by building on our brand partners' customer programmes, deliver a real competitive advantage.

Our retail businesses benefit from multiple income streams from the sale of new and used vehicles, finance and insurance products, servicing, parts and accessories.

As our brand partners pursue their expansion plans in the high growth emerging markets, they look to establish strong and efficient retail operations, learning from the consolidation activities in more developed countries. From the onset they will benefit from fewer, bigger and better retail sites offering world-class retail standards to their customers. We are in a leading position to partner them in their growth plans.

Our brand partners

We aim to exceed our partners' expectations and build enduring relationships.

Our partners
We are very proud of the enduring relationships we have established over many years with our world-class brand partners. 2006 was, for example, the fortieth anniversary of our relationship with Toyota in Hong Kong.

At Inchcape, we believe long term relationships are the only way to build true partnerships. By working with a selected number of core partners we represent a portfolio of winning brands which are outperforming and leading the industry.

With in-depth relationships at both local and international level, we work hand in hand with our core brand partners to achieve our joint growth aspirations. By being the best at delivering our partners brand we give them a clear advantage. We are investing time and resources in a long term Group-wide initiative called *Inchcape Advantage* to raise the bar in terms of customer service delivery.

We have undertaken extensive consumer research and are incorporating what we have learned into our day-to-day operations. Every day, every time and everywhere we aim to deliver a world-class retail experience giving our customers better service, better choice and better value.

With all of our brand partners we strive to exceed their expectations of brand delivery to provide an outstanding customer experience, establishing us as the industry leader and therefore partner of choice.

BMW	Years partnered
UK	17
Chile	12
Peru	8

Mercedes-Benz	Years partnered
UK	20

Toyota/Lexus	Years partnered
UK	41
Hong Kong	40
Singapore	39
Belgium	25
Greece	20

Mazda	Years partnered
Hong Kong	30
Baltics	13

Subaru	Years partnered
Australia	14

Volkswagen	Years partnered
UK	18
Australia	14

We partner and represent:

- Audi
- BMW
- Daihatsu
- Ferrari
- Ford
- Hino
- Honda
- Hyundai
- Jaguar
- Kia
- Land Rover
- Lexus
- Maserati
- Mazda
- Mercedes Benz
- Mini
- Mitsubishi
- Renault
- smart
- Subaru
- Suzuki
- Toyota
- Vauxhall
- Volkswagen
- Volvo

Our vision and strategy

We are leading the way in customer service.

Vision
We have developed a simple and compelling vision: to be the world's most customer-centric automotive retail group. We believe the retail brand experience, based on the quality of service customers receive, is a strong differentiator in our industry. Outstanding customer service, delivered consistently, generates higher returns as we achieve higher conversion and loyalty rates.

Inchcape is leading the way in customer service. With over 208 Retail outlets and 85 Distribution sites around the world, we have many examples of excellence and best practice that we share and transfer around the Group.

Strategy
To deliver our vision we have a clear strategy. We will *strengthen* our existing businesses through a focus on customer service and delivering operational excellence on all our key value-drivers. We will *expand* our business in developed and emerging markets. There are four crucial elements to support our strategy.

First is our people; we are investing in the development of our people as well as in the recruitment of new talent. We believe that people make the difference and we have an energising Human Resources agenda.

Second is performance management; we are setting 'best in class' gold standards across the Group and have established key metrics on all value-drivers.

Thirdly we are developing our technology and systems infrastructure, not only to deliver cost savings but importantly to free up time for our people to spend with our customers.

And finally, we are pursuing our growth opportunities following a highly disciplined allocation of capital.

One vision

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

Two strategic priorities

Strengthen existing core businesses

Expand in developed and emerging markets

Four enablers

Recognise that it is our people who make the difference

Gold standard performance management

Use technology to free up time

Disciplined allocation of capital

Inchcape is a scale automotive retail group operating in developed and emerging countries.

Our six core markets are Australia, Belgium, Greece, Hong Kong, Singapore and the UK.

Our core brand partners are Audi, BMW, Honda, Mazda, Mercedes-Benz, Premier Automotive Group (PAG), Toyota/Lexus, Subaru and Volkswagen.

Contents

Financial highlights

Revenue

£4.8bn +7.9%

02	£3.4bn
03	£3.8bn
04	£4.1bn
05	£4.5bn
06	£4.8bn

Operating profit
before exceptional items

£213.9m +12.9%

02	£101.9m
03	£124.4m
04	£172.1m
05	£189.4m
06	£213.9m

Dividend paid and proposed
per ordinary share

15.0p +57.9%

02	5.2p
03	6.3p
04	8.3p
05	9.5p
06	15.0p

Headline profit before tax
Before exceptional items

£213.9m +12.4%

02	£112.1m
03	£135.8m
04	£168.4m
05	£190.3m
06	£213.9m

Headline earnings per share
Before exceptional items

35.7p +19.8%

02	17.4p
03	22.1p
04	26.0p
05	29.8p
06	35.7p

Operating profit

£213.9m +21.3%

Year	Operating profit
02	£104.0m
03	£139.9m
04	£161.5m
05	£176.4m
06	£213.9m

Profit before tax

£213.9m +20.6%

02	£105.5m
03	£166.2m
04	£163.2m
05	£177.3m
06	£213.9m

Earnings per share

37.5p +38.9%

02	16.7p
03	27.5p
04	24.8p
05	27.0p
06	37.5p

Chairman's statement

Headline profit before tax

£213.9m +12.4%

£m	2006	2005
Profit before tax	**213.9**	177.3
Exceptional items	**–**	13.0
Headline profit before tax	**213.9**	190.3

Highlights

2006 has been another successful year for the Inchcape Group, delivering strong financial, operational and strategic progress. Group sales have increased by 7.9% to £4.8bn for the full year 2006 benefiting from a combination of organic growth and significant acquisition activity. Like for like sales increased by 2.2%. Headline profit before tax and exceptional items of £213.9m was 12.4% higher than 2005 and Headline earnings per share rose 19.8% to 35.7p. To reflect this success and our continued confidence for future performance we have raised the full year dividend by 58% to 15.0p per share.

We have experienced solid performances from both our Distribution and Retail segments. In Distribution we achieved record sales in Europe where we recovered our market leading position in Greece, and in Australia we achieved yet another record market share. In the Retail segment sales were up 15.3% with like for like sales up 3.1% boosted by our focus on improving our customer service processes and practices. Our broad geographic spread and diversity of earnings mitigated the softer performances by our Asian businesses and helped us achieve another year of record sales and profit as an automotive group.

As well as a continued focus on our core business, we have made a number of important acquisitions in 2006. In February we expanded our Australian presence with the acquisition of Keystar Motors Pty Ltd (Keystar), establishing a retail presence in the fast growing Brisbane market. In March we announced our first entry into the exciting, high growth Russian market through a joint venture with the Independence Group of Companies, one of Moscow's leading independent car retailers. We will open two retail and service centres in Moscow for Toyota, one of the most successful foreign brands in Russia, early in 2008. We announced our second move into the Russian market in August 2006 with the acquisition of a majority stake in an already successful and established Toyota and Lexus business in St Petersburg, Russia's second largest market.

China is also an exciting market for Inchcape representing substantial growth opportunities. In December 2006 we completed the construction of our first Toyota greenfield site in Shaoxing We have also been awarded Lexus franchises in Shaoxing and Shanghai, which we anticipate will begin trading towards the end of 2007, early 2008.

In the UK consolidation of the automotive retail market has also continued throughout 2006, as we predicted. In July 2006 we acquired the scale Lind Automotive Group Holdings Limited (Lind) business and in December 2006 we announced the public offer for the acquisition of European Motor Holdings plc (EMH). This completed in January 2007. Both these acquisitions allow us to take a major step forward in our strategy and create a unique force in the UK automotive retail market. They significantly expand our presence in the south, east and north of England and in the premium brand sector, which is the most profitable and fastest growing part of the UK market. Looking forward, this creates a platform from which to deliver growth and improved returns, based on fewer, larger scale and stronger relationships with our core brand partners. We are confident that the end result will give us the ability to deliver superior performance both for our brand partners and our customers.

Dividend

The Board is recommending the payment of a final ordinary dividend for the year of 10.0p (2005 – 6.3p). This gives a total dividend for 2006 of 15.0p, which is 58% above the 2005 dividend of 9.5p. This growth reflects our continuing confidence in the business and its future and is consistent with our stated aim of maintaining a progressive dividend policy to shareholders. The full year dividend is covered 2.4 times by Headline earnings per share (2005 – 3.1 times).

Share buy back and share split

In May 2006 we carried out a six for one share split. Our equity was trading at more than £29.00 per share, which was comparatively high for shares traded on the London Stock Exchange. We felt that many shareholders would prefer to deal at a lower price per share and therefore sub-divided each existing ordinary share into six new ordinary shares. This further increased liquidity in the stock.

The Group has successfully concluded its £65.0m share buy back programme (2006 – £34m) through the purchase of 17.9m shares, now held in treasury, at an average price of £3.64 per share.

Board changes

On 17 September 2006, Graeme Potts stepped down from the Inchcape plc Board, leaving the Group after four years. During this time he significantly improved the performance of our UK businesses and he left us with an excellent management team in place. We wish Graeme the very best in the next stage of his career.

People

Our goal of being the world's most customer-centric automotive retailer is energising everyone within Inchcape. As ever, on behalf of the Board, I would like to thank all of our colleagues for their hard work, pride and commitment in delivering the 2006 performance.

Trading prospects

The foundations of our Group are strong and our strategic direction is clear. Our focus on improving the customer experience and driving operational excellence makes us well placed to deliver continued organic growth this year. This, together with the benefit of the acquisition of EMH from 29 January 2007, the full year effect of the Lind acquisition, and our entry into the high growth markets of Russia and China, mean we look forward to 2007 with confidence.

Peter Johnson
Chairman
5 March 2007

"2006 has been another successful year for the Inchcape Group, delivering strong financial, operational and strategic progress."

Group Chief Executive's review

"With our clear strategic focus we will seize major growth opportunities both organically and through acquisition."

Strategic achievements in 2006

Strong platform for growth established

Strengthen
Like for like sales* growth of 2.1%
Like for like trading profit** growth of 10.3%

*At constant currency
**Operating profit pre exceptional items and central costs at constant currency

Expand
Keystar acquisition – Australia
Lind and EMH acquisitions – UK
Axel acquisition and JV with the Independence Group of Companies – Russia
Entry into China
Eighteen new and refurbished sites worldwide
Leading role played in the consolidation of the UK automotive retail market

A strong legacy

Inchcape has achieved a remarkable strategic turnaround since our move to focus purely on the automotive sector in 1999. Since then, we have enjoyed significant earnings growth and stock value creation for our shareholders and our colleagues. This has generated a high level of pride and energy in the business and I am proud to have inherited such a strong legacy.

We have made further progress in 2006, strengthening our core business as demonstrated by the like for like sales growth of 2.1% and like for like trading profit growth of 10.3%, at constant currency. At the same time we have played a leading role in the consolidation of the automotive industry. We have expanded our reach in Australia and, via the transformational acquisition of EMH announced in December and that of Lind in May, have taken a major strategic step forward in the UK. We have also entered the fast growing markets of Russia and China. I am very excited at the wealth of expertise and knowledge we have acquired and welcome our new colleagues to the Inchcape family.

Strategy and vision

In October 2006 we outlined our strategic plan to our investors: how we will continue to build on our success and further leverage our unique business model to drive the next stage of growth and value creation for our shareholders. Our vision for the Company is simple. It is to become the world's most customer-centric automotive retail group, exceeding the expectations of our brand partners and our customers, every day and everywhere.

I am convinced that in the future a key differentiator for automotive customers will be the service that they receive from their retailer.

An outstanding customer experience, delivered consistently, will generate higher returns from our existing assets, based on higher conversion and loyalty rates. Our research has identified key opportunities to make sure our customers 'feel special' and to create a world-class retail experience.

When combined with our global scale and local operational excellence, delivering exceptional customer service will make us the brand partner of choice and increase our access to attractive expansion opportunities.

This customer-centric vision is not limited to our Retail vision for Inchcape; it also applies to our Distribution operations. As a distributor, our aim is to deliver an outstanding customer experience for the brands we represent through both Inchcape-owned and third-party retail outlets. I am convinced that the only way to be successful as a distributor is to truly think and act as a retailer.

Strategic priorities

In order to deliver our next stage of growth we have identified two strategic priorities: to *strengthen* our existing core business through customer-centric operational excellence, and to *expand* in developed and emerging markets.

Group Chief Executive's review continued

Strengthen

In strengthening the business our goal is to increase the profitability of every single operation in every single country. Thus we are seeing an increased focus on the customer to drive like for like sales growth and on operational excellence to drive like for like profit growth.

The former is being driven by our long term, Group-wide programme, *Inchcape Advantage* designed to codify the way we deliver an outstanding customer experience every day, every time, everywhere and at each stage of the customer journey. We are introducing a new suite of customer focused standards, finding ways to share best practice across the Group and trialling new and innovative ways to deliver a special customer experience. We want to give an advantage to our brand partners by being the best distributor or retailer of their brand.

In our push for like for like trading profit growth, we are increasing our focus on achieving operational excellence from our value-drivers: vehicles, service and parts.

Expand

I am equally excited by our expansion agenda. We plan to invest significantly with our core brand partners in developed and emerging markets. We will accelerate our Retail expansion, develop new Distribution opportunities and create four additional scale markets taking our core markets from six to ten over the next five years.

In developed markets we will continue to play a leading role in the industry consolidation to increase our share of the national volume with our core brand partners. The management of fewer, bigger, better retail sites is leading, as expected, to improved retail standards for the customer and creates scale vehicle and aftersales operations for us, enabling investment in strong management and infrastructure to generate higher returns.

As our brand partners pursue their expansion plans in the high growth emerging markets, they are immediately developing first class retail networks, learning from and leapfrogging the developed countries experience to build fewer, bigger and better retail sites with world-class retail standards. They therefore need strong and professional retail partners with significant financial capacity to develop their retail network in these markets. We are well placed to take advantage of these opportunities and it is our intention to increase our retail presence in Romania, Bulgaria, Latvia, Estonia and Lithuania.

In terms of new markets, we are now creating scale operations in both Russia and China.

Russia's car market is the largest in Central and Eastern Europe and is experiencing rapid growth. In recent years foreign brands' share of overall sales in Russia have been increasing strongly with a 65% increase in sales in 2006 to over one million units.

In January 2007 we completed our acquisition of a 75.1% shareholding in the Toyota/Lexus retail and service business of Axel Car in St Petersburg, the first step in our expansion strategy for this high growth market.

We have also announced plans to enter the Moscow market through a joint venture with the Independence Group of Companies, one of Moscow's leading independent car retailers, to establish two Toyota retail and service centres in Moscow. These retail centres are expected to open in 2008.

China is another market where I see substantial growth for the Group. The market is growing fast and has overtaken Japan as the second largest in the world, up by 35% in 2006.

The construction of our first Toyota dealership in Shaoxing (4.3 million inhabitants) from a greenfield site was completed in December 2006. We have also been awarded the Lexus franchise for Shaoxing which will open in the fourth quarter of 2007 as well as the Lexus franchise for Shanghai, due to open in early 2008.

Our people

I have a strong belief that it is our people who make the difference. We have an energising Human Resources agenda in place around recruitment, motivation, remuneration and training. We employ a decentralised but co-ordinated organisational model. Our local businesses are empowered and resourced to make fast decisions while the Group enjoys good synergies based on global best practice and consistent standards.

The next stage of growth

I believe that Inchcape has tremendous growth opportunities; I expect our strategy to deliver a healthy balance between like for like profit growth and acquisition expansion.

Our formula for delivering exceptional shareholder returns is very compelling.

Our business platform is exceptionally strong. Our model is unique in the automotive industry with a balanced geographic spread between developed and emerging markets.

We enjoy market leadership positions in key markets with best-in-class margins. And we have enduring relationships with winning brand partners supported by a strong and professional management team.

Added to this, our performance track record is outstanding. Our existing portfolio is highly cash generative and every market has contributed to the last five years' profit growth.

With our clear strategic focus we will seize major growth opportunities both organically and through acquisition. We have good financial flexibility and a solid track record of both successfully integrating acquisitions and driving the business forward organically.

This is why we are leading the industry as an independent, international automotive retailer and we are excited about the growth opportunities ahead for our shareholders, brand partners and our people.

André Lacroix
Group Chief Executive
5 March 2007

"An outstanding customer experience, delivered consistently, will generate higher returns from our existing assets, based on higher conversion and loyalty rates."

Operating and financial review

Regional analysis	**2006 Operating profit £m**	**2006 Exceptional items £m**	**2006 Operating profit* £m**	2005 Operating profit £m	2005 Exceptional items £m	2005 Operating profit* £m
Australia	**38.5**	**–**	**38.5**	31.9	–	31.9
Europe	**38.3**	**–**	**38.3**	29.2	–	29.2
Hong Kong	**24.0**	**–**	**24.0**	28.8	–	28.8
Singapore	**58.6**	**–**	**58.6**	62.1	–	62.1
United Kingdom	**45.9**	**–**	**45.9**	9.7	19.5	29.2
Emerging markets	**12.1**	**–**	**12.1**	7.0	–	7.0
Rest of the World	**21.4**	**–**	**21.4**	20.0	–	20.0
Central costs	**(24.9)**	**–**	**(24.9)**	(12.3)	(6.5)	(18.8)
Operating profit	**213.9**	**–**	**213.9**	176.4	13.0	189.4

Foreign currency translation	Average rates		Year end rates	
	2006	2005	**2006**	2005
Euro	**1.46**	1.46	**1.48**	1.46
Hong Kong dollar	**14.28**	14.16	**15.22**	13.31
Singapore dollar	**2.92**	3.02	**3.00**	2.85
Australian dollar	**2.44**	2.38	**2.48**	2.34

*Before exceptional items

Key Performance Indicators

The Inchcape plc Board of Directors and the executive management monitor the Group's progress against its strategic objectives and the financial performance of the Group's operations on a regular basis. Performance is assessed against the strategy, budgets and forecast using financial and non-financial measures. The key performance indicators which are monitored on a Group wide basis are:

- Vehicle market size
- Vehicle market share
- Revenue (hereafter termed sales)
- Like for like sales growth
- Trading profit
- Like for like trading profit growth
- Trading margins

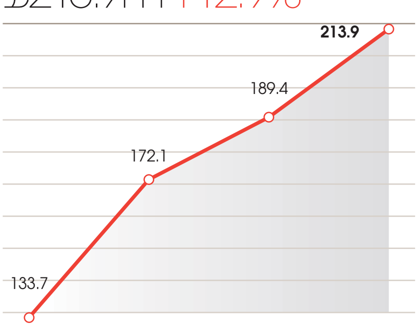
Trading profit is defined as operating profit excluding the impact of exceptional items and central costs.

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

To enhance comparability, we review the results in a form that isolates the impact of currency movements from period to period by applying the December 2005 exchange rates to both periods' results (constant currency). Unless otherwise stated all sales and trading profit figures in the Operating Review are provided in constant currency.

Operating profit* £m

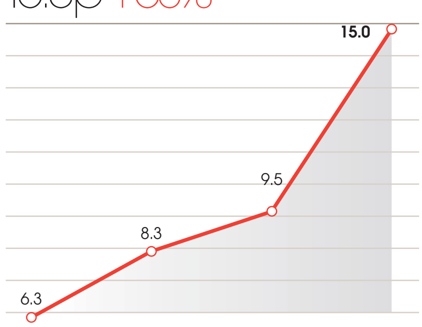
£213.9m +12.9%



Operating profit before exceptional items is 12.9% higher than in 2005.
*Before exceptional items
**Pro forma to adjust UK GAAP for main IFRS differences (stock holding interest and pensions).

Dividends paid and proposed pence

15.0p +58%



Group

2006 has been a good year for Inchcape with operating profit before exceptional items up 12.9% to £213.9m on sales up 7.9% to £4.8bn at actual exchange rates. All of Inchcape's core businesses contributed to this growth, with the exception of Hong Kong and Singapore, which experienced challenging market conditions. This once again demonstrates the strategic strength of our broad geographic spread.

The operating profit for the Group, of £213.9m was 21.3% above 2005 including exceptional items. Excluding exceptional items, Headline profit before tax was up 12.4% to £213.9m at actual exchange rates and Headline earnings per share increased by 19.8% from 29.8p to 35.7p.

To enable a better understanding of the Group's results we have, for the first time, provied an analysis of the two segments of our business. Distribution and Retail, by geographic region. We are also reporting Emerging Market's results separately so that shareholders obtain specific information on this growing part of our business. We define Emerging Markets as those markets in which we operate and where the total new vehicle volume sales by international brands are growing by 10% or more per annum. This additional information is provided in note 1.

Our focus on improving customer service and operational excellence in our Retail businesses, the benefit of new competitive Toyota/Lexus vehicles, particularly in the European Distribution operations, and the growth of our Eastern European operations, has underpinned like for like sales up 2.1% and trading profit up 10.3% year on year.

Distribution posted a solid performance in 2006. Like for like sales increased by 1.1% with trading profit up 4.4%. The European and Emerging Markets Toyota/Lexus Distribution businesses all benefited from new models stimulating consumer demand. In Europe an all time high vehicle market in Belgium and strong parts and accessories growth, supported Belgium Distribution achieving record sales and trading profits in 2006. The Greek Toyota/Lexus Distribution business recovered well after a challenging 2005, generating record trading profits in 2006 with Toyota regaining market leadership. The Emerging Markets Toyota/Lexus businesses continued to grow at a rapid pace with like for like sales up 39% compared to 2005. Australia Distribution achieved another year of record sales and market share, despite a slightly declining market, as it focused on a number of Subaru limited edition vehicle campaigns.

Both Hong Kong and Singapore suffered continued competitiveness in their markets. In Hong Kong we retained our dominant market share by improving penetration in the passenger car segment which offset lower public bus sales year on year. However, a lower overall market impacted vehicle volumes. This, together with the non recurrence of warranty service work, impacted profitability. In Singapore the increase in parallel imports stimulated market growth in 2006. The discontinuance of certain niche models, and taxis from October, together with the competitive pressure from parallel importers impacted performance.

The Retail businesses sales were up 15.5%, benefiting from both acquisitions and underlying organic growth. In the early part of 2006 the Group acquired Keystar Motors Pty Ltd (Keystar) in Australia, extending our retail presence into the Brisbane market. In July we acquired Lind Automotive Group Holdings Ltd (Lind) in the UK, increasing our scale of operations and our geographic presence in the south and east of England. Integration of these businesses is progressing well. We also opened eighteen new greenfield or refurbished retail centres during the year, primarily in the UK, Bucharest and Belgium. All these acquisitions, greenfield and newly refurbished operations contributed significantly to the Retail division's growth in 2006.

Excluding acquisitions, like for like retail sales were up 3.4% for the year ended 31 December 2006. This organic growth is due to our focus on becoming truly customer-centric and improving our customer service processes and practices throughout our Retail businesses. This is despite retail in virtually all our territories becoming more competitive during the year. These higher sales together with tight cost control have improved operating margins from 1.5% in 2005 to 2.2% in 2006.

Operating and financial review continued

Australia

	2006 £m	2005 £m	% change on 2005	% change on 2005 (constant currency)
Sales	**616.6**	612.7	+0.6	+3.2
Trading profit	**38.5**	31.9	+20.7	+23.8

The vehicle market remained fundamentally strong at 962,666 units, although below the all time high of 2005. Market conditions continued to be competitive, becoming more price and engine size sensitive during 2006. Subaru achieved an eleventh consecutive year of unit sales growth retailing 37,520 vehicles. Increased sales across all core models, assisted by limited special edition campaigns and higher fleet sales generated sales volumes up 4.1% compared to a market that was down 2.6% in the year. Subaru's full year market share of 3.9% was 0.3 percentage points (ppts) ahead of 2005. This was yet another record level.

The Distribution business achieved like for like sales up 1.1% in 2006 constrained by a competitive market and a change in mix towards smaller vehicles. Distribution margins recovered after the pressure suffered in 2005, mainly due to the appreciation of the Australian Dollar/Japanese Yen foreign exchange rate.

The Business Services operation, AutoNexus, had another strong year. It has benefited from the investment in a new parts warehouse in Sydney and from several new fitment contracts.

The Retail division, benefited from our clear and consistent strategy to focus on excellent customer service departments. We transferred outstanding processes and procedures in the vehicles, parts and service from our Melbourne operation throughout the division. This contributed to a rise in like for like sales of 2.0% in the year despite the declining market. This allied with tight cost control assisted like for like trading profit up by 33%. This organic growth, together with the benefit from the exit in 2005 from underperforming non core Sydney retail centres, and the acquisition of Keystar, led to sales up 7.2% in the year. Trading profits were up over 64% compared to 2005.

Overall a strong progression in our Distribution and Retail division contributed to total sales up 3.2% whilst trading profits improved 23.8% in 2006. Margins expanded from 5.2% to 6.2%. In 2007 Subaru will continue to benefit from the new Tribeca launched in November 2006, expanding the Subaru model range. In the second half of 2007 Subaru will launch the next generation Impreza which, when allied with special editions across ageing model ranges, should stimulate brand momentum. The Retail division will benefit from the opening of the new greenfield retail centre in Fountaingate in Melbourne and a continuous focus on improving customer service and operational experience throughout the division.

Europe

	2006 £m	2005 £m	% change on 2005	% change on 2005 (constant currency)
Sales	**1,202.7**	1,034.6	+16.2	+16.2
Trading profit	**38.3**	29.2	+31.2	+31.2

The Toyota/Lexus businesses in Europe benefited from new competitive models, including the RAV4, Yaris, Aygo, Lexus IS diesel and RX hybrid models supporting organic progression.

In Belgium, improvement in general consumer confidence stimulated vehicle demand in 2006. The market achieved an all time high at 595,598 units in 2006, up 7.8% compared to 2005. Despite the run out of the Corolla, it achieved all time record sales supported by special editions. This together with the new competitive product assisted Toyota/Lexus' share of the market to increase from 5.0% in 2005 to 5.4% in 2006.

Distribution like for like sales were up 12.2%, supported by stronger vehicle sales and by higher parts and accessories sales. This increased performance, together with focused marketing spend, improved like for like trading profit by 7.1%.

The Retail division progressed well in the year benefiting from organic expansion, the opening of the new greenfield Lexus Waterloo centre and the acquisition of Horemans in late 2005. In aggregate retail sales were up 40%. This, allied with continued tight overhead control led to Retail's trading profit increasing by 67% year on year.

Overall good progression in both the Distribution and Retail divisions resulted in total sales up 17.4% to £529.5m. Belgium achieved record trading profits of £15.9m. On a like for like basis and excluding the effect of a non-recurring one-off benefit arising in 2005, trading profit was up 20% in 2006.

Some stabilisation is expected in the Belgium market in 2007. However the launch of the new Toyota Auris to replace the Corolla Hatchback model, the next generation Corolla sedan and the focus on the hybrid Lexus models should be beneficial to sales in 2007.

The Greek performance recovered in 2006 after a disappointing year in 2005.

Having suffered significant weakening in consumer demand in 2005 after the Olympics, the Greek vehicle market stabilised at 291,419 units in 2006. Similar to Belgium, Toyota benefited from new competitive models, particularly the RAV4 and the Aygo. This, allied with the benefits of an investment programme by the dealer network upgrading operational facilities, significantly strengthened momentum for the Toyota brand. Toyota regained market leadership for the full year in 2006, increasing its market share to 9.8%, 1.3ppts ahead of 2005.

Despite a flat market, Distribution's like for like sales increased by 16.0%. This was underpinned by growth in both vehicle volumes and parts' sales. Tight overhead control generated trading margins up from 6.5% to 7.2% for 2006. Overall this generated a 28% increase in Distribution's like for like trading profit year on year.

The new Toyota competitive product, improved customer service and retail operational processes stimulated Retail like for like sales up 18.8%. These higher sales helped the Retail business exit 2006 at a reduced loss.

Overall significant progression in both the Greek Distribution and Retail divisions resulted in sales up 16.4% to £349.7m, whilst trading profits improved 43% to £19.8m. This is a record performance.

Strengthening in consumer demand is anticipated to restore growth in the Greek vehicle market in 2007. Similar to Belgium, Toyota in Greece will launch a new Toyota Auris model and a Corolla sedan. The enhanced Hilux pick-up commercial vehicle will benefit from an improved engine and load capabilities which should stimulate Toyota sales in the commercial segment of the market.

In 2006 the vehicle market in Finland contracted, down 1.7% on 2005. After a challenging 2005, the Distribution business recovered well. Tactical marketing campaigns improved Mazda's market share by 0.3ppts in the year to 3.7%. Overall our Finland business generated a trading profit of £4.7m up 22%.

In France we undertook a restructuring programme to focus our operations on the south west region in the market areas of Bordeaux, Toulouse and Montpellier. We expect to see the benefits of this restructuring in 2007.

Our business in Poland has had a challenging year resulting in a trading loss, though this was £0.4m lower than 2005.

Operating and financial review continued

Hong Kong

	2006 £m	2005 £m	% change on 2005	% change on 2005 (constant currency)
Sales	**224.8**	242.3	–7.2	–6.4
Trading profit	**24.0**	28.8	–16.7	–15.6

The Hong Kong vehicle market was 30,099 units in 2006. This was 646 units, 2.1%, below 2005. However 2005 benefited from a Government fiscal incentivisation to convert Coaster public buses to liquid petroleum gas (LPG). Excluding this effect the underlying vehicle market was slightly up year on year. This was particularly prevalent in the passenger car market where consumer demand started to improve during the second quarter of 2006, primarily towards the luxury end of the market. Overall the passenger car market was up 2.8% versus 2005.

Crown Motors, our Toyota/Lexus business, leveraged its dominant market position in 2006 to drive consumer demand in the competitive environment. At the beginning of the year demand was affected by the run out of several core models whilst competitors launched new products. However, this improved in the second half as we benefited from new competitive product, including the Camry, Previa and various Lexus models. This allied to marketing campaigns celebrating the fortieth anniversary of Crown Motors' selling Toyota vehicles in Hong Kong, led to Crown Motor's market share increasing to 35.1% for the second half of 2006. This compensated for the weaker first half and lower public bus sales year on year. Overall, Crown achieved a market share of 33.7% in 2006, flat with 2005.

Despite a flat market share, vehicle sales reduced year on year due to the decline in the market. This together with a weaker vehicle mix and the non-recurrence of one-off warranty work experienced in 2005, impacted sales. Overall sales in Hong Kong were 6.4% lower than 2005. Although trading margin came under pressure in the competitive market, at 10.7% it still remains one of the highest in the Group. Trading profit was 15.6% below 2005. We continue to focus on aftersales to broaden the sales base. Like for like aftersales revenue was up 5.9% year on year.

Demand in the Hong Kong vehicle market is expected to increase in 2007 driven by Government fiscal incentives associated with the purchase of vehicles with low emissions and high fuel efficiency. Incentivisation will also be offered to stimulate replacement of ageing pre-Euro and Euro 1 diesel commercial vehicles with Euro IV compliant models. Following the sale in January 2007 of Inchcape's 50% stake in Inchroy Credit Corporation Ltd, a financial services joint venture, we are now implementing a market forces finance and insurance model similar to that successfully used in the UK.

Singapore

	2006 £m	2005 £m	% change on 2005	% change on 2005 (constant currency)
Sales	**659.5**	719.6	–8.4	–11.4
Trading profit	**58.6**	62.1	–5.6	–8.7

Our Toyota/Lexus business in Singapore experienced a challenging year in 2006 facing a year on year decline in a market stimulated by parallel imports. This was partially compensated for, however, by a very strong performance by the Suzuki franchise which benefited from new competitive models particularly in the smaller passenger car segment.

Parallel imports of vehicles into Singapore, primarily from Japan, have increased 113.8% in 2006 to 20,860 units. This is due to the earlier launch and broader model offering of new competitive Toyota models in Japan, allied with a weakening in the Japanese Yen benefiting Singapore consumers. This has supported a record market of 136,109 units in Singapore in 2006, up 3.2% on 2005.

In the face of competitive market conditions, particularly from parallel importers, Borneo Motors, the franchise Toyota/Lexus retailer in Singapore, maintained a dominant market leadership in the period at 27.1%. This was 2.6 ppts down on the full year 2005. Demand was stimulated by the launch of the new Camry model in the second half of 2006. However, this was more than offset by the discontinuation of the popular Lexus ES300, Liteace commercial vehicle, lower taxi sales, and the slow down in ageing key model sales, particularly the Corolla Altis and Picnic models.

Lower vehicle sales volumes together with continued margin pressure, particularly around finance and insurance affected Borneo's profitability. Similar to Hong Kong, the business continues to focus on aftersales to broaden the sales base. Like for like aftersales growth was up 15.2% year on year.

The Suzuki franchise generated an excellent performance in 2006. It benefited from strong consumer demand for the new Swift and APV models. Like for like sales were up 32% and trading profits were up over 110% in the year to £5.5m.

Overall, Borneo's softer performance was mitigated in part by a strong Suzuki progression. This resulted in sales down 11.4% and trading profit down 8.7% on 2005. Suzuki's performance assisted margin progression from 8.6% in 2005 to 8.9%.

The Singapore vehicle market is expected to decline in 2007. In addition, new emission regulations will result in the absence of Singapore taxi sales which is expected to impact profitability by around £3.0m year on year.

United Kingdom

	2006 £m	2005 £m	% change on 2005	% change on 2005 (constant currency)
Sales	**1,711.9**	1,530.3	+11.9	+11.9
Trading profit	**45.9**	29.2	+57.2	+57.2

The UK vehicle market continued to decline in 2006 to 2.34m units, 3.9% below 2005. UK Retail's like for like new vehicle sales outperformed the market in 2006. Despite a tactical withdrawal from low margin fleet sales (like for like sales decreased by 13.1%) Inchcape's like for like new vehicle sales were only 1.0% back on 2005. The strategic expansion of UK Retail, particularly the full year effect of the acquisition of new Mercedes-Benz dealerships in the north west in mid 2005 and Lind from July 2006, supported total new vehicle volumes up 11.4% year on year.

Continued focus on process improvements, operational excellence and customer initiatives assisted the growth in the core business. In competitive market conditions like for like used car sales were up 2.5% and like for like service hours improved by 6.2% compared to 2005. This mitigated the softening experienced in like for like new vehicle sales. Overall like for like sales were 0.6% lower than last year. Tight overhead cost control and higher manufacturer bonuses assisted like for like margins to improve from 2.0% in 2005 to 2.6% in 2006. This generated like for like trading profit of £36.2m in 2006, 28.6% up on 2005. This strong organic performance together with the full year impact of acquisitions generated sales up 14.0% year on year. Trading profit increased by 46.1% to £42.1m. The integration of Lind is well underway and we are generating synergies from the combined businesses.

Our Fleet Solutions business had a good year with trading profit up 19.7%; this was assisted by increased rental and fleet income and a reduction in overheads.

Inchcape Automotive continued to benefit from the actions taken in 2005 to improve production efficiency, reducing the full year loss by £2.8m compared to 2005.

Overall our UK businesses achieved a growth in sales of 11.9% to £1.7bn in 2006. Furthermore, strong trading margin progression led by an impressive UK Retail performance and the improvement in our Inchcape Automotive business, has delivered UK trading profit improvements of 57% to £45.9m in 2006. This is a record level.

We have now finalised the planned review of the UK business following the acquisition of EMH, completed in January 2007. As a result of our strategy to focus on the premium segment of the market with those franchises with whom we can achieve scale, we will be disposing of non core franchises. We intend to dispose of up to forty-seven UK sites, comprising Bentley, Ferrari, Ford, Kia, Maserati, PAG (Jaguar, Land-Rover and Volvo), Renault and Vauxhall. We are focused on improving the operating margins, streamlining our overheads and increasing the productivity of our resultant UK business. We also intend to dispose of our Inchcape Automotive UK operation.

Emerging Markets

	2006 £m	2005 £m	% change on 2005	% change on 2005 (constant currency)
Sales	**201.2**	134.6	+49.5	+49.5
Trading profit	**12.1**	7.0	+72.9	+72.9

The Bulgarian and Romanian markets grew at a fast rate, up 34%. The businesses achieved a market share of 5.2%. In this dynamic environment, our businesses continue to develop, generating like for like record sales up 37%. A new greenfield flagship 3S retail facility in Bucharest opened in June supporting overall sales up by 43%. Overall trading profit increased in the Balkans by 57% to £10.6m, a record level.

The Baltic markets of Estonia, Latvia and Lithuania continued to enjoy another year of rapid growth, up 38% in 2006. Our businesses have outperformed the market, improving market share from 5.3% in 2005 to 5.6% this year. The focus on operational excellence across vehicle, service and parts underpinned like for like trading profit up by 300% in the period to £1.0m.

Rest of the World

	2006 £m	2005 £m	% change on 2005	% change on 2005 (constant currency)
Sales	**225.4**	214.0	+5.3	+6.1
Trading profit	**21.4**	20.0	+7.0	+7.0

We retained a dominant market leadership position in Guam, Saipan and Brunei. The businesses experienced a good year with like for like trading profits up 2.6%.

Our Ethiopian business continues to perform extremely well and 2006 has been an excellent year. Like for like sales increased by 29%, and trading profit increased by 35% to £8.4m, primarily due to increased vehicle, service and record parts sales.

Our Subaru business in New Zealand had a challenging year in competitive conditions.

In South America trading profit was marginally behind the record performance in 2005.

Central costs

Central costs for the full year are £24.9m, £6.1m higher than last year. This is as a result of our continued investment in new management, systems and processes to facilitate the next phase of growth of the Group and costs relating to executive management changes.

Operating and financial review continued

Financial Review

Joint venture and associates
The share of profit after tax of joint ventures has decreased to £5.9m in 2006 from £6.2m in 2005. This is mainly due to a reduced contribution from our financial services joint venture in the UK following the implementation of a market forces model by our UK Retail business.

In December 2006 we announced the disposal of Inchcape's 50% stake in Inchroy Credit Corporation Ltd, a financial services joint venture. This disposal was completed in January 2007 at a profit to the Group of c.£15.0m, and we are now implementing a market forces finance and insurance model similar to that successfully used in the UK.

Exceptional Items
The exceptional tax credit of £8.0m reflects the favourable settlements in 2006 of corporation tax treatment of the VAT recovery and associated net interest income received by the Group in 2003 and 2004.

Net finance costs
The net finance charge of £5.9m for 2006 was £0.6m higher than 2005. The finance charge benefited by £2.4m from an improvement in notional pension interest income partly due to a lower discount rate in 2006 but also due to the £37.6m one-off contributions made to the pension funds. This was offset by higher financing costs primarily due to the Lind acquisition undertaken in July 2006.

Tax
The subsidiaries Headline tax rate before exceptional items for 2006 is 21.7%, reduced from 25.5% in 2005.

Following the resolution of certain prior year issues, including tax treatment of capital expenditure together with improved performance in our UK businesses, the Group has been able to re-assess its deferred tax position onthe recognition of losses and available allowances. As a result a deferred tax asset has been recognised which, together with the successful resolution of overseas tax audits, has contributed to the lower rate of 21.7%.

For 2007, it is expected that the rate will increase towards the blended rate of approximately 25%.

Minority interests
Profits attributable to minority interests decreased from £3.8m in 2005 to £2.9m in 2006. This is due to the acquisition of the minority shares of TM Auto Ltd in Bulgaria in March 2006.

Cash flow
The Group's working capital is £84.5m. This is c.£42.0m better than last year due to tight management control and is despite a 7.9% increase in sales in 2006.

The Group continues to be strongly cash generative with cash flow from operations of £236.8m, which is 111% of operating profit. During the year the Group returned £86.6m to shareholders with £52.6m through dividend payments and £34.0m through the share buy back programme. In addition the Group invested £190.3m in acquisitions and net capital expenditure in 2006 and acquired 18.55% of the shares in EMH for £49.2m. Overall the Group had a net debt position of £19.0m at 31 December 2006 compared to net cash of £158.0m at 31 December 2005.

Pensions
During the year, the Trustees Boards of two of the Group's UK defined benefit pension schemes carried out their triennial valuation of the pension funds. In March 2006, in advance of these valuations the Group agreed a funding programme to address the deficits in these schemes. This programme included making one-off contributions totalling £37.6m to the schemes during 2006. This, together with improved return on assets during the year, has reduced the pension deficit from £69.4m at 31 December 2005 to £22.7m at 31 December 2006. It is anticipated that additional contributions of c.£49.0m will be made to two of the Group's UK defined benefit pension schemes over the following five years to address their funding deficit.

Acquisitions and disposals
The Group announced significant expansion during the year, investing £147.9m in acquisitions. Of this, £94.3m of this related to the acquisition of Lind in July 2006. Including net debt acquired the total acquisition cost was £107.9m. This sizeable acquisition enhanced the geographic coverage of our Retail operations in the south and east of England.

In December 2006 Inchcape entered the St Petersburg market in Russia with the acquisition of 75.1% of the scale Toyota/Lexus operations formerly owned by Olimp Group, for a consideration of £34.5m. Also, in December the Group announced its offer for the acquisition of the shares of EMH. As part of this, in mid December it acquired an 18.55% stake for £49.2m. The £262.9m acquisition was completed on 29 January 2007 from which date the results of EMH will be consolidated into the Group figures.

Capital expenditure
The Group maintained its policy of investing to improve the quality and operating standards of its retail centres and to develop new greenfield retail centres. Net capital expenditure of £42.4m was made in the period, principally in UK Retail, Belgium and Romania.

Risk factors
Risk is an accepted part of doing business. The Group has a risk assessment process that facilitates the identification and mitigation of risk and an improvements in the control environment and risk management process where necessary. Through this process the businesses experience benefits which include: the maximum use of recources through prioritisaton of critical issues, benchmarking between units, crisis management and internal focus on best practice processes.

Risks are considered in the key areas of Performance; Competition (by value driver); Fraud; Regulatory; Environmental; Organisation and Capability;Technology; Capital; and external factors such as economic and political conditions.

The principal business risks identified by the Executive Committee and noted by the Board are currently in the following areas:

- Brand partner relationships and sufficiently aligning Inchcape objectives with those of the brand partners.
- Attracting, developing and retaining sufficient talent with the skills required to run the existing and future business.
- Integrating acquisitions and new operations and managing those businesses to perform and generate synergies.
- Implementation of key strategic change projects on time and cost, effectively managing the pace of change to achieve optimum results.
- Identifying and reacting to changing customer requirements.
- Identifying, monitoring and reacting to anticipated regulatory activity including environmental and emission issues and competition laws (e.g. End of life directive; changes to block exemption; EU emissions targets).
- Integrated IS strategy and execution both across and within divisions.
- Effective corporate governance of Joint Ventures and third party arrangements.
- Appropriate level and cost of funding being available.
- Changes in economic or political conditions in key markets.
- Environmental, Health and Safety (see Corporate and Social Responsibility).

Operating and financial review continued

Control strategies and action plans are in place to mitigate risks in these areas which are reviewed on an ongoing basis by the Risk Management Strategy Group and Audit Committee on behalf of the board when identified risks are reassessed and prioritised and emerging risks considered.

The centralised treasury department manages the key financial risks of the Group encompassing funding and liquidity risk, interest rate risk, counterparty risk and currency risk. The treasury operates as a service centre under Board approved objectives and policies which were reviewed and updated in 2006. Speculative transactions are expressly forbidden. The treasury function is subject to regular internal audit.

Funding capacity

Our capacity to finance expansion opportunities is very good. We generate significant cash from the Group's businesses and our balance sheet is very strong with 39% of our net asset base represented by freehold properties of good quality.

We will continue to acquire freehold property where it is of strategic commercial value and we are able to use it as part of the overall funding security for our debt.

We announced in October that, based on discussions with a number of financial institutions, and on our cash generation and balance sheet together with our desire to retain investment grade status, we have the financial capacity to invest up to £800m over the next few years. Since then we have acquired the strategically important UK auto retailer EMH and we continue to look for other strategically relevant opportunities which meet our returns criteria.

Funding and liquidity risk

Group policy is to ensure that the funding requirements forecast by the Group can be met within available committed facilities. The Group's principal committed facility, for general corporate purposes, is a five year syndicated £275m revolving credit facility put in place in July 2005. In July 2006 the maturity of this facility was extended for an additional year to 2011. There is a further option to extend until July 2012 exercisable during 2007. The facility was drawn by £165m at the year end.

In December 2006 the Group put in place, with a relationship bank, a £325m faciity for 364 days with an option to extend for a further year. This facility was put in place for the takeover offer of EMH. It is intended to refinance this facility in the syndicated loan and private placement markets during the course of 2007. This facility was not drawn at the year end.

In addition to the committed facilities, the Group has access to uncommitted borrowing lines made available by relationship banks. These facilities are used for liquidity management purposes. At the year end these facilities were drawn by £6.4m.Cross border Group loans are made to optimise the use of those funds still domiciled locally.

The principal overseas cash deposits at the year end were in Australian dollars and Singapore dollars. Cash is held locally ahead of payments to trade creditors. In Singapore, cash deposits also support the significant requirement for Certificates of Entitlement, mandatory for new car sales.

Interest rate risk
The Group's interest rate policy has the objective of minimising net interest expense, and protecting the Group from material adverse movements in interest rates. Throughout 2006 the Group has borrowed at floating rates only. This approach reflects the continuing benign interest rate environment and the low level of gross debt.

To reflect the Group's move to a net debt position policy was changed during the year to allow for the fixing of up to 30% of gross borrowings at fixed interest rates if deemed appropriate by management.

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

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

Market price risk
The Group is exposed to price risk on its available for sale assets. The Group is not exposed to commodity price risk.

Currency risk
The Group faces currency risk on the translation of its earnings and net assets a significant proportion of which are in currencies other than sterling. On translation into sterling, currency movements can affect the Group income statement and balance sheet. When borrowings are put in place consideration will be given to the currency mix of that debt with the objective that interest on such borrowings acts as a hedge on foreign currency earnings. This is a profit and loss cash flow approach to hedging rather than a balance sheet or net asset approach.

The Group has transactional currency exposures, where sales or purchases by an operating unit are in currencies other than in that unit's reporting currency. For a significant proportion of the Group these exposures are removed, as trading is denominated in the relevant local currency. In particular, local billing arrangements are in place for many businesses with our brand partners. For those businesses that continue to be billed in foreign currency, Group policy is that committed transactional exposures are hedged into the reporting currency of that business. If possible, foreign exchange exposures will be matched internally before hedging externally.

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

Barbara Richmond
Group Finance Director
5 March 2007

Performance management

Gold Standard performance management

A key element of our strategic agenda is to deliver customer centric operational excellence and achieve like for like profit growth. To facilitate this we have implemented a number of new initiatives to measure, target and improve performance, which are summarised below.

In January 2007 we introduced a new internal reporting system. This produces Management accounts for each of our 293 businesses, analysed by value driver (vehicle, service, parts). This means for each Retail centre and Distribution business we have profitability, productivity, asset utilisation and return information.

This is the first time we have analysed the business this way and it stems from the planned evolution of the business from being predominantly a Distribution business to one where Retail is an increasing proportion of the total Group and the consequent need for retail metrics to enable us to deliver the best returns for shareholders.

Like for like sales and margin performance are examples of the metrics we are now using.

Target setting for each metric is important to expand profits. In a business which performs similar operations across many sites around the world an easy way to do this is the use of best in class performance as a benchmark. We call it Gold Standard. Thus we look at the best performers in the Group at the detailed metric level and use those ratios to set Gold Standard targets for each site.

These are monitored on a monthly basis. They cover key aspects of the profit and loss account, balance sheet, cash flow, market share and productivity so we ensure we maximise the return on resources invested in the individual operations.

Economic profit

Our measures ultimately consolidate to one overall performance measure and that is the generation of economic profit (EP). We define EP as recurring operating profit after tax less a charge for the cost of capital employed in the business. We have set internal targets for the rate of growth and the absolute level of EP we want to achieve over our strategic planning horizon. In this one measure we combine operating returns and asset utilisation.

Like all businesses this overall measure is no good unless it is understood and embedded into the businesses. Therefore we have done a bottom up as well as top down approach to this EP target setting and each business unit has its own target EP.

Information technology

These days the backbone to any large international business that wants to remain efficient, fleet of foot and responsive to the market is a modern, efficient back office and world class front office. We have a plan to implement exactly that over the next five years.

By introducing a single blueprint to operate the business processes in Retail we can set up efficiently a single support infrastructure for our businesses. This gives us cost savings whilst at the same time allowing the individual businesses to focus on customer contact and other front office activities. Thus more time is available to ensure we provide world class customer service.

As well as improved efficiency we also get more timely information which is very important in retail in terms of identifying changes in the marketplace. This also enables us, as we roll out and enhance the system, to transfer best practices across the Group.

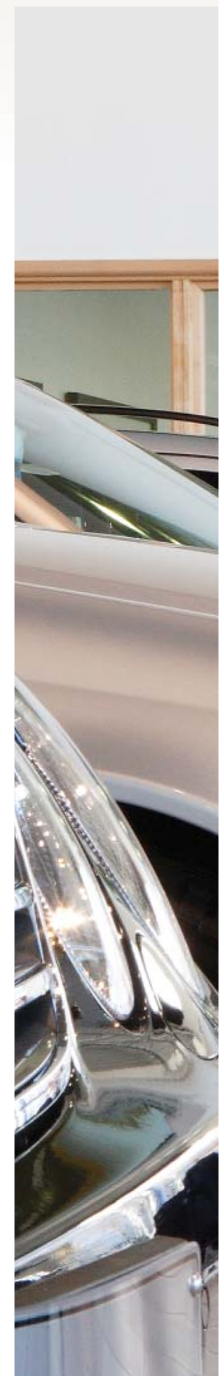
Allocation of capital – Investment criteria

We have made a number of important, strategic investments in 2006. All investment opportunities are always first evaluated from a strategic point of view – sector, location, scale and brand partner.

If an opportunity makes strategic sense then the financial aspects of the investment opportunity are assessed using three criteria. First and foremost Internal Rate of Return (IRR). The IRR must exceed our cost of capital and meet or exceed our target hurdle rates.

Secondly, we look at the economic profit generated annually over the life of the project. This gives an absolute amount against which we monitor the acquisition or investment from completion. Thirdly, we look at cash payback as a basic risk assessment measure.

In reviewing investment opportunities, we expect better returns from emerging than developed markets in line with the associated country risk.



Corporate and Social Responsibility

Inchcape is the leading independent international automotive retailer with long-established relationships with a number of world-class brand partners, a presence in over twenty countries, and more than 10,000 colleagues worldwide. We seek to be a trusted and responsible member of the international business community, and are always looking at ways to improve our social, environmental and local impacts through socially responsible initiatives.

Inchcape is conscious of the importance of Corporate Social Responsibility (CSR). Our initiatives have historically been managed at a local level by each of our businesses within the communities in which they operate. This approach has been valuable and much has been achieved in past years.

We are now building and improving upon our past achievements by forming a more comprehensive approach to CSR. We are reviewing best practices from our local and global CSR initiatives, with a view to evolving our social responsibility campaigns through continuous and measured improvement.

We want to make socially responsible behaviour part and parcel of who we are and how we define ourselves as a Group. This section of our report looks at some of the key areas of our CSR policies and 2006 activities that we are proud of and that we plan to build upon, including:

- Working for Inchcape
- Environment, Health and Safety
- Serving our Communities

CSR at Inchcape

Inchcape has a Group Corporate Social Responsibility (CSR) Committee, which is chaired by the Group Chief Executive, who has responsibility for CSR at Board level. The Committee includes the Group Director of Risk Management and Group Director Communications as well as colleague representatives.

Working for Inchcape

Our success as a business depends on maintaining the quality, motivation and commitment of our colleagues in every market in which we operate. The Group's employment policies and practices are designed to support and achieve this goal.

Underpinning this commitment are the Inchcape Values. These are central to the way we work and are fundamental to our relationship with customers, brand partners and colleagues.

Service

We constantly seek to improve service standards for our customers and for the companies we represent.

Teamwork

We work as a team within our individual businesses, across the Group as a whole and with our principals and partners.

Innovation

We strive to remain at the forefront of our industry by anticipating market changes and developing new products and services.

Respect

We respect all our stakeholders. These are our customers, brand partners, colleagues and shareholders, and we work hard to earn their respect.

Results

We set ourselves challenging targets and endeavour to exceed them.

Colleague communications

Inchcape is always looking for ways to improve comunications with its colleagues across the Group. There are a number of formal and informal colleague communications channels within Inchcape. A re-launch of the most effective Group-wide channel, our Group intranet the Pulse, is scheduled in 2007. In the UK, for the fourth consecutive year, the UK's colleague survey has seen an improvement in participation rates. Some 62% of all Inchcape UK colleagues took part in 2006 answering questions about such issues as equal opportunities, company strategy and direction, work/life balance, communication, training and development, benefits and working conditions, as well as customer experience and satisfaction. Based on the results, each business puts together an action of plan of key areas identified by the survey in order to help improve Inchcape as a place to work.

Subaru Melbourne conducted a successful colleague engagement survey returning a 72% engagement rating, a gold standard performance when benchmarked against the results of other local organisations. The information compiled from the colleague survey is used to develop action plans to further improve productivity and performance. Further surveys of other Australian business units are scheduled in 2007.

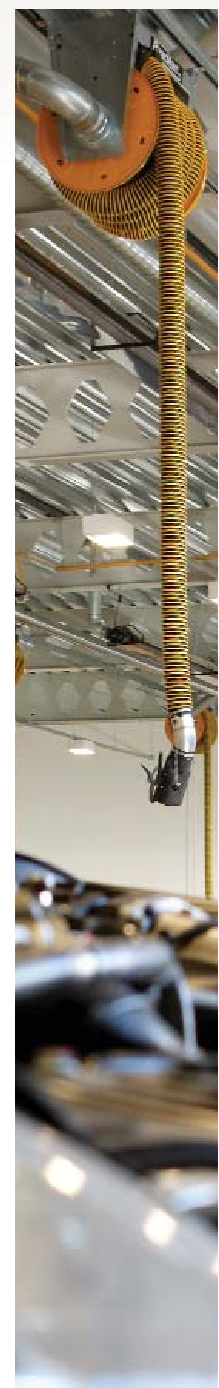
Employment policy

Our employment policy is simple: we want to attract, motivate and retain the best people for our global business. We strive to create a working environment that encourages and supports colleagues, reinforcing that we value their contributions to the Group's success as a whole.

The Company offers a range of incentives including a number of bonus and share save benefit schemes, which encourage colleague engagement and is committed to ensuring a positive workplace environment with equal opportunities for all. As part of this approach, vacancies are made available internally to colleagues, via the intranet in order to encourage career development within Inchcape wherever possible.

We are proud of our reputation for integrity and high ethical standards, and have in place a Group Ethics Policy that provides guidance on business ethics for our people worldwide. We expect colleagues to conduct themselves in a manner that ensures the Group's good name.

Our Whistleblowing Policy, introduced in 2004, reinforces the Company's commitment to high standards of fairness, honesty, openness and accountability. While UK colleagues



are covered by the Public Disclosure Act 1998, Inchcape applies the principles of the Act across all its markets.

Training initiatives

In every market we operate, our colleagues are encouraged to develop and advance their skills. We have a number of development programmes, for all levels of colleagues, in operation throughout the Group. In 2006 our colleagues participated in (26,555) training days.

Training initiatives in 2006 included the following courses and programmes.

- The Inchcape Academy programme was developed in 2005 in conjunction with Loughborough University. The programme provides a development route for our business leaders of the future. Nineteen delegates from across the UK and Europe took part in the full programme in 2006, with a further sixty-two attending various independent academy modules. The academy's reach grows each year, with more nominated delegates being put forward by the business, further expanding investment in our colleagues.
- Colleagues in Greece participated in a number of training courses in 2006 including a programme to enhance customer orientation and motivation for our retail operations. The "Let's Make the Customer Smile" programme was developed and implemented for Polis, the Inchcape Retail Operation in Greece. The programme included on-site practice with real customers for front line staff, a day of personal coaching for salespeople, and workshops for sales supervisors and retail managers.
- Recognising the importance of human resources in the success of its business, Inchcape Asia-Pacific implemented an ongoing series of training and development programs, including reward and incentive activities. In 2006, such activities further enhanced service excellence and encouraged continuous improvement throughout the Group's operations, as well as sustaining a strong sense of team spirit.

Environment, Health and Safety

Inchcape is committed to pursuing sound Environment, Health and Safety (EHS) management policies and practices throughout our businesses worldwide. We continually seek to improve EHS standards in the workplace, and it is our policy to:

- monitor and manage the EHS impacts, risks and opportunities for our businesses for the benefit of colleagues, customers, brand partners and the local communities in which we operate;
- promote awareness of EHS policy across the business to assess its performance and to set practical targets for improvement;
- report on the status of the EHS performance of the businesses.

Common standards are applied to a wide range of EHS matters, and compliance with local statutory requirements is the minimum standard we accept. Where local standards are below international good practice it is our policy to follow UK good practice.

EHS policy, along with other Risk issues, is decided by the RMSG. The Risk Management Strategy Group (RMSG) is chaired by the Group Chief Executive and meets every three months. The RMSG is made up of senior members of the Inchcape Group function and includes our Finance Director, Treasurer, IT Director, Company Secretary and Risk Manager.

Our businesses worldwide carry out regular inspections and produce two risk assessment reports each year. The results are forwarded to the Group Risk Manager who reports any significant issues to the RMSG Committee.

Corporate and Social Responsibility continued

A key element of our approach to EHS is ensuring that the correct structure is in place at the business group level. The Group Risk Manager ensures that there are qualified, local EHS coordinators in place, and that the structure of workplace EHS representatives or Committees is adhered to.

Local representatives are responsible for improving and monitoring EHS performance through the development of local standards and staff training. They are also responsible for monitoring EHS performance, and involving colleagues in local environmental initiatives. While the Group Risk Manager regularly communicated EHS best practice among the local coordinators in 2006, in 2007 this communication will be formalised to create common policy.

The Group Risk Manager visited 180 sites in 2006 to meet with local representatives, and gave a personal assessment of the EHS risk as well as carrying out a risk audit. Where necessary, recommendations are made in a formal risk assessment report, and action plans are agreed and reported upon.

The following are some of the EHS initiatives that have taken place during 2006.

AutoNexus award for recycling

The AutoNexus New South Wales Distribution Centre at Homebush, Australia recently received the Land Care Australia/SITA award for its contribution to environmental protection through recycling. We are proud of the Homebush team's recognition of the Homebush team's effort to reduce, reuse and recycle their industrial waste, including paper, cardboard and plastics.

Greece: Environment, health and safety

Toyota Hellas is the only car distributor in Greece certified with ISO 14001 for the environment and OHSAS 18001 for occupational health and safety. Toyota Hellas received the OHSAS 18001 certification in 2006. This colleague safety system assures that all health and safety risks are managed in a systematic way, that the Company complies with legislation and applies a continuous improvement regime.

Training in the UK Retail business

The UK Retail businesses have enhanced their EHS induction and staff development practices to improve standards and awareness. All new colleagues undertake EHS training and over 1,100 new starters completed structured modular training during 2006. Health and safety co-ordinators, who are appointed at every business unit, have also had additional EHS training. This programme, combined with improved training and revised global accident analyses, has helped provide a safer working environment.

New building in Australia

The new Subaru and Inchcape Motors Australia headquarters in Sydney have been constructed using environmentally sustainable materials and practices. The building has been designed using the Australian Green Building Rating (AGBR) protocol. Furnishings and fittings were chosen to minimise environmental impact while remaining practical, aesthetically pleasing and, wherever possible, recyclable materials were used. For example, the office chairs are 96% recyclable, manufactured with 42% recycled materials and contain no PVC.

Greener environment and better health and safety

Jean-Paul Heine, Co-ordinator of Environmental Affairs in Inchcape's Toyota Belgium operation, is our dedicated resource working on environmental issues in the region.

He plays a pivotal role in ensuring Toyota Belgium complies with ISO 14001 environmental standards. Reporting to Henri Dierickx, head of the Belgian Environment, Health and Safety team, Jean-Paul helps to ensure we meet increasingly demanding national and European EHS legislation.

Our Belgian head office achieved ISO 14001 certification in 2005 and is evaluated annually on energy and water usage, recycling, the use of office supplies, workshop practices, and our effect on wildlife and plant

ecosystems. Jean-Paul monitors and assesses performance and also acts as internal auditor to the Lexus dealer network in Belgium. This achieved ISO 14001 certification in 2005 and its environmental management system is maintained by the Lexus Aftersales Department.

This system has made tracking our performance very efficient and Jean-Paul believes that maintaining it is essential in helping to identify and mitigate risks, and to reaching our goal of reducing the operation's environmental footprint.

In line with this, Jean-Paul is keen to educate his colleagues about issues that effect their immediate office environment, as well as their impact on the global environment. But he recognises that environmental initiatives cannot be forced on colleagues – they need to make sense, be easy to use, and become a way of life.

In June 2006, our Belgian colleagues took part in Toyota's Green Month Campaign, which focused on the effect cars have on the environment. The initiative provided tips and information about driving more efficiently, which were passed on to customers in a brochure available in dealerships. Toyota Belgium also organised a head office team awareness lunch and screened *An Inconvenient Truth* – a film about climate change.

Jean-Paul is proud of what the Toyota Belgium head office has achieved with regards to EHS and is optimistic about the future. He believes that individuals should try to do whatever they can for the environment and encourage others to do the same. Even small changes to behaviour can make a big difference.

Serving our communities

With a presence in over 20 countries, the Group's broad international spread has resulted in a diverse range of people, cultures and lifestyles that enrich our company.

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

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

Here we outline a number of initiatives that we have been involved in over the past year.

- At Head Office level, we donate to one nominated charity each year through a variety of fund-raising events and collections. Our charity-of-the-year in 2006 was Peach – a charity established to promote early behavioural intervention for young children with autism. Peach received over £2,500 in 2006.
- Subaru Australia raised over $6,000 from staff and other donations for the Starlight Children's Foundation as well as a further $20,000 from the Subaru Annual Charity Golf Day.
- Crown Motors Ltd is an active fundraiser for the China Literacy Foundation Ltd (CLF), and its 2006 Lexus Charity Golf Day raised more than HK$20,000 in donations from Lexus owners and Crown Motors itself, which will directly support the charity's work in providing schools and educational opportunities for children in very poor parts of rural China. The CLF received a further HK$500,000 from Crown Motors' hosting of the Toyota Classics 2006 concert in Hong Kong.
- Borneo Motors' Lexus Charity Golf Day raised S$50,000 for the Salem Day Rehabilitation Centre, which cares for the elderly. Borneo Motors also raised a further S$30,000 for the Students Care Service by donating all registration fee proceeds from the Toyota Camry Charity Golf Challenge 2006.
- The Toyota Great Ethiopian10K Run was held in Addis Ababa in November 2006, attracting a record 20,000 participants. Our distribution business in Ethiopia is a major supporter of Africa's biggest road race.
- TM Auto Ltd., Inchcape's operation in Bulgaria, received the Golden Book Award for Corporate Social Responsibility for its involvement in the European Rally for People with Disabilities, one of its social contribution activities in 2006.
- Inchcape in the UK supports BEN, the motor industry benevolent fund. This support is shown through financial commitment, colleague time commitment and various fund-raising initiatives over the year. In 2006, Inchcape Retail made a business donation to BEN of over £18,200, and was presented with a Gold Award Quality Mark by BEN in recognition of its commitment to the automotive industry through payroll giving.
- In Greece, Toyota Hellas is among the leading supporters of 'Open Arms', an NGO created in 1994 to provide support to hospitalised children and their families.
- Each year, Inchcape in Finland donates a car to a chosen charity. In 2006, a Mazda 3 went to 'HelsinkiMissio', which supports poor and eldery people.

Board of Directors

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1. Peter Johnson (c)
Chairman
Age 59. 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 before becoming Group Chief Executive on 1 July 1999 until 31 December 2005 and Non-executive Chairman on 1 January 2006. He was appointed as a Non-executive Director of Wates Group Limited in September 2002 and Director and Chairman of Automotive Skills Limited in October 2003. He was appointed as a Non-executive Director of Bunzl plc on 1 January 2006. He was appointed as Deputy Chairman of Rank Group plc with effect from 1 January 2007 and assumed the role of Chairman from 1 March 2007. He is a Vice President of the Institute of the Motor Industry and was previously Sales and Marketing Director of the Rover Group, and Chief Executive of the Marshall Group.

2. André Lacroix (c)
Group Chief Executive
Age 47. Joined the Group as Group Chief Executive Designate on 1 September 2005 before becoming Group Chief Executive on 1 January 2006. He was Chairman and Chief Executive Officer of Euro Disney S.C.A. from mid 2003 to mid 2005 and President of Burger King International from mid 2000 to mid 2003.

3. Barbara Richmond
Group Finance Director
Age 46. Joined the Group as Group Finance Director on 3 April 2006. Barbara Richmond is a Chartered Accountant. She is a Non-executive Director of the Scarborough Building Society. She was Group Finance Director of Croda International Plc from 1997 to 2006. Prior to this, she was Group Finance Director of Whessoe plc.

4. Will Samuel (a) (b) (c)*
Deputy Chairman and Senior Independent Non-executive Director
Age 55. Joined the Inchcape Board in January 2005. Will Samuel is a Chartered Accountant. He is Vice Chairman of Lazard & Co. Ltd and a Non-executive Director of the Edinburgh Investment Trust plc and Ecclesiastical Insurance Group. Prior to this he was a Director of Schroders plc, Co-Chief Executive Officer at Schroder Salomon Smith Barney (a division of Citigroup Inc.) and Vice Chairman, European Investment Bank of Citigroup Inc and Chairman of H.P. Bulmer PLC. In July 2006 he was appointed as a Non-executive Director and Chairman-Designate of Galiform PLC (previously known as MFI Group plc) and became Chairman in October 2006.

Members of the Audit Committee (a)

Dates of appointment/resignation:

Ken Hanna Chairman
(Member – 27 September 2001)
Chairman – 16 May 2002

Will Samuel
26 January 2005

Michael Wemms
29 January 2004

David Scotland
24 February 2005

Members of the Remuneration Committee (b)

Dates of appointment/resignation:

Michael Wemms Chairman
(Member – 29 January 2004)
Chairman – 13 May 2004

Will Samuel
26 January 2005

Ken Hanna
27 September 2001

David Scotland
24 February 2005

Karen Guerra
1 January 2006

Members of the Nomination Committee (c)

Dates of appointment/resignation:

Peter Johnson Chairman
(Member – 1 July 1999)
Chairman – 1 January 2006

Will Samuel
1 April 2005

Ken Hanna
26 February 2004

Michael Wemms
29 July 2004

David Scotland
29 November 2005

André Lacroix
1 January 2006

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5. Raymond Ch'ien
Non-executive Director

Age 55. Joined the Inchcape Board in July 1997. Raymond Ch'ien is Chairman of CDC Corporation and its subsidiary, China.com Inc. He is Non-executive Chairman of MTR Corporation Limited, Non-executive Chairman of HSBC Private Equity (Asia) Limited, a Non-executive Director of HSBC Holdings plc, the Hongkong and Shanghai Banking Corporation Limited, Convenience Retail Asia Limited, VTech Holdings Ltd and The Wharf (Holdings) Limited.

6. Karen Guerra (b)*
Non-executive Director

Age 50. Joined the Inchcape Board on 1 January 2006. Karen Guerra was President of Colgate Palmolive SAS until March 2006 and General Manager of the French Branch of CPI LLC until April 2006. Prior to this, she was Chairman and Managing Director of Colgate Palmolive UK Limited and a Non-executive Director of More Group plc.

7. Ken Hanna (a) (b) (c)*
Non-executive Director

Age 53. Joined the Inchcape Board in September 2001. Ken Hanna is a Chartered Accountant. He is an Executive Director and Chief Financial Officer of Cadbury Schweppes plc. Prior to this he was a Partner of Compass Partners International and Group Finance Director and Chief Executive of Dalgety (now Sygen Group plc) from 1997 to 1999. He has previous experience with Guinness plc (now Diageo plc), Avis Europe and Black & Decker.

8. David Scotland (a) (b) (c)*
Non-executive Director

Age 59. Joined the Inchcape Board in February 2005. David Scotland was an Executive Director of Allied Domecq PLC from 1995 to 2005. He is also a Non-executive Director of Brixton plc, and was previously a Non-executive Director of Photo-Me International plc and Thompson Travel Group plc.

9. Michael Wemms (a) (b) (c)*
Non-executive Director

Age 67. Joined the Inchcape Board in January 2004. Michael Wemms was Chairman of the British Retail Consortium from June 2004 until July 2006. He was also Chairman of House of Fraser plc from 2001 until November 2006. He was an Executive Director of Tesco plc between 1989 and 2000. During that time he held the positions of Personnel Director and, from 1992, Retail Operations Director where he was responsible for all store operations. He was appointed a Non-executive Director of AD Pharma in October 2006 and as a Non-executive Director of Galiform PLC in November 2006. He is also a Non-executive Director of Coles Group Limited and Majid Al Futtaim Group.

*Independent Non-executive Director

Directors' report

The Directors present the Annual report and accounts and audited Financial statements for the year ended 31 December 2006. For the purposes of this report 'Company' means Inchcape plc and 'Group' means the Company and its subsidiary and associated undertakings.

Principal activities

A description of the principal activities of the Group and likely future developments and important events occurring since the end of the year is given on pages 4 to 18.

Business review

The information that fulfils the requirements of the business review can be found in the Group Chief Executive's review and the Operating and financial review on pages 4 to 18, which are incorporated in this report by reference. Information on employees is given on pages 20 and 21.

Results and dividends

The Group's audited Financial statements for the year ended 31 December 2006 are shown on pages 42 to 87. The Board recommends a final ordinary dividend of 10.0p per ordinary share. If approved at the 2007 Annual General Meeting (AGM), the final ordinary dividend will be paid on 15 June 2007 to shareholders registered in the books of the Company at the close of business on 18 May 2007. Together with the interim ordinary dividend of 5.0p per ordinary share, paid on 11 September 2006, this makes a total ordinary dividend for the year of 15.0p (2005 – 9.5p (adjusted for share sub-division)).

Authority to purchase shares

At the Company's Annual General Meeting on 11 May 2006, the Company was authorised to make market purchases of up to 48,024,024 ordinary shares (representing approximately 10.0% of its issued share capital). Pursuant to that authority, the Company purchased into Treasury 7,792,578 ordinary shares (representing 1.68% of the Company's issued share capital as at 14 June 2006) at a cost of some £34.0m. By means of these purchases, the Company completed its £65.0m share buy back programme announced in 2005 at an average price of £3.64p per share. The authority granted in 2006 now covers a total of 40,231,446 ordinary shares (representing 8.65% of the Company's issued share capital on 31 December 2006). All purchases were made through the market.

Share capital

Following shareholders' approval at the 2006 AGM, the Company carried out a six for one sub-division of its shares in May 2006.

Details of other changes to the Company's issued ordinary share capital are shown in note 24 on pages 79 to 81.

Directors' indemnity

A qualifying third party indemnity (QTPI), as permitted by the Company's Articles of Association and sections 309A to 309C of the Companies Act 1985, has been granted by the Company to each of the Directors of the Company. Under the provisions of the QTPI the Company undertakes to indemnify each Director against liability to third parties (excluding criminal and regulatory penalties) and to pay Directors' costs as incurred, provided that they are reimbursed to the Company if the Director is convicted or, in an action brought by the Company, judgement is given against the Director.

Substantial shareholdings

As at 4 March 2007, the following notifications of substantial interests in the Company's issued ordinary share capital had been received pursuant to the provisions of the Companies Act 1985:

Holding	Total %
F&C Asset Management	8.50
Barclays plc	7.77
Aviva plc	5.63
Toyota Motor Corporation	5.42

Directors

The names of the Directors, plus brief biographical details, including those Directors offering themselves for re-election, are given on pages 24 and 25. They all held office throughout the year other than Barbara Richmond, who was appointed to the Board on 3 April 2006. Graeme Potts resigned from the Board on 17 September 2006.

Michael Wemms, Ken Hanna and David Scotland will retire by rotation at the AGM and offer themselves for re-election in accordance with the Articles of Association. Raymond Ch'ien, who was appointed a Non-executive Director in July 1997 and completed nine years' service on the Board in July 2006, offers himself for re-election in accordance with the Combined Code.

Directors' interests

The table below shows the beneficial interests, other than share options, including family interests, on the dates indicated, in the ordinary shares of the Company of the persons who were Directors at 31 December 2006.

	Ordinary shares of 25.0p each	
	31 December 2006	1 January 2006*
Peter Johnson	**201,996**	324,558
André Lacroix	**213,133**	60,000
Barbara Richmond	**55,000**	3,000
Raymond Ch'ien	**130,000**	120,000
Karen Guerra	**11,640**	Nil
Ken Hanna	**12,000**	12,000
Will Samuel	**12,000**	12,000
David Scotland	**11,298**	5,052
Michael Wemms	**7,000**	3,000

*(or date of appointment if later). Adjusted for share sub-division.

Notes:
(a) The Executive Directors of the Company, together with other employees of the Group, are potential beneficiaries of the Inchcape Employee Trust (Trust) and, as such, are deemed by the Companies Act 1986 to be interested in any ordinary shares held by the Trust. At 31 December 2006, the Trust's shareholding totalled 1,715,739 ordinary shares (1 January 2006 – 2,810,172 ordinary shares).
(b) No Director had any beneficial interest in the subsidiaries of the Company.

Between 1 January and 4 March 2007 the Trustees of the Trust made the following transfers of ordinary shares to satisfy the exercise of awards under the Inchcape Deferred Bonus Plan. Neither transfer by the Trust related to an exercise of award by either of the Executive Directors.

	Ordinary shares of 25.0p each
6 February 2007	30,827
22 February 2007	61,676

Details of share options held by Directors, including under the Inchcape 1999 Share Option Plan and the Inchcape SAYE Share Option Scheme, together with details of awards under the Inchcape Deferred Bonus Plan and other plans, are shown in notes 3 and 4 on pages 38 to 40.

Transactions with Directors
No transaction, arrangement or agreement required to be disclosed in terms of the Companies Act 1985 and IAS 24 was outstanding at 31 December 2006, or occurred during the year for any Director and/or connected person (2005 – none).

Creditor payment policy
The Company has no trade creditors (2005 – nil). The Group is responsible for agreeing the terms and conditions including terms of payment under which business transactions with the Group's suppliers are conducted. Whilst the Group does not follow any single external code or standard, in line with Inchcape Group policy, payments to suppliers are made in accordance with agreed terms and conditions.

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

Charitable and political donations
The Group's policy on charitable and political donations, including the amounts, is shown on page 23.

Environment
The Group's policy on environment, health and safety is shown on pages 21 to 23.

Events after the balance sheet date
See note 32 on page 87.

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

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

Annual General Meeting
The Annual General Meeting will be held at 11.00 a.m. on Thursday 10 May 2007 at The Royal Automobile Club, 89-91 Pall Mall, London SW1Y 5HS. The notice convening the meeting and the resolutions to be put to the meeting, together with the explanatory notes, are given in the Circular to all shareholders which accompanies the Annual report and accounts.

The business of the meeting will include proposals to renew:

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

(ii) the Company's authority to purchase up to 10.0% of its own ordinary shares (the Company currently has authority to purchase up to 40,231,446 ordinary shares of 25.0p each, approximately 8.33% of its current issued ordinary share capital). This authority will include the purchase of ordinary shares into treasury.

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

By order of the Board

R. C. Williams

Roy Williams Group Company Secretary
Inchcape plc

5 March 2007

Corporate governance report

The Board is committed to ensuring that high standards of corporate governance are maintained by the Company. The Board supports the main and supporting principles and the provisions of the Combined Code on Corporate Governance. The Listing Rules of the Financial Services Authority require listed companies to disclose, in relation to Section 1 of the Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting period. This statement, together with the report on Directors' remuneration on pages 33 to 40, explains how the Company has applied the principles and complied with the provisions set out in the Code. The Board is aware of the provisions of the new Combined Code issued in 2006, which applies for reporting years beginning on or after 1 November 2006.

During the year the Board continued to keep corporate governance matters under review, monitoring policies and guidelines issued by the main institutional bodies such as the Association of British Insurers and the National Association of Pension Funds, and adopting appropriate recommendations of relevant bodies such as the Institute of Chartered Secretaries and Administrators and the Institute of Chartered Accountants of England and Wales. This process is ongoing.

Directors

The Board

The Board recognises its collective responsibility for leading and controlling the Group. It is responsible for setting the Group's strategic aims, ensuring that sufficient resources are available for the Group to meet its objectives and monitoring executive management. It is also responsible for setting the Company's values and standards in corporate governance matters. The Directors act in the best interests of the Company, cognisant of their duties to shareholders and also with consideration for other stakeholders.

The Board has a formal schedule of matters required to be brought to it for its decision. Such matters include: strategy and management; major investments, acquisitions and disposals; corporate and capital structure; financial budgeting; reporting and controls; monitoring internal controls; approval of major contracts; external corporate communications; Board membership and appointments; corporate governance; and Group policy in important areas.

There are clear written Terms of Reference for the responsibilities delegated to the principal committees. Through the Nomination Committee, the Board fulfils its role in nominating new Directors and succession planning. The Remuneration Committee determines appropriate levels of remuneration of the Chairman, the Executive Directors and senior executives. Through its Audit Committee, the Board discharges its responsibilities in respect of the integrity of financial information, on the financial, operational and compliance controls and on the systems of risk management. Below Board and principal committee level, there are clear limits on the authority that management committees and individuals have to make financial commitments.

The Board and its principal committees meet regularly during the year. In addition, ad hoc meetings are held. In the case of the Board these were mainly to discuss specific strategic projects. For the Remuneration Committee, they were mainly to discuss issues relating to the remuneration strategy review. In setting the timetable the Chairman and, in the case of the committees, the committee chairmen, with the support of the Group Company Secretary, ensure that sufficient regular meetings are scheduled and other meetings are held as required in order for the Board and the committees to discharge their respective duties sufficiently. The number of meetings held is shown in the table below. In addition, the Board held a strategy review.

The names and biographical details of the Chairman, the Deputy Chairman and Senior Independent Non-executive Director, the Group Chief Executive, and the chairmen and members of the principal committees can be found on pages 24 and 25. In the few instances where a Director has not been able to attend a Board or committee meeting, this has been due to a prior commitment or for reason of illness. In such circumstances it is the normal practice for the Director's comments on the business of the meeting to be relayed to the chairman of the meeting in advance of the meeting, and for the chairman of the meeting to communicate the Director's views at the meeting.

Information regarding meetings of the Board, and the principal committees during the year, and Directors' attendance is given below.

Board	Scheduled	Ad hoc
Number of meetings held	8	6
Peter Johnson (appointed Chairman 1 January 2006)	8	6
Raymond Ch'ien	8	2
Karen Guerra (appointed 1 January 2006)	8	5
Ken Hanna	8	1
André Lacroix (appointed Chief Executive 1 January 2006)	8	5
Barbara Richmond (appointed 3 April 2006)	5	3
Will Samuel	8	4
David Scotland	8	5
Michael Wemms	8	4

Audit Committee	Scheduled	Ad hoc
Number of meetings held	3	–
Ken Hanna (Chairman)	3	–
Will Samuel	3	–
David Scotland	3	–
Michael Wemms	3	–

Nomination Committee	Scheduled	Ad hoc
Number of meetings held	2	–
Peter Johnson (appointed Chairman 1 January 2006)	2	–
Ken Hanna	2	–
André Lacroix (appointed 1 January 2006)	2	–
Will Samuel	2	–
David Scotland	2	–
Michael Wemms	2	–

Remuneration Committee	Scheduled	Ad hoc
Number of meetings held	2	6
Michael Wemms (Chairman)	2	6
Karen Guerra (appointed 1 January 2006)	2	5
Ken Hanna	1	3
Will Samuel	2	4
David Scotland	2	6

The Chairman meets with the Non-executive Directors without the Executive Directors present as necessary. One meeting was held during the year. The Deputy Chairman and Senior Independent Non-executive Director also meets the other Non-executive Directors without the Chairman present, as needed, including an annual appraisal of the Chairman's performance. One meeting was held during the year.

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

For some years the Company has purchased insurance to cover its Directors against legal action taken against them in that capacity.

Chairman

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

Chairman and Group Chief Executive

The role of the Chairman is separate from that of the Group Chief Executive. Their respective roles and responsibilities have been set out in writing and agreed by the Board. The Chairman is responsible for creating the conditions to achieve overall Board and individual Directors' effectiveness, whereas the Group Chief Executive is responsible for the operational implementation of the strategy and policies agreed by the Board. Matters are referred to the Board as a whole and no one individual or small group of individuals has unfettered powers of decision.

Board balance and independence

All Directors bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments and standards of conduct. In addition to the Chairman, the Board currently has six Non-executive Directors who bring to the Group a wide diversity of experience and expertise. Peter Johnson is not regarded as independent because of his previous tenure as Group Chief Executive. Raymond Ch'ien is not regarded as independent because he previously had a service contract with Crown Motors Limited, a subsidiary of the Company incorporated in Hong Kong.

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

During the year, at least half the Board, excluding the Chairman, comprised Independent Non-executive Directors, determined by the Board to be independent and continues to do so.

Appointments to the Board

The Code requires that there be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board, which should be made on merit and against objective criteria. The main responsibility for Board appointments is delegated to the Nomination Committee. The processes and work of the Committee are set out in more detail on pages 30 and 31.

Information and professional development

Board and committee papers are generally distributed six days in advance of the meeting and the Board and its principal committees consider that this timing and the information which has been supplied is sufficient to enable them to discharge their respective duties.

In the case of urgent matters the policy adopted by the Board and its Committees is to hold a telephone or video conference meeting in which as many Directors as possible can participate. Papers for such meetings are sent to all Directors as far as possible in advance of the meeting to enable the views of those Directors who are unable to attend to be relayed to the chairman of the meeting so that he can communicate their views at the meeting.

Newly appointed Directors who have not previously held listed company board appointments, receive appropriate external training. An induction process, which includes site visits, has been developed for newly appointed Directors to ensure that they are aware of their responsibilities and are properly apprised of the Group's activities and strategic direction. In addition, the Company has an induction and ongoing training programme, which covers generic induction for new Board members and arrangements for individual coaching and annual best practice updates for all Board and Committee members where appropriate, including briefings from time to time from the Auditors, the Company's legal advisers, and the Remuneration advisers. These arrangements are designed to ensure that Directors' skills, knowledge and familiarity with the Company are kept up to date to enable them to fulfil their role both on the Board and on its committees. Ongoing training is provided by a combination of internal and external resources. The Board is given business presentations from the heads of business units and Directors make site visits. The Board's schedule includes at least one meeting each year at one of the Group's operational

Corporate governance report continued

locations where the Board is given presentations on the Group's operations and Directors have the opportunity to visit the operations and meet local management.

There is a procedure for Directors to take independent professional advice at the Company's expense where relevant to the execution of their duties, although no Director felt it necessary during the year. The Group Company Secretary is responsible for ensuring that Board procedures are complied with and for advising the Board through the Chairman on all other governance matters. All members of the Board have access to his services and advice.

The appointment and removal of the Group Company Secretary is a matter for the Board as a whole.

Performance evaluation
The 2006 evaluation was conducted by the JCA Group, who are independent external advisors. All members of the Board were interviewed individually by the JCA Group to test the Board's view of its performance and governance. A synthesis of the Board's evaluation together with recommendations for consideration are discussed by the Board and by each of the committees in respect of their own performance. The results of the evaluation of each Director are communicated to them individually by the Chairman. The evaluation process includes a review of the Matters Reserved for the Board's decision and a review of each committee's Terms of Reference.

The 2006 evaluation found that the Board and its committees were generally performing effectively but there were ways in which performance could be improved. The issues which were raised have been discussed and are being addressed. The Non-executive Directors are responsible for performance evaluation of the Chairman, taking into account the views of the Executive Directors.

Election and re-election
Non-executive Directors are 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) within the last three years, as required by the Company's Articles of Association.

When considering the election or re-election of a Director, the Nomination Committee takes into account the review of his or her performance. This is particularly rigorous in the case of a Non-executive Director for any term beyond six years. A similar process is applied when considering the appointment or reappointment of a Director to each of the principal committees.

Board committees
The Board has three principal committees, all with written Terms of Reference which are available on the Company's website (www.inchcape.com). The Group Company Secretary serves as secretary to all three committees.

Audit Committee
The membership of the Committee is shown on page 25. During the year, the Committee comprised wholly Independent Non-executive Directors and continues to do so.

No-one, other than the Committee Chairman and the members, is entitled to be present at meetings of the Committee, although others, including the Chairman, the Group Chief Executive, the Group Finance Director, the Director of Audit and Risk Management and the external auditors attend by invitation of the Committee.

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

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

Role: The Committee meets at least three times a year. It is responsible for monitoring the integrity of the financial statements of the Company and any formal announcement relating to its financial performance, reviewing internal financial controls and internal control and risk management systems, monitoring and reviewing the effectiveness of the internal audit function, making recommendations to the Board in relation to the appointment and removal of the external auditor, reviewing the external auditor's independence and objectivity and the effectiveness of the audit process, and for policy on the engagement of the external auditor to supply non-audit services. It is also responsible for reviewing the Company's arrangements for employees to raise concerns confidentially about possible improprieties in relation to financial reporting or other matters. In order to fulfil its duties, the Audit Committee receives and challenges presentations or reports from the Group's senior management, consulting as necessary with the external auditors.

Part of the Committee's responsibility in relation to external auditors is to keep their independence and objectivity and the nature and extent of the non-audit services they provide under regular review. The Committee has established policies and procedures in relation to the provision of non-audit services by the external auditors pursuant to which external auditors' services are not permitted on areas such as internal audit, appraisal or valuation services and financial information systems design/implementation. Financial limits are imposed on permitted areas of non-audit work, such as tax advice.

A full statement of the fees paid for audit and non-audit services is provided in note 3c on page 63.

Nomination Committee
The membership of the Committee is shown on page 25. During the year the majority of members comprised Independent Non-executive Directors and continues to do so.

No-one, other than the Committee Chairman and the members, is entitled to be present at meetings of the Committee, although others including the Group Human Resources Director, attend by invitation of the Committee.

Role: The Nomination Committee meets at least once a year. It is responsible for leading the process for Board appointments and making recommendations to the Board. Before the Board makes an appointment, the Committee evaluates the balance of skills, knowledge and experience of the Board and, in light of this evaluation, prepares a description of the role and capabilities required for a particular appointment in consultation with an external search consultant, who is appointed to work with the Committee. The consultant prepares a list of potential candidates which is discussed by the Committee and reduced to a shortlist. The shortlist candidates then meet with a panel of Committee members and other Directors also have the opportunity to meet the candidates. Following this, and in the light of feedback received, the Committee meets to finalise a recommendation to the Board. A Director may be consulted by the Committee in the course of the process to appoint his successor but it is the policy of the Board that he does not participate in the decision on the appointment.

During the course of the year, the Committee met to consider the structure, size and composition of the Board, including the skills, knowledge and experience available. It also undertook its annual review of development and succession plans. In addition, the Committee made recommendations for the election and re-election of Directors retiring at the 2007 AGM. No Directors participated in the meeting when recommendations regarding his or her election or re-election were considered.

Remuneration Committee
The membership of the Committee is shown on page 25.

At all times during the year, the Committee comprised wholly Independent Non-executive Directors and continues to do so.

No-one, other than the Committee Chairman and the members, is entitled to be present at meetings of the Committee, although others, including the Chairman, the Group Chief Executive and the Group Human Resources Director, attend by invitation of the Committee.

Role: The Remuneration Committee meets at least two times a year. It is responsible for remuneration issues regarding the Chairman, Executive Directors and certain senior executives within the framework recommended by the Committee and approved by the Board. More details are given in the Board report on remuneration on pages 33 to 40.

Communication with shareholders
The Company encourages two way communication with its institutional and private investors and responds promptly to all queries received verbally or in writing. The preliminary and interim results are presented publicly to analysts and other meetings with shareholders are arranged as appropriate.

The Company has an established Investor Relations programme in the course of which the Group Chief Executive and the Group Finance Director have regular meetings with major shareholders to update them on the Company's progress and to discuss any issues that investors may have. During these meetings, shareholders are reminded of the availability of the Chairman, the Deputy Chairman and Senior Independent Non-executive Director, and the rest of the Board if they wish to meet them. Any issues arising at such meetings are reported and considered by the Board. In addition, the Company's stockbrokers obtain shareholder feedback on a confidential basis from major investors following the meetings and this is reported in summary and considered at Board meetings. The Chairman has also written to the largest fifteen shareholders emphasising his availability and that of the Deputy Chairman and Senior Independent Non-executive Director and the rest of the Board, including new Non-executive Directors, should they wish to meet.

The Company makes constructive use of the AGM in accordance with the Code. Private investors are encouraged to participate in the meeting at which the Chairman comments on the performance and outlook for the Company and the Group Chief Executive makes a presentation on operational and strategic issues. Peter Johnson, Chairman of the Nomination Committee, Ken Hanna, Chairman of the Audit Committee, and Michael Wemms, Chairman of the Remuneration Committee, will be available to answer shareholder questions.

Remuneration report
The Company's policy on executive remuneration with details of the Executive Directors' salaries, annual bonuses, long term incentives and pensions, and fees for the Non-executive Directors appears in the Board report on remuneration on pages 33 to 40.

Internal control
The Board of Directors has overall responsibility for establishing key procedures designed to achieve a sound system of internal control and for reviewing its effectiveness. Such a system can provide only reasonable and not absolute assurance against any material misstatement or loss and cannot eliminate business risk. It is the responsibility of the Audit Committee to monitor and review internal controls, with its Chairman reporting the results of such reviews to the Board. In addition, the Board has entrusted executive management with responsibility for implementing internal control procedures.

The Group operates a Risk Management Strategy Group, which is chaired by the Group Chief Executive and includes, inter alia, the Group Finance Director, Group Company Secretary, Group Legal Director, Group Information Systems Director, Group Treasury Director, Group Audit Director and the Group Risk Manager. The Risk Management Strategy Group meets quarterly to consider what changes to risk management and control processes should be recommended. Its review covers matters such as responses to significant risks that have been identified, output from monitoring processes, including internal audit reports, and changes to be made to the internal control system. It also follows up on areas that require improvement and reports back to the Audit Committee.

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

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

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

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

Corporate governance report continued

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

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

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

The Board has reviewed the effectiveness of internal control systems in operation during the financial year in accordance with the guidance set out in the Turnbull Report, through the processes set out above. As part of the process that the Company has in place to review the effectiveness of the internal control system, there are procedures designed to capture and evaluate failings and weaknesses, and in the case of those categorised by the Board as'significant', procedures exist to ensure that necessary remedial action is taken

Auditors' independence
The Company has an established policy on the provision of non-audit services by the external auditors. Through its Audit Committee, the Company has reviewed a report from its auditors, PricewaterhouseCoopers LLP (PwC), confirming, in their professional judgement, their independence. The review included the audit, audit related, tax and advisory services provided by PwC, and compliance with the Group policy which prescribes the types of engagements for which external auditors may be used. The Committee also noted that the audit partner is subject to a five year fixed term rotation which has been applied. Having regard to the policy on the engagement of external auditors for non-audit services, and the report from the auditors, the Company concluded that there are sufficient controls and processes in place to ensure the continued level of independence.

Statement of compliance with the Combined Code
The Company was in compliance with the Code throughout the year ended 31 December 2006.

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

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

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

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

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

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Group Financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company's website. The work carried out by the auditors does not involve consideration of these matters, and accordingly the auditors accept no responsibility for any changes that may have occurred to the Financial statements since they were initially presented on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Board report on remuneration

Remuneration Committee

The Board has delegated responsibility to the Remuneration Committee for determining and agreeing with the Board the Company's policy and framework for executive remuneration. It is also responsible for setting remuneration packages and terms of employment, including pension rights, for Executive Directors and certain senior executives. This includes agreeing performance incentive arrangements and approving allocations under any long term incentive arrangements, including executive share options. It is also responsible for determining the remuneration of the Chairman. The Committee's Terms of Reference are available on the Company's website.

The members of the Committee are shown on page 25. During the year, the Committee comprised wholly Independent Non-executive Directors and continues to do so. The Chairman, the Group Chief Executive and the Group Human Resources Director attended meetings by invitation of the Committee.

Throughout 2006 the Company complied with the remuneration provisions of the Combined Code (the Code) in respect of Directors. The contents of this report also comply with the Directors' Remuneration Report Regulations 2002 (contained in Schedule 7A to the Companies Act 1985) and the relevant requirements of the FSA Listing Rules.

Committee operation

The Committee holds at least two meetings a year. In 2006 it also held a number of ad hoc meetings. These were mainly to discuss issues relating to the remuneration strategy review. It has an annual meeting to review the compensation arrangements for each Executive Director and certain senior executives in advance of the annual salary review on 1 April. It also meets to consider the remuneration of the Chairman and to consider policy issues and developments in market best practice, including the monitoring of award levels and consequent Company liabilities. Ad hoc meetings are also held as required. The number of meetings held and details of members' attendance are shown in the table on page 29. Neither the Chairman, nor any executive, is involved in deciding their own remuneration.

The Committee has authority from the Board to obtain the services of external independent advisors, as it may require. Towers Perrin provided advice to the Committee throughout 2006. In addition, Towers Perrin provided advice to the Board on Non-executive Directors' fees and the Company's remuneration strategy review, and to the Group in connection with International Financial Reporting Standard 2, Share-based Payments. Towers Perrin does not have any other connection with the Company other than as Remuneration Consultants. Each year, the Chairman of the Committee reviews the use of advisors and he considers the continued appointment of Towers Perrin as appropriate.

In addition to Towers Perrin, the Committee has been advised internally during the year by the Group Chief Executive, the Group Company Secretary and the Group Human Resources Director. These external and internal sources of advice and data available to the Committee, together with consideration of the levels of pay increases for other employees and the remuneration policy outlined below, provide a framework for the decision making process.

Remuneration policy

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

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

The remuneration packages for the Executive Directors are made up of both fixed and variable elements as described below. In broad terms, if the Group meets its target levels of performance, the expected value of the variable elements will account for approximately 59% to 62% of the Executive Directors' total remuneration and, if the Group achieves outstanding results, approximately 71% to 74%.

As communicated in last year's report, the Committee has conducted a comprehensive review of remuneration strategy to ensure alignment with the Company's future strategic goals. The key proposals are covered in the appropriate section of this report.

Total remuneration for these purposes comprises base salary, annual bonus and long term incentives.

The remuneration packages of the Executive Directors are explained in detail below as they apply to 2006 and, as far as possible and as explained in this report, for subsequent years. Any changes in policy for subsequent years will be described in future reports on Directors' remuneration.

Board report on remuneration continued

Base salary

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

In setting base salary, the Committee also takes account of salary levels in comparable companies. For 2006, the comparator group was made up of twenty five general industry companies, almost all being companies in the FTSE mid 250 index. Those companies were chosen because they were of a similar size and complexity (measured in terms of revenues, market capitalisation, employee numbers and international scope) as the Company. Executive Directors' salary increases in 2006 took into account the relevant median data from this comparator group and the individual's performance, and having regard to levels of pay increases for other Group employees.

For 2007, the Committee has reviewed the comparator group, to ensure its continuing relevance to Inchcape, and has made a number of revisions. In particular, the revised comparator group has a greater retail focus and includes companies with strong consumer emphasis, in line with the Group's strategic aims and its desire to attract retail talent.

Annual bonus

During 2006 the Executive Directors participated in a bonus plan based 70.0% on profit before tax (PBT), 20.0% on working capital, and 10.0% on the achievement of personal objectives. In respect of 2006, the bonus plan for André Lacroix was structured to yield a bonus of 50.0% of base salary if target performance was achieved and higher payments for performance above target to a maximum of 110.0% of base salary. Barbara Richmond's bonus plan was structured to yield a bonus of 40.0% of base salary if target performance was achieved and higher payments for performance above target to a maximum of 90.0% of base salary. In 2006, the Company met its performance targets set at the start of the year for PBT and working capital. Both André Lacroix and Barbara Richmond had different individual personal objectives related to the development of the Group in relation to the new strategy. The goals related to relevant quantitive non-financial metrics, the achievement of strategic milestones and the demonstration of appropriate leadership behaviours. They both fully achieved their personal objectives in 2006. The resultant bonuses for André Lacroix, and Barbara Richmond are shown in the remuneration table on page 37. Graeme Potts' bonus is also shown on the table. He stepped down from the Board and left the Company in September 2006 and the bonus paid reflects his length of service in the year and performance against relevant targets.

Adjustments to Executive Directors' bonus plans have been made for 2007 to reflect market best practice and to provide further alignment with the Company's new business strategy. Bonus will be based 70.0% on Economic Profit, 20.0% on Net Promoter Score and 10.0% on achievement of personal objectives. Economic Profit was chosen as the Committee believes that this is the measure most aligned with shareholder value as it is intended to place a greater emphasis on capital efficiency and cash generation. Net Promoter Score was chosen as it is a measure being used to measure customer satisfaction across the Group and is in line with the Group's business strategy of being the most customer centric automotive retailer. For André Lacroix and Barbara Richmond, their bonus plans will yield a bonus of 50.0% of base salary if target performance is achieved and higher payments for performance above target to a maximum of 120.0% of base salary.

Deferred bonus plan

The Deferred Bonus Plan ('The Plan') is a voluntary plan and is available to Executive Directors and certain other senior executives. The purpose of the Plan is to give participants a share-linked reward that is related to the participant's commitment to maintaining a shareholding in the Company. Details of awards made to Executive Directors in 2006 under the Plan are shown in note 4 on page 39.

Participants may invest a minimum of 10.0% and a maximum of 75.0% of any net of tax bonus award to acquire ordinary shares in the Company. These shares will then be matched with a one for one matching share at the end of a three year period. In addition, to comply with current best practice and to align Executive Directors' rewards under the Plan to shareholders' interests, there is a performance condition attached to the vesting of their matching shares. That test is EPS growth of RPI +3.0% per annum, with no retesting. EPS is measured in the same manner as for the Executive Share Option Plan. Subject to that performance condition being met, the Director's shares being held in trust for three years and the Director remaining an employee of the Group, they will become entitled to be awarded shares to an amount equal to the gross amount of the bonus used to acquire ordinary shares in the Company.

For 2007, the Company is proposing to amend the Deferred Bonus Plan and redesignate it as the Co-Investment plan, where Executive Directors can invest up to 50.0% of their post tax annual salary to acquire ordinary shares in the Company (in future years the Committee may determine that circumstances justify that up to 100% of post tax annual salary may be invested). These shares will then be matched at the end of a three year period. The match will be determined by performance against a cumulative Economic Profit target. If the target level of RPI +3.0% per annum is achieved, then a one for one share match will occur. A maximum two for one match will occur if cumulative Economic Profit achieves a target level of RPI +12.0% per annum or greater. At points between these two levels, matching will take place on a straight line basis. Economic profit has been chosen because the Committee believes this is a key driver of the Company's new business strategy. Economic Profit is underlying operating profit after tax less the weighted average cost of capital mutiplied by the capital employed. The Committee intends that the figure for Economic Profit will be disclosed. It is intended that the Co-Investment plan will also be extended on a broadly similar basis to certain other senior executives below the Board.

Executive share option plan

Under the Plan, share options are granted to Executive Directors and certain other senior executives throughout the Group. The option price is calculated by rounding up the arithmetic average of the market quotations of a share for the three dealing days immediately preceding the date of grant. The 2006 option grant covered over 250 participants across the world. Details of share options granted to Executive Directors in 2006 are shown in note 3 on pages 38 and 39.

Options now granted vest according to a sliding scale: 25.0% of the award will vest if earnings per share (EPS) growth of RPI +3.0% per annum is achieved over the initial three year period, with all of the award vesting if EPS growth is RPI +8.0% per annum or greater. Options will vest on a straight line basis between these two points. No options will vest if EPS growth is less than RPI +3.0% per annum. There will be no retesting.

The Committee has retained EPS as the performance measure for the Executive share option plan. The Committee believes the retention of EPS as the measure used under the executive share option plan, operating alongside Economic Profit used under the Co-Investment plan, will provide an important balance between the Group's desire for both sustained growth and the need for emphasis on capital efficiency and cash generation. EPS will continue to be the headline earnings per ordinary share, which excludes volatile one-off matters such as exceptional items. In exceptional circumstances, the Committee has the right to adjust the published EPS, as it considers appropriate. In respect of outstanding awards with attaching EPS performance measures, under all of the Company's share-based plans, the Committee has decided in its discretion to adjust the EPS figure for 2006 to remove the effect of a one-off non-replicable, low effective tax rate. The adjustment reduces the EPS figure used in the incentive plans for 2006 by around 3.0% but will not impact the actual vesting of any awards with performance periods ending in 2006. The Committee believes this will ensure a more accurate reflection of the Company's underlying performance within the context of the Company's share plans. Finally, in light of changes to accounting standards, the Remuneration Committee has continued to make necessary adjustments to ensure a consistent basis in respect of the EPS measure used to evaluate performance.

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

SAYE share option scheme

The Inchcape SAYE share option scheme is open to employees in the UK with at least three months' service. Participants make monthly savings for a three year period. At the end of the savings period share options become exercisable for a six month period.

Executive share ownership

To emphasise the importance the Committee places on executive share ownership, Executive Directors are currently expected to hold a fixed number of shares equivalent to 100.0% of base salary. They have up to five years from 2004, or date of appointment as an Executive Director (if later), to reach this shareholding target.

For 2007 onwards, this will increase to 200.0% of base salary. The Executive Directors will have five years from 2007 to reach this shareholding target.

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

Name of Director	Share ownership (expressed as percentage against base salary)
André Lacroix	166%
Barbara Richmond (appointed 3 April 2006)	72%

Retirement benefits

The Inchcape Group (UK) Pension Scheme provides benefits for Executive Directors and certain other senior executives at the normal retirement age of sixty five, equal to a maximum of two-thirds of final base salary where salary has a scheme specific ceiling of £108,600 in the 06/07 tax year, subject to completion of between twenty year's and forty year's service. Pensions in payment are guaranteed to increase in line with the lesser of 5.0% and the increase in the RPI

The Scheme requires members who join after March 2005 to contribute 7.0% of base pay up to the scheme specific ceiling of £108,600 in the 06/07 tax year.

Executives whose base salary is capped are paid a monthly cash supplement to enable them to make their own pension arrangements. The Executive Directors who received such supplements in the year are Barbara Richmond and Graeme Potts until he left the Company. Details of the amounts paid are shown in note 1 on page 37. André Lacroix, who joined the Company on 1 September 2005, received a cash supplement of 40.0% of his base salary in lieu of formal pension provision. He is not a member of the Inchcape Group (UK) Management Pension Scheme except in respect of the life assurance benefit for death in service.

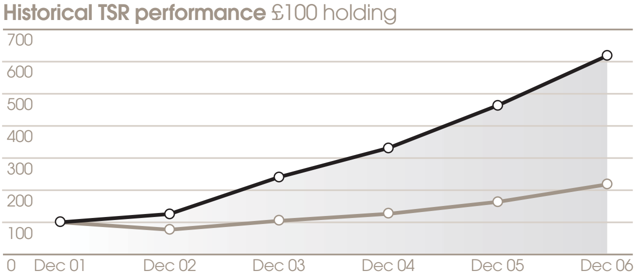
A lump sum life assurance benefit of four times full base salary is provided on death in service, along with for pension scheme members a spouse's pension of either half or two-thirds of the prospective member's pension. Childrens' pensions may also be payable, up to one-third of the member's pension.

Board report on remuneration continued

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

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

Historical TSR performance £100 holding



Growth in the value of a hypothetical £100 over five years FTSE 250 (excluding investment companies). Comparison based on 30 trading day average values.

— FTSE mid 250 excluding Investment Trusts — Inchcape

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

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

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

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

Graeme Potts stepped down from the Board and left the Company by agreement on 17 September 2006. The payments made to him are reflected in note 1 on page 37 and the notes thereto.

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

Name of Director	Date of contract	Unexpired term
André Lacroix	1 September 2005	To normal retirement age
Barbara Richmond	3 April 2006	To normal retirement age

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

Policy on external appointments
Inchcape recognises that its Executive Directors may 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 or undue time commitments. The policy in respect of the Executive Directors' other commitments is kept under review by the Nomination Committee. Any fees received for these duties may be retained by the Executive Director. The Group Finance Director is a Non-executive Director of the Scarborough Building Society for which she received fees of £25,417.

Notes to the Board report on remuneration

The following are auditable disclosures in accordance with Schedule 7A Part III of the Companies Act 1985.

1 Individual emoluments for the year

The table below shows a breakdown of remuneration, including taxable and other benefits of each Director. Details of pension entitlements, share options, deferred bonus plan and other awards held are shown in notes 2, 3 and 4 on pages 38 to 40.

	Base salary/fees		Bonus		Taxable and other benefits (f)		Company contributions paid in year in respect of pension arrangements		Termination payment		Total remuneration	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Chairman												
Peter Johnson (appointed 1 January 2006)	**275.0**	636.3	**–**	255.4	**1.4**	33.2	**–**	265.8	**–**	–	**276.4**	1,190.7
Executive Directors												
André Lacroix (a)	**630.0**	206.6	**650.0**	81.8	**151.9**	38.9	**252.0**	82.7	**–**	–	**1,683.9**	410.0
Graeme Potts (left 17 September 2006) (c)	**332.9**	408.8	**225.0**	133.6	**19.2**	33.5	**97.3**	108.4	**600.0**	–	**1,274.4**	684.3
Barbara Richmond (appointed 3 April 2006) (b)	**288.7**	–	**231.0**	–	**144.6**	–	**62.2**	–	**–**	–	**726.5**	–
Non-executive Directors												
Raymond Ch'ien (e)	**30.0**	30.0	**–**	–	**12.9**	13.8	**–**	–	**–**	–	**42.9**	43.8
Karen Guerra (appointed 1 January 2006) (d)	**37.0**	–	**–**	–	**–**	–	**–**	–	**–**	–	**37.0**	–
Ken Hanna (d)	**51.0**	48.0	**–**	–	**–**	–	**–**	–	**–**	–	**51.0**	48.0
William Samuel (d)	**70.0**	52.4	**–**	–	**–**	–	**–**	–	**–**	–	**70.0**	52.4
David Scotland (d)	**45.0**	32.4	**–**	–	**–**	–	**–**	–	**–**	–	**45.0**	32.4
Michael Wemms (d)	**51.0**	48.0	**–**	–	**–**	–	**–**	–	**–**	–	**51.0**	48.0
Directors who retired before 31 December 2005	**–**	461.2	**–**	78.4	**–**	41.4	**–**	–	**–**	–	**–**	581.0
Total	**1,810.6**	1,923.7	**1,106.0**	549.2	**330.0**	160.8	**411.5**	456.9	**600.0**	–	**4,258.1**	3,090.6

Notes on Directors' emoluments:

(a) The payment of £252,000 (2005 – £82,666) was paid directly to André Lacroix to allow him to make his own pension arrangements outside the Company's plan. Such payment was subject to tax.

(b) The payment of £62,190 (2005 – none) was paid to Barbara Richmond to allow her to make her own pension arrangements outside the Company's plan. Such payment was subject to tax.

(c) Graeme Potts left the Group on 17 September 2006. In accordance with the Company's legal obligations he was paid the sum of £532,667 subject to deduction of tax, as compensation for loss of office together with a payment of £67,333 which was paid to the Inchcape Group (UK) Pension Scheme in respect of his pension arrangements.

(d) Will Samuel was paid a fee as Non-executive Deputy Chairman and Senior Independent Non-executive Director. He received no additional fees for his membership of Board Committees. Otherwise, the details shown include fees at the rate of £10,000 per annum for Committee Chairmanship and at the rate of £4,000 for Committee membership.

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

(f) Taxable and other benefits comprise items such as company car, medical care, life assurance premiums and petrol allowance. All Executive Directors are entitled to such benefits. In the case of new recruitment, taxable benefits include relocation expenses.

(g) No Directors waived emoluments in respect of the year ended 31 December 2006 (2005 – none).

Board report on remuneration continued

2 Directors' pension entitlements
Accrued annual pension under defined benefit schemes

	Increase in accrued pension during the year £'000	Increase in accrued pension during the year (net of inflation) £'000	Accumulated total of accrued pension at 31.12.05 £'000	Accumulated total of accrued pension at 31.12.06 (a) £'000	Transfer value (less director's contributions) of the increase in accrued benefit net of inflation 31.12.06 £'000	Transfer value of accrued benefits at 31.12.06 (b) £'000	Transfer value of accrued benefits at 01.01.06 (b) £'000	Difference in transfer value less any contributions made in the year £'000
Barbara Richmond	2.4	2	–	2.4	11	16.4	–	10.7
Graeme Potts*	6	6	11	18	52	187.2	117.2	70

* Graeme Potts resigned on 17 September 2006. The transfer value of his pension was accrued to his date of leaving

Notes on pension entitlements:

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

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

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

3 Directors' share options

	Held at 31.12.06	Lapsed during the year	Exercised during the year	Granted during the year	Held at 01.01.06 (or date of appointment if later)	Exercise price (f)	Normal exercise Period
Peter Johnson	–	–	370,074 (c)	–	370,074 (a)	127.0p	Mar 2006 – Mar 2013
	–	–	465,648 (c)	–	465,648 (a)	262.0p	May 2007 – May 2014
	–	–	356,028 (c)	–	356,028 (a)	342.6p	Mar 2008 – Mar 2015
André Lacroix	346,362 (a)	–	–	–	346,362 (a)	358.0p	Sep 2008 – Sep 2015
	278,442 (a)	–	–	278,442 (a)	–	445.3p	Mar 2009 – Mar 2016
	2,706 (b)	–	–	2,706 (b)	–	345.3p	Jun 2009 – Dec 2009
Graeme Potts*	555,222 (a)	–	26,862 (d)	–	582,084 (a)	111.6p	Oct 2005 – Oct 2012
	255,900 (e)	–	–	–	255,900 (a)	127.0p	Mar 2006 – Mar 2013
	–	–	9,294 (e)	–	9,294 (b)	101.6p	Jun 2006 – Dec 2006
	248,382 (e)	26,424 (e)	–	–	274,806 (a)	262.0p	May 2007 – May 2014
	119,873 (e)	90,241 (e)	–	–	210,114 (a)	342.6p	Mar 2008 – Mar 2015
	47,932 (e)	154,160 (e)	–	202,092 (a)	–	445.3p	Mar 2009 – Mar 2016
	–	2,706 (e)	–	2,706 (b)	–	345.3p	Jun 2009 – Dec 2009
Barbara Richmond	347,629 (a)	–	–	347,629 (a)	–	443.0p	May 2009 – May 2016
	2,540 (b)	–	–	2,540 (b)	–	368.0p	Nov 2009 – Apr 2010

* Date of resignation, 17 September 2006.

Notes on share options:

(a) Under the Inchcape 1999 Share Option Plan.

(b) Under the Inchcape SAYE Share Option Scheme.

(c) Peter Johnson exercised options over 1,191,750 ordinary shares on 14 August 2006. At the close of business on the date of exercise the mid market price of the ordinary shares was 465.25p. He sold 851,443 shares upon exercise to cover tax and NI liabilities. A gain of £2,634,635.62 was made upon the exercise of this option. He retained the remaining shares after exercise.

(d) Graeme Potts exercised an option over 26,862 ordinary shares on 22 May 2006. The mid market price on the date of exercise was 419.25p. He retained all shares upon exercise. A gain of £82,623.04 was made upon the exercise of this option.

(e) Under the terms of Graeme Potts's agreement when he left the Company on 17 September 2006, he retained rights to exercise all vested Options granted to him on the date of leaving employment. He also retained rights to exercise unvested Options granted to him on a pro-rated basis with the amount being determined by the extent to which the performance target measured over the period ended on 17 September 2006 was met. All Options must be exercised within twelve months from the date of leaving.

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

(g) All options were granted for nil consideration.

(h) The table shows Directors' options over ordinary shares of 25.0p (adjusted for share sub-division) at 1 January 2006 or date of appointment (if later) and 31 December 2006. The mid market price for shares at the close of business on 31 December 2006 was 506.0p. The price range during 2006 was 358.3p to 541.0p.

(i) Options under the Inchcape 1999 Share Option Plan are granted on a discretionary basis to certain full time senior executives based within and outside the UK including Executive Directors of the Company. Such options are normally exercisable between three and ten years of grant.

(j) Options may normally only be exercised if the performance target has been met. For all options granted between 1999 and 2003 under the Inchcape 1999 Share Option Plan, growth in the Company's earnings per share over a three year period must exceed the increase in the UK Retail Price Index over the same period by 3.0% per annum. Options granted after the 2004 AGM vest according to a sliding scale: 25.0% of the shares will vest if EPS growth of RPI + 3.0% per annum is achieved over the initial three year period, with all of the shares vesting if EPS growth is RPI +8.0% per annum. Shares will vest on a straight line basis between these points and there is no opportunity to retest.

(k) The Inchcape SAYE Share Option Scheme is open to employees in the UK with at least three months' service. Participants make monthly savings for a three year period. At the end of the savings period options become exercisable within a six month period.

4 Deferred Bonus Plan

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

	Awarded ordinary shares 31.12.06	Ordinary shares lapsed during the year	Ordinary shares exercised during the year	Ordinary shares awarded during the year	Awarded ordinary shares 01.01.06	Market value of shares awarded	Normal exercise period
Peter Johnson (a)	–	–	102,948	–	102,948	124.6p	Apr 2006 – Oct 2006
	–	–	62,910	–	62,910	274.5p	Jun 2007 – Dec 2007
	–	–	37,458	–	37,458	343.0p	Jan 2008 – Jun 2008
	–	–	2,250	–	2,250	343.0p	Jan 2008 – Jun 2008
André Lacroix	13,825	–	–	13,825	–	434.0p	Jan 2009 – Jun 2009
Graeme Potts (b)*	–	–	40,104	–	40,104	124.6p	Apr 2006 – Oct 2006
	25,000	2,660	–	–	27,660	274.5p	Jun 2007 – Dec 2007
	27,347	20,587	–	–	47,934	343.0p	Jan 2008 – Jun 2008
	3,851	2,899	–	–	6,750	343.0p	Jan 2008 – Jun 2008
	5,478	17,618	–	23,096	–	434.0p	Jan 2009 – Jun 2009

* Date of resignation, 17 September 2006.

Notes on deferred bonus plan:

(a) Peter Johnson exercised the Award granted to him on 10 April 2003, in respect of 102,948 ordinary shares on 3 January 2006. At the close of business on the date of exercise the mid market price of the ordinary shares was 386.0p. A gain of £397,379.28 was made upon the exercise of this Award. He exercised the Awards granted to him on 4 October 2004 in respect of 62,910 ordinary shares and 1 January 2005 in respect of 39,708 ordinary shares on 13 June 2006. At the close of business on the date of exercise the mid market price of the ordinary shares was 415.0p. A gain of £425,864.70 was made upon the exercise of these Awards.

(b) Under the terms of Graeme Pott's agreement when he left the Company on 17 September 2006, he retained rights to Awards granted to him on a pro-rated basis, exercisable within three months, with the number of exercisable Awards being determined by the extent to which the performance target, measured over the period ended on 17 September 2006 was met.

(c) Directors will become entitled to the Awarded shares if they remain employed by the Inchcape Group for three years and retain the shares purchased with their bonus throughout that period. The awards made will normally vest within three years of award. Special rules apply on termination of employment and change of control. For awards made after the 2004 AGM to vest, growth in the Company's earnings per shares over a three year period must exceed the increase on the UK Retail Price Index over the same period by 3.0% per annum with no opportunity to retest.

(d) Executive Directors may elect to invest up to 75% of their annual bonus in the Deferred Bonus Plan. The invested monies are grossed up by the Company to remove the effect of tax on that portion of the executive's bonus and the grossed up amount is used by the Company to purchase ordinary shares (Awarded shares) which are held in trust for the executive. Provided certain conditions are met, the Awarded shares will vest and the executive may exercise his rights under the Plan at any time during the six month exercise period.

Board report on remuneration continued

Incentive Plans

	Awarded ordinary shares 31.12.06	Awarded ordinary shares exercised during the year	Awarded ordinary shares at 01.01.06 or date of appointment	Market value of shares on date awarded	Vesting period
AL Incentive Plan	117,000	–	117,000	357.5p	2006 – 2008
BR Incentive Plan	103,604	–	103,604	428.7p	2006 – 2008

Notes on incentive plans:

(a) As reported last year André Lacroix is the sole participant in the AL Incentive Plan, subject to his continuing employment and the percentage growth in the Company's earnings per share over the relevant performance period exceeding the rate of inflation over the same period by at least 3.0% per year. He will be eligible to receive a further two tranches of 39,000 Inchcape plc shares each, which are due to vest at the end of 2007 and 2008 respectively.

(b) Barbara Richmond is the sole participant in the BR Incentive Plan. Under the terms of her plan, subject to her continuing employment and the percentage growth in the Company's earnings per share over the relevant performance period exceeding the rate of inflation over the same period by at least 3.0% per year, she will be eligible to receive a further tranche of 21,996 Inchcape plc shares which are due to vest at the end of 2007 and a final tranche of 59,612 Inchcape plc shares, which are due to vest at the end of 2008.

By order of the Board

M. Wemms

Michael Wemms Chairman of the Remuneration Committee

5 March 2007

Report of the Auditors

Independent Auditors' report to the members of Inchcape plc
We have audited the Group Financial statements of Inchcape plc for the year ended 31 December 2006 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated statement of recognised income and expense, the Consolidated cash flow statement and the related Notes to the accounts. These Group Financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company Financial statements of Inchcape plc for the year ended and on the information in the Board report on remuneration that is described as having been audited.

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

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

We report to you our opinion as to whether the Group Financial statements give a true and fair view and whether the Group Financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' report is consistent with the Group Financial statements. The information given in the Director's report includes that specific information presented in the Operating and financial review that is cross referred from the Business review section of the Directors' report. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate governance report reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual report and consider whether it is consistent with the audited Group Financial statements. The other information comprises only the Chairman's statement, the Group Chief Executive's review, the Operating and financial review, the Performance management section, the Corporate social responsibility section, the Board of Directors, the Directors' report, the Corporate governance report, the Board report on remuneration, the Five year record and Company details. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial statements. Our responsibilities do not extend to any other information.

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

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

Opinion

In our opinion:

- the Group Financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the Group Financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group Financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

5 March 2007

Consolidated income statement
For the year ended 31 December 2006

	Notes	Before exceptional items 2006 £m	Exceptional items 2006 £m	Total 2006 £m	Before exceptional items 2005 £m	Exceptional items 2005 £m	Total 2005 £m
Revenue	1, 3	**4,842.1**	**–**	**4,842.1**	4,488.1	–	4,488.1
Cost of sales		**(4,132.3)**	**–**	**(4,132.3)**	(3,847.4)	–	(3,847.4)
Gross profit		**709.8**	**–**	**709.8**	640.7	–	640.7
Net operating expenses	2, 3	**(495.9)**	**–**	**(495.9)**	(451.3)	(13.0)	(464.3)
Operating profit		**213.9**	**–**	**213.9**	189.4	(13.0)	176.4
Share of profit after tax of joint ventures and associates	13	**5.9**	**–**	**5.9**	6.2	–	6.2
Profit before finance and tax		**219.8**	**–**	**219.8**	195.6	(13.0)	182.6
Finance income	6	**49.0**	**–**	**49.0**	44.7	–	44.7
Finance costs	7	**(54.9)**	**–**	**(54.9)**	(50.0)	–	(50.0)
Profit before tax		**213.9**	**–**	**213.9**	190.3	(13.0)	177.3
Tax	8	**(45.1)**	**8.0**	**(37.1)**	(46.9)	–	(46.9)
Profit for the year		**168.8**	**8.0**	**176.8**	143.4	(13.0)	130.4
Attributable to:							
– Equity holders of the parent				**173.9**			126.6
– Minority interests				**2.9**			3.8
				176.8			130.4
Basic earnings per share (pence)	9			**37.5p**			27.0p
Diluted earnings per share (pence)	9			**37.1p**			26.8p

Consolidated statement of recognised income and expense

For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Cash flow hedges		**(21.8)**	(1.5)
Movement on available for sale financial assets		**(1.9)**	2.3
Effect of foreign exchange rate changes		**(34.2)**	30.4
Actuarial gains (losses) on defined benefit pension schemes		**5.3**	(15.3)
Tax recognised directly in shareholders' equity	25a	**18.7**	5.3
Net (losses) gains recognised directly in shareholders' equity		**(33.9)**	21.2
Profit for the year		**176.8**	130.4
Total recognised income and expense for the year	25a	**142.9**	151.6
Attributable to:			
– Equity holders of the parent		**140.5**	147.4
– Minority interests		**2.4**	4.2
		142.9	151.6

Consolidated balance sheet
As at 31 December 2006

	Notes	2006 £m	2005 £m
Non-current assets			
Intangible assets	11	**147.9**	69.5
Property, plant and equipment	12	**427.0**	346.7
Investments in joint ventures and associates	13	**15.1**	44.7
Available for sale financial assets	14	**12.2**	15.0
Trade and other receivables	15	**23.2**	22.4
Deferred tax assets	16	**40.6**	23.4
		666.0	521.7
Current assets			
Inventories	17	**704.6**	615.8
Trade and other receivables	15	**211.4**	221.1
Available for sale financial assets	14	**52.8**	2.4
Derivative financial instruments	18	**0.6**	2.1
Current tax assets		**2.2**	1.0
Cash and cash equivalents	19	**335.2**	309.0
		1,306.8	1,151.4
Assets held for sale	20	**30.8**	–
		1,337.6	1,151.4
Total assets		**2,003.6**	1,673.1
Current liabilities			
Trade and other payables	21	**(791.5)**	(688.2)
Derivative financial instruments	18	**(40.2)**	(12.6)
Current tax liabilities		**(33.7)**	(43.8)
Provisions	22	**(20.7)**	(22.5)
Borrowings	23	**(183.5)**	(145.4)
		(1,069.6)	(912.5)
Non-current liabilities			
Trade and other payables	21	**(39.4)**	(45.3)
Provisions	22	**(35.5)**	(35.6)
Deferred tax liabilities	16	**(14.7)**	(13.5)
Borrowings	23	**(170.7)**	(5.6)
Retirement benefit liability	5	**(22.7)**	(69.4)
		(283.0)	(169.4)
Total liabilities		**(1,352.6)**	(1,081.9)
Net assets		**651.0**	591.2
Shareholders' equity			
Share capital	24, 25	**120.6**	120.1
Share premium	25	**115.9**	112.5
Capital redemption reserve	25	**16.4**	16.4
Other reserves	25	**(37.7)**	13.1
Retained earnings	25	**428.6**	319.6
Equity attributable to equity holders of the parent		**643.8**	581.7
Minority interests	25	**7.2**	9.5
Total shareholders' equity		**651.0**	591.2

The Financial statements on pages 42 to 87 were approved by the Board of Directors on 5 March 2007 and were signed on its behalf by:

André Lacroix, Director **Barbara Richmond,** Director

Consolidated cash flow statement
For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Cash generated from operations	26a	**236.8**	195.4
Tax paid		**(50.2)**	(51.4)
Interest received		**10.7**	13.9
Interest paid		**(18.2)**	(16.8)
Net cash generated from operating activities		**179.1**	141.1
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired		**(147.9)**	(29.9)
Net cash inflow (outflow) from sale of businesses		**5.4**	(5.5)
Purchase of property, plant and equipment		**(50.7)**	(63.5)
Purchase of intangible assets		**(3.1)**	(2.2)
Proceeds from disposal of property, plant and equipment		**11.4**	17.6
Net purchase of available for sale financial assets		**(49.9)**	(0.5)
Dividends received from joint ventures and associates		**0.4**	9.7
Net cash used in investing activities		**(234.4)**	(74.3)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**3.9**	2.4
Share buy back programme		**(34.0)**	(31.0)
Net (purchase) disposal of own shares by ESOP Trust		**(0.2)**	0.1
Net cash inflow (outflow) from borrowings		**158.7**	(2.3)
Payment of capital element of finance leases		**(0.3)**	(0.2)
Settlement of derivatives		**(6.8)**	9.4
Equity dividends paid		**(52.6)**	(42.0)
Minority dividends paid		**(3.9)**	(3.0)
Net cash from (used in) financing activities		**64.8**	(66.6)
Net increase in cash and cash equivalents	26b	**9.5**	0.2
Cash and cash equivalents at the beginning of the year		**165.9**	158.8
Effect of foreign exchange rate changes		**(9.2)**	6.9
Cash and cash equivalents at the end of the year		**166.2**	165.9
Cash and cash equivalents consist of:			
– Cash at bank and in hand		**262.8**	217.5
– Short term bank deposits		**72.4**	91.5
– Bank overdrafts		**(169.0)**	(143.1)
		166.2	165.9

Accounting policies

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

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

Changes in accounting standards
The International Accounting Standards Board will not require the application of new IFRSs under development or major amendments to existing standards before 1 January 2009, although the Group may elect to early adopt particular standards before this date.

A number of new standards, amendments and interpretations (including IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates, IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intra-group Transactions and IFRIC 4 Determining whether an Arrangement Contains a Lease) were effective from 1 January 2006, but have had no material impact on the results or the financial position of the Group.

At the balance sheet date a number of IFRSs and IFRIC interpretations were in issue but not yet effective. These include IFRS 7 Financial Instruments: Disclosures, IFRS 8 Operating Segments and the Amendment to IAS 1 Presentation of Financial Statements Capital Disclosures, which are anticipated to have some impact on the presentation of information, but not on the results or financial position of the Group. These standards will be fully considered in due course.

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

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

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

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

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

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

Derivative financial instruments

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

The Group uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are measured at fair value. The gains or losses on remeasurement are taken to the income statement except where the derivative is designated as a cash flow hedge. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange prevailing at the balance sheet date.

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

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

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

Property, plant and equipment

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

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

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

Goodwill

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

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

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

Other intangible assets

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

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

Accounting policies continued

Impairment
Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. In addition, goodwill is tested at least annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money.

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

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

Stock holding costs are charged to finance costs.

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

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

Held to maturity financial assets are carried at amortised cost.

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

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

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

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

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

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

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

Leases

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

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

Revenue and cost of sales

Revenue from the sale of goods and services sold is measured at the fair value of consideration receivable, net of rebates and any discounts. It excludes sales related taxes and intra-Group transactions.

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

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

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

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

Income tax

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

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

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

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

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

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

Accounting policies continued

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

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

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

Assets held for sale
Non-current assets are classified as assets held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

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

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

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

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

Significant accounting judgements and estimates

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

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

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

Significant accounting judgements and estimates continued

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

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

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

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

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

Notes to the accounts

1 Segmental analysis

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

The geographical segments disclosed have been amended to further align them with the risks and returns associated with different territories. The principal change has been to disaggregate those territories regarded as Emerging Markets, which is defined as those markets where the total new vehicle volume sales by international brands are growing by 10.0% or more per annum (comprising Russia, the Balkans and the Baltics). These are distinguished from more mature markets in Europe (comprising Greece, Belgium, Finland, Poland and France) and the Rest of the World. Comparative information has been restated accordingly.

The Group's geographical segments are based on the location of the Group's assets. Revenue earned from sales is disclosed by origin and is not materially different from revenue by destination.

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

2006	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre Central £m	Central £m	Total £m
Revenue										
Total revenue	616.6	1,347.3	224.8	659.5	1,711.9	201.2	225.4	4,986.7	–	4,986.7
Inter-segment revenue	–	(144.6)	–	–	–	–	–	(144.6)	–	(144.6)
Revenue from third parties	616.6	1,202.7	224.8	659.5	1,711.9	201.2	225.4	4,842.1	–	4,842.1
Results										
Operating profit before exceptional items	38.5	38.3	24.0	58.6	45.9	12.1	21.4	238.8	(24.9)	213.9
Exceptional items	–	–	–	–	–	–	–	–	–	–
Segment result	38.5	38.3	24.0	58.6	45.9	12.1	21.4	238.8	(24.9)	213.9
Share of profit after tax of joint ventures and associates	–	1.8	2.8	–	0.9	–	0.4	5.9	–	5.9
Profit before finance and tax	38.5	40.1	26.8	58.6	46.8	12.1	21.8	244.7	(24.9)	219.8
Finance income										49.0
Finance costs										(54.9)
Profit before tax										213.9
Tax										(37.1)
Profit for the year										176.8

2005	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre Central £m	Central £m	Total £m
Revenue										
Total revenue	612.7	1,138.7	242.3	719.6	1,530.3	134.6	214.0	4,592.2	–	4,592.2
Inter-segment revenue	–	(104.1)	–	–	–	–	–	(104.1)	–	(104.1)
Revenue from third parties	612.7	1,034.6	242.3	719.6	1,530.3	134.6	214.0	4,488.1	–	4,488.1
Results										
Operating profit before exceptional items	31.9	29.2	28.8	62.1	29.2	7.0	20.0	208.2	(18.8)	189.4
Exceptional items	–	–	–	–	(19.5)	–	–	(19.5)	6.5	(13.0)
Segment result	31.9	29.2	28.8	62.1	9.7	7.0	20.0	188.7	(12.3)	176.4
Share of profit after tax of joint ventures and associates	–	1.8	3.0	–	1.2	–	0.2	6.2	–	6.2
Profit before finance and tax	31.9	31.0	31.8	62.1	10.9	7.0	20.2	194.9	(12.3)	182.6
Finance income										44.7
Finance costs										(50.0)
Profit before tax										177.3
Tax										(46.9)
Profit for the year										130.4

Notes to the accounts continued

1 Segmental analysis continued

Primary reporting format – geographical segments continued

2006	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre unallocated £m	Unallocated £m	Total £m
Segment assets and liabilities										
Segment assets	154.3	341.3	55.4	104.5	719.5	80.4	62.8	1,518.2	–	1,518.2
Investment in joint ventures and associates	–	8.6	–	–	5.5	0.6	0.4	15.1	–	15.1
Assets held for sale	–	–	30.8	–	–	–	–	30.8	–	30.8
Cash and cash equivalents	–	–	–	–	–	–	–	–	335.2	335.2
Other unallocated assets*	–	–	–	–	–	–	–	–	104.3	104.3
Total assets	154.3	349.9	86.2	104.5	725.0	81.0	63.2	1,564.1	439.5	2,003.6
Segment liabilities	(196.7)	(282.3)	(18.6)	(47.2)	(303.8)	(17.8)	(32.0)	(898.4)	–	(898.4)
External borrowings	–	–	–	–	–	–	–	–	(354.2)	(354.2)
Other unallocated liabilities*	–	–	–	–	–	–	–	–	(100.0)	(100.0)
Total liabilities	(196.7)	(282.3)	(18.6)	(47.2)	(303.8)	(17.8)	(32.0)	(898.4)	(454.2)	(1,352.6)

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

2006	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre Central £m	Central £m	Total £m
Other segment items										
Capital expenditure:										
– Property, plant and equipment	4.4	5.1	1.8	1.1	29.3	3.0	5.2	49.9	0.8	50.7
– Vehicles subject to residual value commitments	14.0	12.0	–	–	10.5	–	–	36.5	–	36.5
– Intangible assets	0.2	0.3	–	–	2.3	0.1	–	2.9	0.2	3.1
Depreciation:										
– Property, plant and equipment	2.3	3.8	1.5	1.6	10.9	0.7	2.2	23.0	0.3	23.3
– Vehicles subject to residual value commitments	0.2	4.6	–	–	9.3	–	–	14.1	–	14.1
Amortisation of intangible assets	0.4	0.6	–	0.1	2.8	–	–	3.9	0.1	4.0
Impairment of goodwill	–	–	–	–	–	–	–	–	–	–
Net provisions charged (released) to the income statement	6.2	8.3	0.1	4.1	8.5	(0.1)	1.2	28.3	(0.4)	27.9

2005	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre unallocated £m	Unallocated £m	Total £m
Segment assets and liabilities										
Segment assets	130.1	302.6	58.8	113.1	583.1	31.8	62.5	1,282.0	–	1,282.0
Investment in joint ventures and associates	–	7.2	32.6	–	4.6	–	0.3	44.7	–	44.7
Assets held for sale	–	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	–	–	–	–	–	–	–	–	309.0	309.0
Other unallocated assets*	–	–	–	–	–	–	–	–	37.4	37.4
Total assets	130.1	309.8	91.4	113.1	587.7	31.8	62.8	1,326.7	346.4	1,673.1
Segment liabilities	(148.8)	(237.3)	(22.6)	(43.1)	(324.5)	(12.7)	(31.5)	(820.5)	–	(820.5)
External borrowings	–	–	–	–	–	–	–	–	(151.0)	(151.0)
Other unallocated liabilities*	–	–	–	–	–	–	–	–	(110.4)	(110.4)
Total liabilities	(148.8)	(237.3)	(22.6)	(43.1)	(324.5)	(12.7)	(31.5)	(820.5)	(261.4)	(1,081.9)

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

2005	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total pre Central £m	Central £m	Total £m
Other segment items										
Capital expenditure:										
– Property, plant and equipment	2.0	4.8	1.4	2.2	46.0	2.2	4.5	63.1	0.4	63.5
– Vehicles subject to residual value commitments	–	14.1	–	–	21.3	–	–	35.4	–	35.4
– Intangible assets	–	0.9	–	0.2	0.9	0.2	–	2.2	–	2.2
Depreciation:										
– Property, plant and equipment	2.5	3.6	1.7	1.6	10.5	0.6	2.0	22.5	0.3	22.8
– Vehicles subject to residual value commitments	–	5.5	–	–	9.6	–	–	15.1	–	15.1
Amortisation of intangible assets	0.3	0.8	–	–	2.0	0.1	–	3.2	–	3.2
Impairment of goodwill	–	–	–	–	19.5	–	–	19.5	–	19.5
Net provisions charged (released) to the income statement	6.8	5.3	(0.3)	3.0	5.5	0.7	1.1	22.1	(6.5)	15.6

Notes to the accounts continued

1 Segmental analysis continued

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

The business segments disclosed have been amended to further align them with the risks and returns associated with different businesses and the related reporting structure of the Group.

The disclosures have been simplified to comprise two key business segments – Distribution and Retail. Distribution now comprises both those businesses previously reported as Vertically integrated import, distribution and retail as well as Import and distribution. In addition, Distribution includes those businesses previously reported under Financial services and Other. Comparative information has been restated accordingly.

The secondary disclosures below have been enhanced to further analyse Distribution and Retail by geographical region. Additional disclosure has also been provided on the segmentation of profitability and operating liabilities. Comparative information has been restated accordingly.

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

								Distribution
2006	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Total Distribution £m
Revenue								
Total revenue	511.2	944.1	224.8	659.5	100.3	130.3	225.4	2,795.6
Inter-segment revenue	(111.5)	(165.7)	–	–	(2.5)	(52.4)	–	(332.1)
Revenue from third parties	399.7	778.4	224.8	659.5	97.8	77.9	225.4	2,463.5
Results								
Operating profit before exceptional items	28.2	41.1	24.0	58.6	3.8	8.4	21.4	185.5
Exceptional items	–	–	–	–	–	–	–	–
Segment result	28.2	41.1	24.0	58.6	3.8	8.4	21.4	185.5
Share of profit after tax of joint ventures and associates	–	1.8	2.8	–	0.9	–	0.4	5.9
Profit before finance and tax	28.2	42.9	26.8	58.6	4.7	8.4	21.8	191.4
Finance income								
Finance costs								
Profit before tax								
Tax								
Profit for the year								

2006	Australia £m	Europe £m	United Kingdom £m	Emerging Markets £m	Retail Total Retail £m	Total pre Central £m	Central £m	Total £m
	216.9	424.3	1,614.1	123.3	2,378.6	5,174.2	–	5,174.2
	–	–	–	–	–	(332.1)	–	(332.1)
	216.9	424.3	1,614.1	123.3	2,378.6	4,842.1	–	4,842.1
	10.3	(2.8)	42.1	3.7	53.3	238.8	(24.9)	213.9
	–	–	–	–	–	–	–	–
	10.3	(2.8)	42.1	3.7	53.3	238.8	(24.9)	213.9
	–	–	–	–	–	5.9	–	5.9
	10.3	(2.8)	42.1	3.7	53.3	244.7	(24.9)	219.8
								49.0
								(54.9)
								213.9
								(37.1)
								176.8

Notes to the accounts continued

1 Segmental analysis continued

Secondary reporting format – business segments continued

2006	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Segment assets and liabilities								
Segment assets	90.7	255.3	55.4	104.5	85.7	16.3	62.8	670.7
Investment in joint ventures and associates	–	8.6	–	–	5.5	–	0.4	14.5
Assets held for sale	–	–	30.8	–	–	–	–	30.8
Cash and cash equivalents	–	–	–	–	–	–	–	–
Other unallocated assets*	–	–	–	–	–	–	–	–
Total assets	90.7	263.9	86.2	104.5	91.2	16.3	63.2	716.0
Segment liabilities	(173.0)	(252.8)	(18.6)	(47.2)	(44.5)	(10.1)	(32.0)	(578.2)
External borrowings	–	–	–	–	–	–	–	–
Other unallocated liabilities*	–	–	–	–	–	–	–	–
Total liabilities	(173.0)	(252.8)	(18.6)	(47.2)	(44.5)	(10.1)	(32.0)	(578.2)

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

2006	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Other segment items								
Capital expenditure:								
– Property, plant and equipment	3.2	0.8	1.8	1.1	6.2	2.5	5.2	20.8
– Vehicles subject to residual value commitments	14.0	11.2	–	–	10.5	–	–	35.7
– Intangible assets	0.2	0.3	–	–	0.2	–	–	0.7

	Retail							
2006	Australia £m	Europe £m	United Kingdom £m	Emerging Markets £m	Total Retail £m	Total pre unallocated £m	Unallocated £m	Total £m
	63.6	86.0	633.8	64.1	847.5	1,518.2	–	1,518.2
	–	–	–	0.6	0.6	15.1	–	15.1
	–	–	–	–	–	30.8	–	30.8
	–	–	–	–	–	–	335.2	335.2
	–	–	–	–	–	–	104.3	104.3
	63.6	86.0	633.8	64.7	848.1	1,564.1	439.5	2,003.6
	(23.7)	(29.5)	(259.3)	(7.7)	(320.2)	(898.4)	–	(898.4)
	–	–	–	–	–	–	(354.2)	(354.2)
	–	–	–	–	–	–	(100.0)	(100.0)
	(23.7)	(29.5)	(259.3)	(7.7)	(320.2)	(898.4)	(454.2)	(1,352.6)

	Retail							
2006	Australia £m	Europe £m	United Kingdom £m	Emerging Markets £m	Total Retail £m	Total pre Central £m	Central £m	Total £m
	1.2	4.3	23.1	0.5	29.1	49.9	0.8	50.7
	–	0.8	–	–	0.8	36.5	–	36.5
	–	–	2.1	0.1	2.2	2.9	0.2	3.1

Notes to the accounts continued

1 Segmental analysis continued

Secondary reporting format – business segments continued

2005	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Revenue								
Total revenue	518.3	816.7	242.3	719.6	116.0	95.9	214.0	2,722.8
Inter-segment revenue	(113.0)	(144.3)	–	–	(1.1)	(39.7)	–	(298.1)
Revenue from third parties	405.3	672.4	242.3	719.6	114.9	56.2	214.0	2,424.7
Results								
Operating profit before exceptional items	25.8	33.8	28.8	62.1	0.4	5.4	20.0	176.3
Exceptional items	–	–	–	–	(19.5)	–	–	(19.5)
Segment result	25.8	33.8	28.8	62.1	(19.1)	5.4	20.0	156.8
Share of profit after tax of joint ventures and associates	–	1.8	3.0	–	1.2	–	0.2	6.2
Profit before finance and tax	25.8	35.6	31.8	62.1	(17.9)	5.4	20.2	163.0
Finance income								
Finance costs								
Profit before tax								
Tax								
Profit for the year								

2005	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Segment assets and liabilities								
Segment assets	75.2	227.1	58.8	113.1	110.6	11.6	62.5	658.9
Investment in joint ventures and associates	–	7.2	32.6	–	4.6	–	0.3	44.7
Cash and cash equivalents	–	–	–	–	–	–	–	–
Other unallocated assets*	–	–	–	–	–	–	–	–
Total assets	75.2	234.3	91.4	113.1	115.2	11.6	62.8	703.6
Segment liabilities	(131.5)	(209.4)	(22.6)	(43.1)	(56.1)	(6.8)	(31.5)	(501.0)
External borrowings	–	–	–	–	–	–	–	–
Other unallocated liabilities*	–	–	–	–	–	–	–	–
Total liabilities	(131.5)	(209.4)	(22.6)	(43.1)	(56.1)	(6.8)	(31.5)	(501.0)

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

2005	Australia £m	Europe £m	Hong Kong £m	Singapore £m	United Kingdom £m	Emerging Markets £m	Rest of World £m	Distribution Total Distribution £m
Other segment items								
Capital expenditure:								
– Property, plant and equipment	1.6	0.9	1.4	2.2	11.9	1.5	4.5	24.0
– Vehicles subject to residual value commitments	–	14.1	–	–	16.3	–	–	30.4
– Intangible assets	–	0.5	–	0.2	0.2	0.2	–	1.1

2005	Australia £m	Europe £m	United Kingdom £m	Emerging Markets £m	Retail Total Retail £m	Total pre Central £m	Central £m	Total £m
	207.4	362.2	1,415.4	78.4	2,063.4	4,786.2	–	4,786.2
	–	–	–	–	–	(298.1)	–	(298.1)
	207.4	362.2	1,415.4	78.4	2,063.4	4,488.1	–	4,488.1
	6.1	(4.6)	28.8	1.6	31.9	208.2	(18.8)	189.4
	–	–	–	–	–	(19.5)	6.5	(13.0)
	6.1	(4.6)	28.8	1.6	31.9	188.7	(12.3)	176.4
	–	–	–	–	–	6.2	–	6.2
	6.1	(4.6)	28.8	1.6	31.9	194.9	(12.3)	182.6
								44.7
								(50.0)
								177.3
								(46.9)
								130.4

2005	Australia £m	Europe £m	United Kingdom £m	Emerging Markets £m	Retail Total Retail £m	Total pre unallocated £m	Unallocated £m	Total £m
	54.9	75.5	472.5	20.2	623.1	1,282.0	–	1,282.0
	–	–	–	–	–	44.7	–	44.7
	–	–	–	–	–	–	309.0	309.0
	–	–	–	–	–	–	37.4	37.4
	54.9	75.5	472.5	20.2	623.1	1,326.7	346.4	1,673.1
	(17.3)	(27.9)	(268.4)	(5.9)	(319.5)	(820.5)	–	(820.5)
	–	–	–	–	–	–	(151.0)	(151.0)
	–	–	–	–	–	–	(110.4)	(110.4)
	(17.3)	(27.9)	(268.4)	(5.9)	(319.5)	(820.5)	(261.4)	(1,081.9)

2005	Australia £m	Europe £m	United Kingdom £m	Emerging Markets £m	Retail Total Retail £m	Total pre Central £m	Central £m	Total £m
	0.4	3.9	34.1	0.7	39.1	63.1	0.4	63.5
	–	–	5.0	–	5.0	35.4	–	35.4
	–	0.4	0.7	–	1.1	2.2	–	2.2

Notes to the accounts continued

2 Exceptional items

	2006 £m	2005 £m
Provision release arising from non-motors business exits	–	6.5
Goodwill impairment	–	(19.5)
Operating exceptional items	–	(13.0)
Exceptional tax (note 8)	**8.0**	–
Total exceptional items	**8.0**	(13.0)

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

3 Revenue and expenses

a **Revenue**
An analysis of the Group's revenue for the year is as follows:

	2006 £m	2005 £m
Sale of goods	**4,462.2**	4,133.7
Rendering of services	**379.9**	354.4
	4,842.1	4,488.1

b **Analysis of net operating expenses**

	Net operating expenses before exceptional items 2006 £m	Exceptional items 2006 £m	Net operating expenses 2006 £m	Net operating expenses before exceptional items 2005 £m	Exceptional items 2005 £m	Net operating expenses 2005 £m
Distribution costs	**273.9**	–	**273.9**	249.8	–	249.8
Administrative expenses	**224.2**	–	**224.2**	204.6	13.0	217.6
Other operating income	**(2.2)**	–	**(2.2)**	(3.1)	–	(3.1)
	495.9	–	**495.9**	451.3	13.0	464.3

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

	2006 £m	2005 £m
Depreciation of property, plant and equipment:		
– Owned assets	**22.7**	22.3
– Assets held under finance leases	**0.6**	0.5
– Vehicles subject to residual value commitments	**14.1**	15.1
Amortisation of intangible assets	**4.0**	3.2
Impairment of goodwill	–	19.5
Profit on sale of property, plant and equipment	**(0.6)**	(2.1)
Operating lease rentals	**35.3**	32.4

3 Revenue and expenses continued

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

	2006 £m	2005 £m
Audit services:		
– Fees payable for the audit of the parent Company and the consolidated accounts	0.4	0.4
Non-audit services		
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	1.2	1.1
– Other services supplied pursuant to such legislation	0.1	–
– Services relating to taxation	0.5	0.5
– All other services	0.2	0.4
	2.0	2.0
Total fees payable to PricewaterhouseCoopers LLP	2.4	2.4
Audit fees – firms other than PricewaterhouseCoopers LLP	0.1	0.1

Staff costs	2006 £m	2005 £m
Wages and salaries	266.9	242.9
Social security costs	32.7	26.5
Other pension costs	10.1	11.2
	309.7	280.6

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

The average number of employees are as follows:

By geographical segment	2006 Number	2005 Number
Australia	1,023	832
Europe	1,495	1,496
Hong Kong	1,158	1,159
Singapore	821	773
UK	5,287	4,736
Emerging Markets	518	388
Rest of World	1,053	974
Total operational	11,355	10,358
Central	77	67
	11,432	10,425

By business segment	2006 Number	2005 Number
Distribution	5,068	5,038
Retail	6,287	5,320
Total operational	11,355	10,358
Central	77	67
	11,432	10,425

Notes to the accounts continued

4 Share-based payments

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

The expense arising from share-based payment transactions during the year is £4.5m (2005 – £2.9m), all of which is equity-settled.

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

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

	Weighted average exercise price*		Executive Share Option Plan		Save As You Earn Plan		Deferred Bonus Plan	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Outstanding at 1 January	**£2.33**	£1.63	**9,612,390**	10,882,440	**2,842,980**	3,487,602	**1,122,786**	1,126,512
Granted during the year	**£4.29**	£3.30	**3,198,896**	3,459,816	**983,119**	906,540	**350,560**	555,216
Exercised during the year	**£1.80**	£1.09	**(2,397,453)**	(3,396,210)	**(804,808)**	(1,003,656)	**(382,422)**	(373,542)
Lapsed during the year	**£2.86**	£2.17	**(634,686)**	(1,333,656)	**(290,696)**	(547,506)	**(171,516)**	(185,400)
Outstanding at 31 December	**£3.06**	£2.33	**9,779,147**	9,612,390	**2,730,595**	2,842,980	**919,408**	1,122,786

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

Included in the table above are 907,756 (2005 – 1,047,756) share options outstanding at 31 December granted before 7 November 2002 which have been excluded from the share-based payments charge in accordance with the IFRS 2 transitional provisions.

The weighted average remaining contractual life for the share options outstanding at 31 December is 6.2 years (2005 – 6.4 years).

The range of exercise prices for options outstanding at 31 December was £0.47 to £4.57 (2005 – £0.47 to £3.58). See note 24 for further details.

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the main inputs to the model for shares granted during the years ended 31 December 2006 and 31 December 2005:

	Executive Share Option Plan		Save As You Earn Plan		Deferred Bonus Plan	
	2006	2005	**2006**	2005	**2006**	2005
Weighted average share price at grant date	**£4.45**	£3.45	**£4.68**	£3.40	**£4.11**	£3.33
Weighted average exercise price	**£4.45**	£3.45	**£3.74**	£2.72	**n/a**	n/a
Vesting period	**3.0 years**	3.0 years	**3.0 years**	3.0 years	**3.0 years**	3.0 years
Expected volatility	**25.0%**	34.0%	**25.0%**	34.0%	**n/a**	n/a
Expected life of option	**4.0 years**	4.0 years	**3.2 years**	3.2 years	**3.0 years**	3.0 years
Weighted average risk free rate	**4.5%**	4.6%	**4.6%**	4.4%	**4.5%**	4.5%
Expected dividend yield	**3.0%**	2.5%	**3.0%**	2.5%	**3.0%**	2.5%
Weighted average fair value per option	**£0.87**	£0.94	**£1.06**	£0.88	**£4.11**	£3.33

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

5 Pensions and other post-retirement benefits

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

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

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

5 Pensions and other post-retirement benefits continued

a **UK schemes**

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

(i) ***Open schemes***

Inchcape Group (UK) Pension Scheme

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

Inchcape Motors Pension Scheme

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

Inchcape Overseas Pension Scheme

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

(ii) ***Closed scheme***

TKM Group Pension Scheme

The latest triennial actuarial valuation for this closed scheme was carried out at 5 April 2004 on a market related basis and determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit method. The scheme has a prudent investment strategy and, as at 5 April 2004, had only 0.9% invested in equities with the remainder invested in bonds. Approximately half the members are pensioners and half are deferred pensioners and as such no further pension accrual arises.

b **Overseas schemes**

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

c **Defined contribution plans**

The total expense recognised in the income statement is £2.1m (2005 – £2.4m). Outstanding contributions to defined contribution schemes are £0.1m (2005 – £nil).

d **Defined benefit plans**

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

The principal weighted average assumptions used by the actuaries were:

	United Kingdom		Overseas	
	2006 %	2005 %	**2006 %**	2005 %
Rate of increase in salaries	**4.9**	4.7	**5.0**	4.7
Rate of increase in pensions	**2.9**	2.7	**1.7**	1.7
Discount rate	**5.1**	4.8	**4.0**	4.4
Inflation	**2.9**	2.7	**0.9**	0.7
Expected return on plan assets	**5.7**	5.4	**7.5**	6.3

The rate of increase in healthcare cost is 4.5% (2005 – 4.5%) per annum but with higher increases in the first ten years.

Assumptions regarding future mortality experience are set based on published statistics and experience. For the UK schemes, the average life expectancy of a pensioner retiring at age 65 is 20.6 years (2005 – 19.8 years) for current pensioners and 22.2 years (2005 – 21.3 years) for current non pensioners. Most of the overseas schemes only offer a lump sum on retirement and therefore mortality assumptions are not applicable.

Notes to the accounts continued

5 Pensions and other post-retirement benefits continued

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

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

	United Kingdom		Overseas		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Present value of funded obligations	**(724.8)**	(717.4)	**(27.3)**	(27.5)	**(752.1)**	(744.9)
Fair value of plan assets	**706.5**	653.9	**26.8**	25.6	**733.3**	679.5
Deficit in funded obligations	**(18.3)**	(63.5)	**(0.5)**	(1.9)	**(18.8)**	(65.4)
Irrecoverable surplus	**–**	–	**(0.2)**	(0.3)	**(0.2)**	(0.3)
Net deficit in funded obligations	**(18.3)**	(63.5)	**(0.7)**	(2.2)	**(19.0)**	(65.7)
Present value of unfunded obligations	**(2.7)**	(2.5)	**(1.0)**	(1.2)	**(3.7)**	(3.7)
	(21.0)	(66.0)	**(1.7)**	(3.4)	**(22.7)**	(69.4)

The amounts recognised in the income statement are as follows:

	United Kingdom		Overseas		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Current service cost	**(5.8)**	(6.0)	**(1.8)**	(2.3)	**(7.6)**	(8.3)
Past service cost	**(0.4)**	(0.5)	**–**	–	**(0.4)**	(0.5)
Interest expense on plan liabilities	**(34.0)**	(32.4)	**(1.3)**	(1.0)	**(35.3)**	(33.4)
Expected return on plan assets	**36.1**	32.4	**1.6**	1.4	**37.7**	33.8
	(4.1)	(6.5)	**(1.5)**	(1.9)	**(5.6)**	(8.4)

The actual return on plan assets amounts to £41.5 m (2005 – £79.9m).

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

	Cost of sales		Distribution costs		Administrative expenses		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Current service cost	**(0.4)**	(0.4)	**(0.7)**	(0.8)	**(6.5)**	(7.1)	**(7.6)**	(8.3)
Past service cost	**–**	–	**–**	–	**(0.4)**	(0.5)	**(0.4)**	(0.5)
	(0.4)	(0.4)	**(0.7)**	(0.8)	**(6.9)**	(7.6)	**(8.0)**	(8.8)
Interest expense on plan liabilities							**(35.3)**	(33.4)
Expected return on plan assets							**37.7**	33.8
							(5.6)	(8.4)

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

	United Kingdom		Overseas		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Actuarial gains and losses on liabilities:						
– Experience gains and losses	**8.8**	0.3	**(0.2)**	0.1	**8.6**	0.4
– Changes in assumptions	**(6.2)**	(87.2)	**(0.9)**	1.1	**(7.1)**	(86.1)
Actuarial gains and losses on assets:						
– Experience gains and losses	**1.6**	45.7	**2.2**	0.4	**3.8**	46.1
Reversal of irrecoverable surplus	**–**	24.3	**–**	–	**–**	24.3
	4.2	(16.9)	**1.1**	1.6	**5.3**	(15.3)

5 Pensions and other post-retirement benefits continued

As a result of the 'A-Day' changes to pension legislation (effective 6 April 2006) members of the Group's pension schemes are allowed increased control over their entitlement to pension benefits. The rule change permits greater commutation of pension benefits, giving members earlier access to their cash benefit (at reduced amounts) sooner than would otherwise be available. The effect of this change was to reduce the scheme liabilities by £3.6m which has been reflected in the SORIE.

Analysis of the movement in the balance sheet net liability:

	United Kingdom		Overseas		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
At 1 January	**(66.0)**	(29.5)	**(3.1)**	(4.9)	**(69.1)**	(34.4)
Amount recognised in the income statement	**(4.1)**	(6.5)	**(1.5)**	(1.9)	**(5.6)**	(8.4)
Contributions by employer	**44.9**	11.6	**2.0**	2.1	**46.9**	13.7
Actuarial gains and losses recognised in the SORIE	**4.2**	(16.9)	**1.1**	1.6	**5.3**	(15.3)
Unwinding of surplus	**–**	(24.3)	**–**	–	**–**	(24.3)
Other movements	**–**	(0.4)	**–**	–	**–**	(0.4)
At 31 December	**(21.0)**	(66.0)	**(1.5)**	(3.1)	**(22.5)**	(69.1)
Irrecoverable surplus	**–**	–	**(0.2)**	(0.3)	**(0.2)**	(0.3)
	(21.0)	(66.0)	**(1.7)**	(3.4)	**(22.7)**	(69.4)

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

	United Kingdom		Overseas		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
At 1 January	**(719.9)**	(622.2)	**(28.7)**	(25.4)	**(748.6)**	(647.6)
Current service cost	**(5.8)**	(6.0)	**(1.8)**	(2.3)	**(7.6)**	(8.3)
Past service cost	**(0.4)**	(0.5)	**–**	–	**(0.4)**	(0.5)
Interest expense on plan liabilities	**(34.0)**	(32.4)	**(1.3)**	(1.0)	**(35.3)**	(33.4)
Actuarial gains and losses:						
– Experience gains and losses	**8.8**	0.3	**(0.2)**	0.1	**8.6**	0.4
– Changes in assumptions	**(6.2)**	(87.2)	**(0.9)**	1.1	**(7.1)**	(86.1)
Contributions by employees	**(2.1)**	(2.0)	**(0.1)**	(0.1)	**(2.2)**	(2.1)
Benefits paid	**32.1**	30.5	**1.6**	1.1	**33.7**	31.6
Other movements	**–**	(0.4)	**–**	–	**–**	(0.4)
Effect of foreign exchange rate changes	**–**	–	**3.1**	(2.2)	**3.1**	(2.2)
At 31 December	**(727.5)**	(719.9)	**(28.3)**	(28.7)	**(755.8)**	(748.6)

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

	United Kingdom		Overseas		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
At 1 January	**653.9**	592.7	**25.6**	20.5	**679.5**	613.2
Expected return on plan assets	**36.1**	32.4	**1.6**	1.4	**37.7**	33.8
Actuarial gains and losses:						
– Experience gains and losses	**1.6**	45.7	**2.2**	0.4	**3.8**	46.1
Contributions by employer	**44.9**	11.6	**2.0**	2.1	**46.9**	13.7
Contributions by employees	**2.1**	2.0	**0.1**	0.1	**2.2**	2.1
Benefits paid	**(32.1)**	(30.5)	**(1.6)**	(1.1)	**(33.7)**	(31.6)
Effect of foreign exchange rate changes	**–**	–	**(3.1)**	2.2	**(3.1)**	2.2
At 31 December	**706.5**	653.9	**26.8**	25.6	**733.3**	679.5
Irrecoverable surplus	**–**	–	**(0.2)**	(0.3)	**(0.2)**	(0.3)
Revised value at 31 December	**706.5**	653.9	**26.6**	25.3	**733.1**	679.2

Notes to the accounts continued

5 Pensions and other post-retirement benefits continued

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

	United Kingdom		Overseas		Total	
	2006 %	2005 %	2006 %	2005 %	2006 %	2005 %
Equities	**31.8**	31.7	**65.1**	63.6	**32.9**	33.0
Corporate bonds	**20.8**	25.8	**22.3**	18.4	**20.9**	25.5
Government bonds	**36.9**	36.7	**–**	–	**35.6**	35.3
Other	**10.5**	5.8	**12.6**	18.0	**10.6**	6.2
	100.0	100.0	**100.0**	100.0	**100.0**	100.0

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

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

The cumulative actuarial gains and losses arising since 1 January 2004 recognised in shareholders' equity amounted to a £20.0m loss at 31 December 2006 (2005 – £25.4m loss).

The Group has agreed to pay c. £20.0m to its defined benefit plans in 2007.

6 Finance income

	2006 £m	2005 £m
Bank interest receivable	**8.8**	6.5
Expected return on post-retirement plan assets	**37.7**	33.8
Other interest receivable	**2.5**	4.4
Total finance income	**49.0**	44.7

7 Finance costs

	2006 £m	2005 £m
Bank interest payable	**3.8**	2.8
Stock holding interest	**11.2**	8.7
Interest expense on post-retirement plan liabilities	**35.3**	33.4
Other interest payable	**4.6**	5.1
Total finance costs	**54.9**	50.0

8 Tax

	2006 £m	2005 £m
Current tax:		
– UK corporation tax	**18.1**	9.8
– Double tax relief	**(11.2)**	(8.7)
	6.9	1.1
Overseas tax	**49.4**	47.2
	56.3	48.3
Adjustments to prior year liabilities:		
– UK	**(1.4)**	0.2
– Overseas	**(1.8)**	(1.0)
Current tax	**53.1**	47.5
Deferred tax (note 16)	**(8.0)**	(0.6)
Tax before exceptional tax	**45.1**	46.9
Exceptional tax (note 2)	**(8.0)**	–
Total tax charge	**37.1**	46.9

The effective tax rate for the year of 17.3% (2005 – 26.5%) is lower (higher for 2005) than the standard rate of tax of 24.5% (2005 – 23.9%) as explained below. The standard rate comprises the average statutory rates across the Group, weighted in proportion to accounting profits.

	2006 £m	2005 £m
Profit before tax	**213.9**	177.3
Profit before tax multiplied by the standard rate of tax of 24.5% (2005 – 23.9%)	**52.4**	42.4
Effects of:		
– Untaxed provision releases	**–**	(4.3)
– Tax on goodwill	**–**	5.4
– Permanently disallowable items	**3.2**	3.1
– Unrelieved losses	**1.0**	2.8
– Losses brought forward utilised	**(0.3)**	(0.6)
– Withholding tax	**–**	0.4
– Prior year items	**(8.6)**	(0.8)
– Exceptional tax credit	**(8.0)**	–
– Other items	**(1.2)**	–
– Tax on share of profit of joint ventures and associates	**(1.4)**	(1.5)
Total tax charge	**37.1**	46.9

The subsidiaries Headline tax rate, defined as tax on profit before exceptional items and excluding the Group's share of profit after tax of joint ventures and associates, for the year is 21.7% (2005 – 25.5%).

Notes to the accounts continued

9 Earnings per share

	2006 £m	2005 £m
Profit for the year	**176.8**	130.4
Minority interests	**(2.9)**	(3.8)
Basic earnings	**173.9**	126.6
Exceptional items (including tax exceptional)	**(8.0)**	13.0
Headline earnings	**165.9**	139.6
Basic earnings per share	**37.5p**	27.0p
Diluted earnings per share	**37.1p**	26.8p
Basic Headline earnings per share	**35.7p**	29.8p
Diluted Headline earnings per share	**35.4p**	29.5p

	2006 Number	2005 Number
Weighted average number of fully paid ordinary shares in issue during the year	**481,212,798**	479,060,496
Weighted average number of fully paid ordinary shares in issue during the year:		
– Held by the ESOP Trust	**(2,127,884)**	(3,115,806)
– Repurchased as part of the share buy back programme	**(15,031,175)**	(6,684,408)
Weighted average number of fully paid ordinary shares for the purposes of basic earnings per share	**464,053,739**	469,260,282
Dilutive effect of potential ordinary shares	**4,076,256**	3,624,888
Adjusted weighted average number of fully paid ordinary shares in issue during the year for the purposes of diluted earnings per share	**468,129,995**	472,885,170

Following the six for one share split on 15 May 2006, the comparative number of shares and the earnings per share have been restated accordingly.

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

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

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

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

10 Dividends

The following dividends were paid by the Group:

	2006 £m	2005 £m
Interim dividend for the six months ended 30 June 2006 of 5.0p per share (2005 – 3.2p per share)	**23.0**	14.8
Final dividend for the year ended 31 December 2005 of 6.3p per share (2004 – 5.8p per share)	**29.6**	27.2
	52.6	42.0

The final proposed dividend for the year ended 31 December 2006 of 10.0p per share (£46.2m) is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2006.

Dividends paid above exclude £1.9m (2005 – £1.2m) payable on treasury shares and shares held by the ESOP Trust.

11 Intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2005	82.1	24.1	106.2
Businesses acquired	–	0.5	0.5
Additions	10.3	2.2	12.5
Effect of foreign exchange rate changes	1.2	0.1	1.3
At 1 January 2006	**93.6**	**26.9**	**120.5**
Businesses acquired	**–**	**1.6**	**1.6**
Additions	**79.3**	**3.1**	**82.4**
Disposals	**(0.1)**	**(0.3)**	**(0.4)**
Effect of foreign exchange rate changes	**(1.4)**	**(0.4)**	**(1.8)**
At 31 December 2006	**171.4**	**30.9**	**202.3**
Amortisation and impairment			
At 1 January 2005	(10.6)	(17.6)	(28.2)
Amortisation charge for the year	–	(3.2)	(3.2)
Impairment charge for the year	(19.5)	–	(19.5)
Effect of foreign exchange rate changes	–	(0.1)	(0.1)
At 1 January 2006	**(30.1)**	**(20.9)**	**(51.0)**
Amortisation charge for the year	**–**	**(4.0)**	**(4.0)**
Disposals	**–**	**0.3**	**0.3**
Effect of foreign exchange rate changes	**–**	**0.3**	**0.3**
At 31 December 2006	**(30.1)**	**(24.3)**	**(54.4)**
Net book value at 31 December 2006	**141.3**	**6.6**	**147.9**
Net book value at 31 December 2005	63.5	6.0	69.5

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

	2006 £m	2005 £m
UK Retail	**90.5**	43.5
Singapore	**13.5**	14.2
Russia	**26.1**	–
Other	**11.2**	5.8
	141.3	63.5

Goodwill additions in 2006 arise mainly from the acquisition of Lind in the UK and Olimp in St Petersburg, Russia (note 27).

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

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

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

Notes to the accounts continued

11 Intangible assets continued

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

Singapore
In Singapore, forecast cash flows reflect the anticipated softening of the vehicle market to more normalised levels driven by reducing fiscal incentives in the region. The cash flows, discounted at a pre-tax rate of 10.8%, are still however substantially in excess of the carrying amount of the assets of the business. The long term growth rate applied is based upon the long term growth rate of the local economy of 2.0%.

Russia
The operations in Russia were acquired in December 2006. The goodwill is supported by the forecast cash flows prepared by management to calculate the purchase price. Forecast cash flows were discounted at a pre-tax rate of 15.0%. The growth rate in the first three years is assumed to be 18.0%, and the long term growth rate is based upon the long term growth rate of the local economy of 3.3%.

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

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

12 Property, plant and equipment

	Freehold land and freehold and leasehold buildings £m	Plant, machinery and equipment £m	Subtotal £m	Vehicles subject to residual value commitments £m	Total £m
Cost					
At 1 January 2005	219.4	135.3	354.7	74.8	429.5
Businesses acquired	15.3	2.3	17.6	0.2	17.8
Businesses sold	(1.8)	(0.4)	(2.2)	–	(2.2)
Additions	36.7	26.8	63.5	35.4	98.9
Disposals	(9.0)	(15.9)	(24.9)	(29.8)	(54.7)
Transfer to Investments in joint ventures and associates (note 13)	–	(0.9)	(0.9)	–	(0.9)
Effect of foreign exchange rate changes	6.1	3.3	9.4	(0.7)	8.7
At 1 January 2006	**266.7**	**150.5**	**417.2**	**79.9**	**497.1**
Businesses acquired	**63.7**	**4.7**	**68.4**	**–**	**68.4**
Businesses sold	**(1.1)**	**(4.9)**	**(6.0)**	**–**	**(6.0)**
Additions	**23.0**	**27.7**	**50.7**	**36.5**	**87.2**
Disposals	**(6.2)**	**(13.0)**	**(19.2)**	**(35.3)**	**(54.5)**
Effect of foreign exchange rate changes	**(7.4)**	**(6.3)**	**(13.7)**	**(0.7)**	**(14.4)**
At 31 December 2006	**338.7**	**158.7**	**497.4**	**80.4**	**577.8**

12 Property, plant and equipment continued

	Freehold land and freehold and leasehold buildings £m	Plant, machinery and equipment £m	Subtotal £m	Vehicles subject to residual value commitments £m	Total £m
Depreciation					
At 1 January 2005	(26.1)	(83.7)	(109.8)	(23.8)	(133.6)
Businesses sold	0.4	0.3	0.7	–	0.7
Depreciation charge for the year	(6.6)	(16.2)	(22.8)	(15.1)	(37.9)
Disposals	1.0	8.4	9.4	14.1	23.5
Transfer to Investments in joint ventures and associates (note 13)	–	0.4	0.4	–	0.4
Effect of foreign exchange rate changes	(1.2)	(2.3)	(3.5)	–	(3.5)
At 1 January 2006	**(32.5)**	**(93.1)**	**(125.6)**	**(24.8)**	**(150.4)**
Businesses sold	**0.6**	**3.0**	**3.6**	**–**	**3.6**
Depreciation charge for the year	**(6.1)**	**(17.2)**	**(23.3)**	**(14.1)**	**(37.4)**
Disposals	**0.8**	**7.6**	**8.4**	**19.5**	**27.9**
Effect of foreign exchange rate changes	**1.3**	**4.1**	**5.4**	**0.1**	**5.5**
At 31 December 2006	**(35.9)**	**(95.6)**	**(131.5)**	**(19.3)**	**(150.8)**
Net book value at 31 December 2006	**302.8**	**63.1**	**365.9**	**61.1**	**427.0**
Net book value at 31 December 2005	234.2	57.4	291.6	55.1	346.7

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

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

	2006 £m	2005 £m
Leasehold buildings	**4.9**	4.8
Plant, machinery and equipment	**0.5**	0.6
	5.4	5.4

The book value of land and buildings is analysed between:

	2006 £m	2005 £m
Freehold	**255.6**	186.3
Leasehold with over fifty years unexpired	**15.4**	14.6
Short leasehold	**31.8**	33.3
	302.8	234.2

13 Investments in joint ventures and associates

	2006 £m	2005 £m
At 1 January	**44.7**	42.7
Additions	**0.6**	1.2
Share of profit after tax of joint ventures and associates	**5.9**	6.2
Fair value (losses) gains transferred to hedging reserve	**(0.3)**	0.2
Dividends paid	**(0.4)**	(9.7)
Transfer to Assets held for sale (note 20)	**(30.8)**	–
Transfer from Property, plant and equipment (note 12)	**–**	0.5
Effect of foreign exchange rate changes	**(4.6)**	3.6
At 31 December	**15.1**	44.7

Notes to the accounts continued

13 Investments in joint ventures and associates continued

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

	Joint ventures		Associates		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Non-current assets	**81.9**	174.0	**11.2**	14.8	**93.1**	188.8
Current assets	**97.7**	183.3	**34.3**	36.6	**132.0**	219.9
Group's share of gross assets	**179.6**	357.3	**45.5**	51.4	**225.1**	408.7
Current liabilities	**(80.7)**	(172.8)	**(31.7)**	(36.9)	**(112.4)**	(209.7)
Non-current liabilities	**(89.1)**	(144.2)	**(8.5)**	(10.1)	**(97.6)**	(154.3)
Group's share of gross liabilities	**(169.8)**	(317.0)	**(40.2)**	(47.0)	**(210.0)**	(364.0)
Group's share of net assets	**9.8**	40.3	**5.3**	4.4	**15.1**	44.7

Group's share of results of joint ventures and associates

Revenue	**26.1**	20.0	**4.5**	3.9	**30.6**	23.9
Expenses	**(20.0)**	(13.6)	**(3.3)**	(2.7)	**(23.3)**	(16.3)
Profit before tax	**6.1**	6.4	**1.2**	1.2	**7.3**	7.6
Tax	**(1.1)**	(1.1)	**(0.3)**	(0.3)	**(1.4)**	(1.4)
Share of profit after tax of joint ventures and associates	**5.0**	5.3	**0.9**	0.9	**5.9**	6.2

In December 2006 the Group announced its intention to dispose of its 50.0% share in Inchroy Credit Corporation Limited. The carrying value of the investment has therefore been transferred to current assets and classified as Assets held for sale. The disposal was completed on 1 February 2007 (note 32).

The Group's share of results of joint ventures and associates disclosed above includes the results of Inchroy for the full year.

Guarantees provided in respect of joint ventures and associates borrowings amount to £7.9m (2005 – £9.7m).

14 Available for sale financial assets

	2006 £m	2005 £m
At 1 January	**17.4**	15.4
Additions	**53.0**	6.7
Disposals	**(3.1)**	(6.2)
Fair value movements transferred to shareholders' equity	**(1.9)**	2.3
Effect of foreign exchange rate changes	**(0.4)**	(0.8)
At 31 December	**65.0**	17.4

Analysed as:

	2006 £m	2005 £m
Non-current	**12.2**	15.0
Current	**52.8**	2.4
	65.0	17.4

Assets held are analysed as follows:

	2006 £m	2005 £m
Equity securities	**49.9**	1.1
Bonds	**13.6**	13.6
Other	**1.5**	2.7
	65.0	17.4

14 Available for sale financial assets continued

Equity securities principally comprise the acquisition of 18.55% of the share capital of European Motor Holdings plc in December 2006. The Group obtained control of this business on 29 January 2007, from which date the results will be consolidated as a subsidiary (note 32). These equity securities are not subject to interest rates and do not have fixed maturity dates. At year end, they were valued by reference to traded market values.

At 31 December 2006 the bonds attracted a weighted average fixed interest rate of 4.9% (2005 – 5.4%) and had a face value of £13.6m (2005 – £12.6m). The bonds are traded on active markets with coupons generally paid on an annual basis.

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

	Less than one year £m	Between one and two years £m	Between two and three years £m	Between three and four years £m	Between four and five years £m	Greater than five years £m	Total interest bearing £m
2006	**1.4**	**0.4**	**1.3**	**0.3**	**1.2**	**9.0**	**13.6**
2005	1.3	1.5	0.5	0.6	0.3	9.4	13.6

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

15 Trade and other receivables

	Current		Non-current	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Trade receivables	**120.6**	133.1	**–**	–
Less: provision for impairment of trade receivables	**(4.2)**	(4.7)	**–**	–
Net trade receivables	**116.4**	128.4	**–**	–
Amounts receivable from related parties	**5.3**	6.6	**4.3**	4.8
Prepayments and accrued income	**54.3**	50.6	**0.2**	0.2
Other receivables	**35.4**	35.5	**18.7**	17.4
	211.4	221.1	**23.2**	22.4

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

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

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

16 Deferred tax

Net deferred tax asset	Pension and other post-retirement benefits £m	Share-based payments £m	Tax losses £m	Accelerated tax depreciation £m	Provisions and other timing differences £m	Cash flow hedges £m	Total £m
At 1 January 2006	**–**	**3.5**	**1.4**	**(1.7)**	**4.6**	**2.1**	**9.9**
Businesses acquired	**–**	**–**	**–**	**–**	**(5.7)**	**–**	**(5.7)**
Credited (charged) to the income statement	**(1.1)**	**1.3**	**(0.4)**	**7.6**	**0.6**	**–**	**8.0**
Credited to shareholders' equity (note 25a)	**6.9**	**0.9**	**–**	**–**	**–**	**6.6**	**14.4**
Effect of foreign exchange rate changes	**–**	**–**	**–**	**–**	**(0.7)**	**–**	**(0.7)**
At 31 December 2006	**5.8**	**5.7**	**1.0**	**5.9**	**(1.2)**	**8.7**	**25.9**

Notes to the accounts continued

16 Deferred tax continued

Analysed as:

	2006 £m	2005 £m
Deferred tax assets	**40.6**	23.4
Deferred tax liabilities	**(14.7)**	(13.5)
	25.9	9.9

Deferred tax has been recognised on pension and other post-retirement benefits following a re-evaluation of the future profitability of the UK business.

The Group has unrecognised deferred tax assets of £19.0m (2005 – £39.6m) relating to potential tax relief on trading losses. Of these £13.0m (2005 – £25.6m) relate to losses which exist within legal entities that are not currently forecast to generate taxable income in the foreseeable future, and £6.0m (2005 – £14.0m) relate to losses in companies which have closed. Of the unrecognised deferred tax assets that relate to tax losses, £4.3m (2005 – £6.5m) relate to restricted tax losses that will expire between 2007 and 2012.

The Group has unrecognised deferred tax assets of £46.0m (2005 – £69.0m) relating to capital losses.

No deferred tax is recognised on unremitted earnings of overseas subsidiaries, joint ventures and associates. The Group continually reinvests the earnings in the overseas territory, or has plans to remit them and no tax is expected to be payable on them in the foreseeable future. If all overseas earnings were remitted with immediate effect, tax of £28.0m (2005 – £20.3m) would be payable.

17 Inventories

	2006 £m	2005 £m
Raw materials and work in progress	**3.1**	3.0
Finished goods and merchandise	**701.5**	612.8
	704.6	615.8

Vehicles held on consignment which are in substance assets of the Group amount to £69.6m (2005 – £68.7m). These have been included in Finished goods and merchandise with the corresponding liability included within Trade and other payables. Payment becomes due when title passes to the Group, which is generally the earlier of six months from delivery or the date of sale.

An amount of £23.5m (2005 – £22.2m) has been provided against the gross cost of inventory at the year end. The cost of inventories recognised as an expense in the year is £3,711.3m (2005 – £3,301.0m). The write down of stock to net realisable value recognised as an expense during the year was £10.8m (2005 – £9.1m).

18 Derivative financial instruments

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

The Group's derivative financial instruments comprise the following:

	Assets		Liabilities	
	2006 £m	2005 £m	2006 £m	2005 £m
Forward foreign exchange contracts	**0.6**	2.1	**40.2**	12.6

The Group principally uses forward foreign exchange contracts to hedge purchases in a non-functional currency against movements in exchange rates. The cash flows relating to these contracts are generally expected to occur within twelve months of the balance sheet date.

The nominal principal amounts of the outstanding forward foreign exchange contracts relating to transactional exposures at 31 December 2006 are £629.4m (2005 – £569.1m).

Net fair value gains and losses recognised in the hedging reserve in shareholders' equity (note 25b) on forward foreign exchange contracts as at 31 December 2006 are expected to be released to the income statement within twelve months of the balance sheet date.

Derivative financial instruments are carried at their fair values. The fair value of forward foreign exchange contracts and foreign exchange swaps represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the spot rates of exchange prevailing at 31 December 2006.

19 Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**262.8**	217.5
Short term bank deposits	**72.4**	91.5
	335.2	309.0

Cash and cash equivalents are generally subject to floating interest rates determined by reference to short term benchmark rates applicable in the relevant currency or market (primarily LIBOR or the local equivalent). At 31 December 2006 the weighted average floating rate was 4.25% (2005 – 4.0%).

At 31 December 2006, short term bank deposits have a weighted average period to maturity of seventeen days (2005 – twenty seven days).

20 Assets held for sale

	2006 £m	2005 £m
Joint venture held for sale	**30.8**	–

In December 2006 the Group announced its intention to dispose of its 50.0% share in Inchroy Credit Corporation Limited. The carrying value of the investment has been reclassified from Investment in joint ventures and associates to Assets held for sale (note 32).

21 Trade and other payables

	Current		Non-current	
	2006 £m	2005 £m	2006 £m	2005 £m
Trade payables: payments received on account	**47.7**	38.1	**0.1**	0.1
other	**600.4**	496.7	**37.9**	43.0
Other taxation and social security payable	**16.7**	17.4	**0.6**	1.2
Accruals and deferred income	**116.2**	125.7	**0.7**	0.9
Amounts payable to related parties	**2.3**	1.9	**–**	–
Other payables	**8.2**	8.4	**0.1**	0.1
	791.5	688.2	**39.4**	45.3

At 31 December 2006 Trade payables – other includes £288.3m (2005 – £292.4m) of creditors where payment is made on deferred terms and is subject to a weighted average floating interest rate of 3.6% (2005 – 3.7%). This balance is expected to be settled within twelve months of the balance sheet date.

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

22 Provisions

	Product warranty £m	Vacant leasehold £m	Other £m	Total £m
At 1 January 2006	**39.3**	**5.4**	**13.4**	**58.1**
Charged to the income statement	**21.0**	**1.4**	**1.6**	**24.0**
Released to the income statement	**(4.6)**	**(0.5)**	**(2.4)**	**(7.5)**
Effect of unwinding of discount factor	**0.1**	**0.1**	**–**	**0.2**
Utilised during the year	**(13.7)**	**(1.0)**	**(1.9)**	**(16.6)**
Effect of foreign exchange rate changes	**(1.8)**	**–**	**(0.2)**	**(2.0)**
At 31 December 2006	**40.3**	**5.4**	**10.5**	**56.2**

Notes to the accounts continued

22 Provisions continued

Analysed as:

	2006 £m	2005 £m
Current	20.7	22.5
Non-current	35.5	35.6
	56.2	58.1

Product warranty
Certain Group companies provide self-insured extended warranties beyond those provided by the manufacturer, as part of the sale of the car. These are not separable products. The warranty periods covered are up to six years and/or specific mileage limits. Provision is made for the expected cost of labour and parts based on historical claims experience and expected future trends. These assumptions are reviewed regularly.

Vacant leasehold
The Group is committed to certain leasehold premises for which it no longer has a commercial use. These are principally located in the UK. Provision has been made to the extent of the estimated future net cost. This includes taking into account existing subtenant arrangements. The expected utilisation period of these provisions is generally over the next ten years.

Other
This category includes provision for the cost of implementing new European Block Exemption contracts throughout the dealer network in Belgium and a number of litigation provisions in respect of the exit of certain motors and non-motors businesses. These are generally expected to be settled within the next three years.

23 Borrowings

	Floating rate		Fixed rate				
2006	£m	Weighted average effective interest rate %	£m	Weighted average effective interest rate %	Total interest bearing £m	On which no interest is paid £m	2006 Total £m
Current							
Bank overdrafts	169.0	5.6	–	–	169.0	–	169.0
Bank loans	6.8	5.5	7.1	8.5	13.9	0.1	14.0
Finance leases	0.3	5.1	0.2	6.9	0.5	–	0.5
	176.1	5.6	7.3	8.4	183.4	0.1	183.5
Non-current							
Bank loans	165.0	5.6	–	–	165.0	0.9	165.9
Finance leases	2.2	5.3	2.6	7.0	4.8	–	4.8
	167.2	5.6	2.6	7.0	169.8	0.9	170.7
Total borrowings	343.3	5.6	9.9	8.0	353.2	1.0	354.2

	Floating rate		Fixed rate				
2005	£m	Weighted average effective interest rate %	£m	Weighted average effective interest rate %	Total interest bearing £m	On which no interest is paid £m	2005 Total £m
Current							
Bank overdrafts	143.1	5.2	–	–	143.1	–	143.1
Bank loans	1.8	4.8	–	–	1.8	0.1	1.9
Finance leases	0.2	5.1	0.2	9.2	0.4	–	0.4
	145.1	5.2	0.2	9.2	145.3	0.1	145.4
Non-current							
Bank loans	–	–	–	–	–	0.9	0.9
Finance leases	2.3	5.3	2.4	7.0	4.7	–	4.7
	2.3	5.3	2.4	7.0	4.7	0.9	5.6
Total borrowings	147.4	5.2	2.6	7.2	150.0	1.0	151.0

23 Borrowings continued

Interest payments on floating rate financial liabilities are determined by reference to short term benchmark rates applicable in the relevant currency or market (primarily LIBOR or the local equivalent).

The fair values of the Group's borrowings are not considered to be materially different from their book value.

As in 2005, the Group's borrowings are unsecured.

The Group has a syndicated committed borrowing facility of £275.0m, which matures in 2011, with the option of a further extension to 2012. As at year end, £165.0m had been drawn down under this facility.

In December 2006, the Group put in place a £325.0m facility with a 364 day term to finance the EMH acquisition, with an option to extend this by a further year. This facility was not drawn down at the year end. The Group intends to refinance this facility during 2007.

In addition, relationship banks have made available uncommitted borrowing facilities, which are used for liquidity management purposes.

The table below sets out the maturity profile of the Group's borrowings that are exposed to interest rate risk.

2006 Fixed rate	Less than one year £m	Between one and two years £m	Between two and three years £m	Between three and four years £m	Between four and five years £m	Greater than five years £m	Total interest bearing £m
Bank loans	**7.1**	**–**	**–**	**–**	**–**	**–**	**7.1**
Finance leases	**0.2**	**0.1**	**0.1**	**0.1**	**–**	**2.3**	**2.8**
Floating rate							
Bank overdrafts	**169.0**	**–**	**–**	**–**	**–**	**–**	**169.0**
Bank loans	**6.8**	**–**	**–**	**–**	**165.0**	**–**	**171.8**
Finance leases	**0.3**	**0.2**	**0.2**	**0.2**	**0.2**	**1.4**	**2.5**

2005 **Fixed rate**	Less than one year £m	Between one and two years £m	Between two and three years £m	Between three and four years £m	Between four and five years £m	Greater than five years £m	Total interest bearing £m
Finance leases	0.2	0.1	0.1	0.1	0.1	2.0	2.6
Floating rate							
Bank overdrafts	143.1	–	–	–	–	–	143.1
Bank loans	1.8	–	–	–	–	–	1.8
Finance leases	0.2	0.2	0.2	0.2	0.2	1.5	2.5

24 Share capital

a **Authorised**

	Number of shares		Ordinary share capital	
	2006 Number	2005 Number	**2006 £m**	2005 £m
Ordinary share capital (25.0p per share)	**786,000,000**	786,000,000	**196.5**	196.5

b **Allotted, called up and fully paid up**

	Number of shares		Ordinary share capital	
	2006 Number	2005 Number	**2006 £m**	2005 £m
Ordinary shares of 25.0p each				
At 1 January	**480,216,708**	477,939,462	**120.1**	119.5
Allotted under share option schemes	**2,082,275**	2,277,246	**0.5**	0.6
At 31 December	**482,298,983**	480,216,708	**120.6**	120.1

c **Share split**

On 15 May 2006, the Group effected a six for one share split reducing the nominal value of the Group's ordinary share capital from 150.0p per share to 25.0p per share and increasing the number of authorised ordinary shares from 131,000,000 to 786,000,000.

Notes to the accounts continued

24 Share capital continued

d Share buy back programme

During the year, the Group repurchased 7,792,578 (2005 – 10,088,028) of its own shares through purchases on the London Stock Exchange. The total consideration paid was £34.0m (2005 – £31.0m) and this has been deducted from the Retained earnings reserve (note 25). The shares repurchased during the year equate to 1.6% (2005 – 2.1%) of the issued share capital. The shares are held as treasury shares and may either be cancelled or used to satisfy share options at a later date.

e Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 4 March 2007 under the provisions of the Companies Act 1985 have been disclosed in the substantial shareholdings section of the Directors' report.

f Share options

At 31 December 2006, options to acquire ordinary shares of 25.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Number of ordinary shares at 25.0p each	Exercisable until	Option price
The Inchcape 1999 Share Option Plan – approved (Part II – UK)		
3,966	21 March 2011	64.0p
13,122	17 March 2012	114.1p
55,752	19 March 2013	127.0p
29,244	31 August 2013	205.1p
351,804	20 May 2014	262.0p
77,160	29 September 2014	259.1p
266,466	6 March 2015	342.6p
55,818	11 September 2015	358.0p
7,602	13 December 2015	394.3p
323,700	29 March 2016	445.3p
6,772	21 May 2016	443.0p
13,128	10 August 2016	457.0p
– unapproved (Part I – UK)		
17,514	17 March 2012	114.1p
555,222	15 October 2012	111.6p
269,022	19 March 2013	127.0p
14,616	31 August 2013	205.1p
979,356	20 May 2014	262.0p
44,748	29 September 2014	259.1p
865,229	6 March 2015	342.6p
414,798	11 September 2015	358.0p
5,706	13 December 2015	394.3p
1,428,766	29 March 2016	445.3p
340,857	21 May 2016	443.0p
29,539	10 August 2016	457.0p
– unapproved overseas (Part I – Overseas)		
15,462	7 September 2009	64.6p
31,680	9 August 2010	47.3p
148,428	21 March 2011	64.0p
122,562	17 March 2012	114.1p
302,082	19 March 2013	127.0p
2,436	31 August 2013	205.1p
1,201,782	20 May 2014	262.0p
982,560	6 March 2015	342.6p
802,248	29 March 2016	445.3p

Number of ordinary shares of 25.0p each	Exercisable until	Option price
The Inchcape SAYE Share Option Scheme – approved		
722,318	1 December 2007	195.1p
418,488	1 May 2008	222.6p
391,104	1 December 2008	274.1p
312,291	1 May 2009	282.5p
461,376	1 December 2009	345.3p
425,018	1 May 2010	368.0p

24 Share capital continued

Included within the Retained earnings reserve are 1,715,739 (2005 – 2,810,172) own ordinary shares held by the ESOP Trust, a general discretionary trust whose beneficiaries include current and former employees of the Group and their dependants. The book value of these shares at 31 December 2006 was £5.4m (2005 – £5.3m). The market value of these shares at 31 December 2006 was £8.7m and at 5 March 2007 was £8.7m (31 December 2005 – £10.7m, 3 March 2006 – £11.8m).

25 Reserves

a **Consolidated statement of changes in equity**

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Minority interest £m	Total shareholders' equity £m
At 1 January 2005	119.5	110.7	16.4	(20.2)	275.5	501.9	8.3	510.2
Total recognised income and expense for the year*	–	–	–	33.3	114.1	147.4	4.2	151.6
Share-based payments charge	–	–	–	–	2.9	2.9	–	2.9
Net disposal of own shares by ESOP Trust	–	–	–	–	0.1	0.1	–	0.1
Share buy back programme	–	–	–	–	(31.0)	(31.0)	–	(31.0)
Dividends:								
– Equity holders of the parent	–	–	–	–	(42.0)	(42.0)	–	(42.0)
– Minority interests	–	–	–	–	–	–	(3.0)	(3.0)
Issue of ordinary share capital	0.6	1.8	–	–	–	2.4	–	2.4
At 1 January 2006	**120.1**	**112.5**	**16.4**	**13.1**	**319.6**	**581.7**	**9.5**	**591.2**
Total recognised income and expense for the year*	**–**	**–**	**–**	**(50.8)**	**191.3**	**140.5**	**2.4**	**142.9**
Share-based payments charge	**–**	**–**	**–**	**–**	**4.5**	**4.5**	**–**	**4.5**
Net purchase of own shares by ESOP Trust	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**	**–**	**(0.2)**
Share buy back programme	**–**	**–**	**–**	**–**	**(34.0)**	**(34.0)**	**–**	**(34.0)**
Dividends:								
– Equity holders of the parent	**–**	**–**	**–**	**–**	**(52.6)**	**(52.6)**	**–**	**(52.6)**
– Minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**(3.9)**	**(3.9)**
Issue of ordinary share capital	**0.5**	**3.4**	**–**	**–**	**–**	**3.9**	**–**	**3.9**
Acquisition of minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**
At 31 December 2006	**120.6**	**115.9**	**16.4**	**(37.7)**	**428.6**	**643.8**	**7.2**	**651.0**

*The tax on share-based payments (previously reported as Tax on transactions with equity holders) has been reclassified to be included within Total recognised income and expense for the year. Comparative information has been restated accordingly.

Cumulative goodwill of £108.1m (2005 – £108.1m) has been written off against the Retained earnings reserve. In addition, the Retained earnings reserve includes non-distributable reserves of £4.7m (2005 – £1.4m).

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

	2006 £m	2005 £m
Cash flow hedges – deferred tax	**6.6**	2.1
Share-based payments – deferred tax	**0.9**	3.2
Share-based payments – current tax	**1.5**	–
Pensions – deferred tax	**6.9**	–
Pensions – current tax	**2.8**	–
	18.7	5.3

Notes to the accounts continued

25 Reserves continued

b Other reserves

	Available for sale reserve £m	Translation reserve £m	Hedging reserve £m	Total other reserves £m
At 1 January 2005	0.5	(15.2)	(5.5)	(20.2)
Cash flow hedges:				
– Fair value movements	–	–	(7.2)	(7.2)
– Reclassified and reported in inventories	–	–	5.7	5.7
– Tax on cash flow hedges	–	–	2.1	2.1
Movement on available for sale financial assets	2.3	–	–	2.3
Effect of foreign exchange rate changes	–	30.4	–	30.4
At 1 January 2006	**2.8**	**15.2**	**(4.9)**	**13.1**
Cash flow hedges:				
– Fair value movements	**–**	**–**	**(41.3)**	**(41.3)**
– Reclassified and reported in inventories	**–**	**–**	**19.5**	**19.5**
– Tax on cash flow hedges	**–**	**–**	**6.6**	**6.6**
Movement on available for sale financial assets	**(1.9)**	**–**	**–**	**(1.9)**
Effect of foreign exchange rate changes	**–**	**(33.7)**	**–**	**(33.7)**
At 31 December 2006	**0.9**	**(18.5)**	**(20.1)**	**(37.7)**

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

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

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

26 Notes to the cash flow statement

a Reconciliation of cash generated from operations

	2006 £m	2005 £m
Cash flows from operating activities		
Operating profit	**213.9**	176.4
Exceptional items	**–**	13.0
Amortisation	**4.0**	3.2
Depreciation	**23.3**	22.8
Profit on disposal of property, plant and equipment	**(0.6)**	(2.1)
Share-based payments charge	**4.5**	2.9
Increase in inventories	**(58.9)**	(15.7)
Decrease (increase) in trade and other receivables	**29.4**	(15.2)
Increase in trade and other payables	**56.1**	13.6
Decrease in provisions	**(0.6)**	(3.8)
Decrease in post-retirement defined benefits*	**(38.8)**	(4.8)
Movement in vehicles subject to residual value commitments	**5.3**	4.5
Other items	**(0.8)**	0.6
Cash generated from operations	**236.8**	195.4

*The decrease in post-retirement defined benefits in 2006 includes additional payments of £37.6m.

A number of minor amendments have been made to the presentation of cash flows from operating activities, the principal changes being the separate disclosure of movements in provisions and post-retirement defined benefits. Comparative information has been restated accordingly.

There were no cash flows associated with the current year exceptional items.

b Reconciliation of net cash flow to movement in net (debt) funds

	2006 £m	2005 £m
Net increase in cash and cash equivalents	**9.5**	0.2
Net cash (inflow) outflow from borrowings and finance leases	**(158.4)**	2.5
Change in net cash and debt resulting from cash flows	**(148.9)**	2.7
Effect of foreign exchange rate changes on net cash and debt*	**(8.8)**	6.9
Net loans and finance leases relating to acquisitions	**(19.3)**	(4.4)
Movement in net (debt) funds	**(177.0)**	5.2
Opening net funds	**158.0**	152.8
Closing net (debt) funds	**(19.0)**	158.0

*Effect of foreign exchange rate changes on net cash and debt is stated after the reclassification of realised gains or losses on the settlement of derivatives to Cash flows from financing activities. Comparative information has been restated accordingly.

Notes to the accounts continued

27 Acquisitions and disposals

Acquisitions

On 4 July 2006, the Group acquired 100.0% of the issued share capital of Lind Automotive Group Holdings and selected properties held outside the Lind group, for a cash consideration of £107.9m. The acquired business contributed revenues of £209.7m and profit after tax of £2.2m to the Group's result for the year.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangible assets	0.3	0.9[i]	1.2
Property, plant and equipment	50.4	–	50.4
Trade and other receivables	23.1	–	23.1
Deferred tax assets	–	0.1[ii]	0.1
Inventories	43.2	–	43.2
Trade and other payables	(50.6)	–	(50.6)
Current tax liabilities	(0.8)	–	(0.8)
Borrowings	(19.0)	–	(19.0)
Deferred tax liabilities	–	(5.7)[ii]	(5.7)
Net assets	46.6	(4.7)	41.9
Goodwill[iii]			47.0
Total consideration			88.9
Satisfied by:			
Cash			87.8
Directly attributable costs			1.1
Purchase consideration settled in cash			88.9
Net debt in business acquired			19.0
Net cash flow arising on acquisition			107.9

[i] The intangible assets recognised on acquisition relate to back orders, and are recognised at their fair value and amortised on a straight line basis over their useful life, which is less than one year.
[ii] Deferred tax recognised on acquisition principally relates to the recognition of deferred tax on non-qualifying properties in a business combination.
[iii] The goodwill arising on acquisition is attributable to the anticipated future cash flows of the acquired business and synergies expected to arise after the Group's acquisition.

On 1 December 2006, the Group acquired 75.1% of the issued share capital of Inchcape Olimp BV, for a consideration of £38.1m (including net debt acquired of £3.6m). Inchcape Olimp BV is the parent company of Inchcape Olimp OOO which undertakes Toyota and Lexus retail operations in St Petersburg, Russia. The provisional fair value of net assets acquired was £8.0m to which no significant fair value adjustments have been made. Goodwill arising on the acquisition was £26.5m reflecting the Group's immediate entry into the Russian market with a successful and established business, and synergies expected to arise after the Group's acquisition. The acquired business contributed revenues of £8.9m and profit after tax of £0.4m to the Group's result for the year.

In addition to the acquisitions noted above, the Group acquired a number of other businesses during the year, none of which was individually material. The consideration for these businesses was £19.5m (including net debt acquired of £3.7m). The fair value of the net assets acquired was £10.0m, with goodwill arising on these acquisitions of £5.8m.

In addition, the Group paid £1.1m deferred consideration on prior year acquisitions and £0.6m in respect of joint ventures and associates.

Pro forma full year information

If the above acquisitions had occurred on 1 January 2006, the approximate revenue and profit after tax for the year of the Group would have been £5,192.0m and £183.0m respectively. This information has been estimated based on the unaudited management accounts of the acquired businesses prior to their respective dates of acquisition.

Disposals

The Group disposed of a number of businesses during the year, none of which was individually material. The net disposal proceeds were £5.4m, with a profit on disposal of businesses of £0.6m.

28 Guarantees and contingencies

	2006 £m	2005 £m
Guarantees, performance bonds and contingent liabilities	**6.6**	6.5

The Group also has, in the ordinary course of business, commitments under foreign exchange instruments relating to the hedging of transactional exposures (note 18).

29 Commitments

a **Capital commitments**
Contracts placed for future capital expenditure at the balance sheet date but not yet incurred are as follows:

	2006 £m	2005 £m
Property, plant and equipment	**3.5**	14.9
Vehicles subject to residual value commitments*	**92.9**	65.3
Intangible assets	**0.2**	0.4

*Residual value commitments comprise the total repurchase liability on all vehicles sold subject to a residual value commitment, of which £43.4m (2005 – £27.4m) has been included within Trade and other payables.

b **Lease commitments**

(i) **Operating lease commitments – Group as lessee**
The Group has entered into non-cancellable operating leases for various offices, warehouses and dealerships. These leases have varying terms, escalation clauses and renewal rights.

Future minimum lease payments under non-cancellable operating leases are as follows:

	2006 £m	2005 £m
Within one year	**31.2**	30.0
In two to five years	**72.8**	67.3
After five years	**96.7**	76.4
	200.7	173.7

(ii) **Operating lease commitments – Group as lessor**
The Group has entered into non-cancellable operating leases on a number of its vehicles. These leases have varying terms, escalation clauses and renewal rights.

Future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2006 £m	2005 £m
Within one year	**2.1**	2.1
In two to five years	**3.4**	2.9
After five years	**1.0**	0.9
	6.5	5.9

(iii) **Finance leases and hire purchase contracts**
The Group has finance leases and hire purchase contracts for various items of property, plant and equipment. These leases have varying terms, escalation clauses and renewal rights. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments (included within borrowings) are as follows:

	2006 £m	2005 £m
Minimum lease payments:		
– Within one year	**0.7**	0.8
– In two to five years	**1.8**	2.0
– After five years	**9.0**	7.7
Total minimum lease payments	**11.5**	10.5
Less: future finance charges	**(6.2)**	(5.4)
Present value of finance lease liabilities	**5.3**	5.1

Notes to the accounts continued

30 Related party disclosures

a **Principal subsidiaries and joint ventures**
The consolidated financial statements include the principal subsidiaries and joint ventures listed below:

	Country of incorporation	Shareholding	Description
Subsidiary			
Subaru (Australia) Pty Limited	Australia	90.0%	Distribution
Toyota Belgium NV/SA	Belgium	100.0%	Distribution
The Motor & Engineering Company of Ethiopia Ltd S.C.	Ethiopia	94.1%	Distribution
Inchcape Motors Finland OY	Finland	100.0%	Distribution
Toyota Hellas SA	Greece	100.0%	Distribution
Crown Motors Limited	Hong Kong	100.0%	Distribution
Inchcape Olimp OOO	Russia	75.1%	Retail
Borneo Motors (Singapore) Pte Ltd	Singapore	100.0%	Distribution
Inchcape Automotive Limited	United Kingdom	100.0%	Vehicle logistics and refurbishments*
Inchcape Finance plc	United Kingdom	100.0%	Central treasury company**
Inchcape Fleet Solutions Limited	United Kingdom	100.0%	Financial services*
Inchcape International Holdings Limited	United Kingdom	100.0%	Intermediate holding company**
Inchcape Retail Limited	United Kingdom	100.0%	Retail
The Cooper Group Limited	United Kingdom	100.0%	Retail
Lind Limited	United Kingdom	100.0%	Retail
Joint venture			
Inchroy Credit Corporation Limited***	Hong Kong	50.0%	Financial services*

*Included within Distribution in the business segmental analysis (note 1).
**Included within Central in the segmental analysis (note 1).
***See note 32 for further details of the Group's disposal of Inchroy.

The ultimate parent company of the Group is Inchcape plc, a company incorporated in the UK and listed on the London Stock Exchange.

All shareholdings represent the ultimate interest of the Group in the respective company's ordinary shares, except for Inchroy Credit Corporation Limited, where the Group holds 50.0% of the company's non-voting deferred shares.

b **Trading transactions**
Intra-group transactions have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	Transactions		Amounts outstanding	
	2006	2005	**2006**	2005
Vehicles purchased from joint ventures and associates	**63.5**	54.1	**1.3**	1.0
Vehicles sold to joint ventures and associates	**371.3**	354.5	**1.6**	2.2
Other income paid to joint ventures and associates	**5.2**	2.7	**1.0**	0.9
Other income received from joint ventures and associates	**14.7**	13.8	**8.0**	9.2

All of the transactions arise in the ordinary course of business and are on an arm's length basis. The amounts outstanding are unsecured and will be settled in cash. There have been no guarantees provided or received for any related party receivables. The Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2005 – £nil).

30 Related party disclosures continued

c Compensation of key management personnel

The remuneration of the Directors and other members of key management was as follows:

	2006 £m	2005 £m
Short term employment benefits	**6.5**	4.8
Post-retirement benefits	**1.1**	1.4
Share-based payments	**2.1**	2.1
Compensation for loss of office	**0.6**	–
	10.3	8.3

The remuneration of the Directors and other key management is determined by the Remuneration Committee having regard to the performance of individuals and market trends. Further details of emoluments paid to the Directors are included in the Board report on remuneration.

31 Foreign currency translation

The main exchange rates used for translation purposes are as follows:

	Average rates		Year end rates	
	2006	2005	**2006**	2005
Australian dollar	**2.44**	2.38	**2.48**	2.34
Euro	**1.46**	1.46	**1.48**	1.46
Hong Kong dollar	**14.28**	14.16	**15.22**	13.31
Singapore dollar	**2.92**	3.02	**3.00**	2.85

32 Post balance sheet events

On 15 December 2006, the Group announced its intention to acquire European Motor Holdings plc (EMH) to extend its retail presence in the UK. As at 31 December 2006, the Group had acquired 18.55% of the share capital for a cash consideration of £49.2m. On 29 January 2007, the Group announced that the offer for EMH had been declared unconditional in all respects and, aside from standard regulatory clearances, the acquisition had been completed. The total cash consideration expected to be paid for 100.0% of the share capital is £262.9m, with net assets acquired of c.£95.0m (based upon the January 2007 management accounts of EMH).

Following the completion of the acquisition of EMH, the Group has strategically reviewed its UK businesses and as a result intends to dispose of up to forty-seven UK sites. In addition, the Group intends to dispose of its Inchcape Automotive UK operation.

On 1 February 2007 the Group disposed of its 50.0% share in Inchroy Credit Corporation Limited for c.£46.0m, giving rise to a profit on disposal of c.£15.0m.

Five year record

The information presented in the table below is prepared in accordance with IFRS for 2004, 2005 and 2006. However 2002 and 2003 are prepared in accordance with the UK GAAP standards effective as at 31 December 2004, and have not been restated other than to be consistent with the IFRS format.

The main adjustments which would be required to make the information in 2002 and 2003 comply with IFRS would be similar to those disclosed in the reconciliations of UK GAAP to IFRS set out in note 33 to the financial statements of the Group's Annual report and accounts 2005 (available on the Group's website, www.inchcape.com).

Income statement	**IFRS 2006 £m**	IFRS 2005 £m	IFRS 2004 £m	UK GAAP 2003 £m	UK GAAP 2002 £m
Revenue	**4,842.1**	4,488.1	4,119.5	3,793.2	3,413.8
Operating profit before exceptional items	**213.9**	189.4	172.1	124.4	101.9
Exceptional items	**–**	(13.0)	(10.6)	15.5	2.1
Operating profit	**213.9**	176.4	161.5	139.9	104.0
Share of profit after tax of joint ventures and associates	**5.9**	6.2	7.8	9.3	6.8
Profit before finance and tax	**219.8**	182.6	169.3	149.2	110.8
Net finance costs before exceptional finance income	**(5.9)**	(5.3)	(10.3)	(5.2)	(5.3)
Exceptional finance income	**–**	–	4.2	22.2	–
Profit before tax	**213.9**	177.3	163.2	166.2	105.5
Tax before exceptional tax	**(45.1)**	(46.9)	(43.1)	(29.7)	(25.8)
Exceptional tax	**8.0**	–	(0.5)	(7.5)	–
Profit after tax	**176.8**	130.4	119.6	129.0	79.7
Minority interests	**(2.9)**	(3.8)	(3.2)	(2.0)	(3.4)
Profit for the year	**173.9**	126.6	116.4	127.0	76.3
Basic:					
– Profit before tax	**213.9**	177.3	163.2	168.3	108.6
– Earnings per share (pence)	**37.5p**	27.0p	24.8p	27.5p	16.7p
Headline (before exceptional item):					
– Profit before tax	**213.9**	190.3	168.4	135.8	112.1
– Earnings per share (pence)	**35.7p**	29.8p	26.0p	22.1p	17.4p
Dividends per share – interim paid and final proposed (pence)	**15.0p**	9.5p	8.3p	6.3p	5.2p
Balance sheet					
Non-current assets	**666.0**	521.7	468.4	401.2	415.6
Other assets less (liabilities) excluding cash (borrowings)	**4.0**	(88.5)	(105.6)	5.3	(37.5)
	670.0	433.2	362.8	406.5	378.1
Net (debt) funds	**(19.0)**	158.0	151.9	79.1	16.6
Net assets	**651.0**	591.2	514.7	485.6	394.7
Equity attributable to equity holders of the parent	**643.8**	581.7	506.4	479.0	388.9
Minority interests	**7.2**	9.5	8.3	6.6	5.8
Total shareholders' equity	**651.0**	591.2	514.7	485.6	394.7

Report of the Auditors

Independent Auditors' report to the members of Inchcape plc
We have audited the parent Company Financial statements of Inchcape plc for the year ended 31 December 2006 which comprise the Company balance sheet and the related Notes to the accounts. These parent Company Financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Board report on remuneration that is described as having been audited.

We have reported separately on the Group Financial statements of Inchcape plc for the year ended 31 December 2006.

Respective responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the Annual report, the Board report on remuneration and the parent Company Financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

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

We report to you our opinion as to whether the parent Company Financial statements give a true and fair view and whether the parent Company Financial statements and the part of the Board report on remuneration to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' report is consistent with the parent Company Financial statements. The information given in the Directors' report includes that specific information presented in the Operating and financial review that is cross referred from the Business review section of the Directors' report.

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual report and consider whether it is consistent with the audited parent Company Financial statements. The other information comprises only the Chairman's statement, the Group Chief Executive's revew, the Operating and financial review, the Performance management section, the Corporate social responsibility section, the Board of Directors, the Directors' report, the Corporate governance report, the unaudited part of the Board report on remuneration, the Directors' responsibilities, the Five year record and Company details. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company Financial statements. Our responsibilities do not extend to any other information.

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

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

Opinion
In our opinion:

- the parent Company Financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006; and
- the parent Company Financial statements and the part of the Board report on remuneration to be audited have been properly prepared in accordance with the Companies Act 1985;
- and the information given in the Directors' report is consistent with the parent Company Financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

5 March 2007

Company balance sheet
As at 31 December 2006

	Notes	2006 £m	2005 £m
Fixed assets			
Investment in subsidiaries	3	**1,171.1**	1,168.1
Current assets			
Available for sale financial assets	4	**49.2**	–
Debtors:			
– Amounts due within one year	5	**19.5**	8.0
– Amounts due after more than one year	5	**131.4**	128.0
Cash at bank and in hand	6	**41.2**	25.5
		241.3	161.5
Creditors – amounts falling due within one year	7	**(1.6)**	(1.4)
Net current assets		**239.7**	160.1
Total assets less current liabilities		**1,410.8**	1,328.2
Creditors – amounts falling due after more than one year	8	**(853.8)**	(655.2)
Provisions for liabilities and charges	10	**(3.0)**	(2.8)
Net assets		**554.0**	670.2
Capital and reserves			
Share capital	12, 14	**120.6**	120.1
Share premium	14	**115.9**	112.5
Capital redemption reserve	14	**16.4**	16.4
Profit and loss account	14	**301.1**	421.2
Total shareholders' funds		**554.0**	670.2

The financial statements on pages 90 to 96 were approved by the Board of Directors on 5 March 2007 and were signed on its behalf by:

André Lacroix, Director **Barbara Richmond,** Director

Accounting policies

Basis of preparation
These financial statements are prepared for Inchcape plc (the Company) for the year ended 31 December 2006. The Company is the ultimate parent entity of the Inchcape Group (the Group).

Accounting convention
These financial statements have been prepared on the historical cost basis in accordance with the Companies Act 1985 and applicable UK accounting standards. As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented for the Company. In addition, the Company is not required to prepare a cash flow statement under the terms of FRS 1 Cash Flow Statements (revised).

Changes in accounting standards
At the balance sheet date FRS 28 Corresponding Amounts and FRS 29 Financial Instruments: Disclosures were in issue but not yet effective. The Directors anticipate that the adoption of these standards in future periods will not have a significant impact on the results or the financial position of the Company.

Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at closing rates of exchange and exchange differences are taken to the profit and loss account.

Investments
Investments in subsidiaries are stated at cost, less provisions for impairment. Available for sale financial assets are stated at market value.

Deferred tax
Deferred tax is provided in full (without discounting) based on current tax rates and law, on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax in the future except as otherwise required by FRS 19 Deferred Tax. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding commitment to sell the asset.

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

Share capital
Ordinary shares are classified as equity.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid is deducted from shareholders' funds until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' funds.

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

Notes to the accounts

1 Auditors' remuneration

The Company incurred £0.1m (2005 – £0.1m) in relation to UK statutory audit fees for the year ended 31 December 2006.

2 Directors' remuneration

No emoluments are paid directly by the Company, however information on Directors' emoluments and interests is given in the Notes to the Board report on remuneration (the auditable part) in the Group's financial statements for the year ended 31 December 2006.

3 Investment in subsidiaries

	2006 £m	2005 £m
Cost		
At 1 January	**1,204.1**	1,204.1
Additions	**17.0**	–
At 31 December	**1,221.1**	1,204.1
Provisions		
At 1 January	**(36.0)**	(20.9)
Provisions for impairment	**(14.0)**	(15.1)
At 31 December	**(50.0)**	(36.0)
Net book value	**1,171.1**	1,168.1

4 Available for sale financial assets

	2006 £m	2005 £m
Equity securities		
At 1 January	**–**	–
Additions	**49.2**	–
At 31 December	**49.2**	–

Equity securities relate to the acquisition of 18.55% of the share capital of European Motor Holdings plc in December 2006. The Company acquired control of this business on 29 January 2007.

5 Debtors

	2006 £m	2005 £m
Amounts due within one year		
Other debtors	**0.4**	–
Amounts owed by Group undertakings	**19.1**	–
Corporation tax recoverable	**–**	8.0
	19.5	8.0
Amounts due after more than one year		
Deferred tax asset (note 9)	**2.2**	3.4
Amounts owed by Group undertakings	**129.2**	124.6
	131.4	128.0

6 Cash at bank and in hand

	2006 £m	2005 £m
Cash at bank and in hand	**41.2**	25.5

7 Creditors – amounts falling due within one year

	2006 £m	2005 £m
Amounts owed to Group undertakings	–	0.2
Other taxation and social security payable	1.4	1.2
Other creditors	0.2	–
	1.6	1.4

8 Creditors – amounts falling due after more than one year

	2006 £m	2005 £m
Amounts owed to Group undertakings	853.2	654.0
Other taxation and social security payable	0.6	1.2
	853.8	655.2

9 Deferred tax

	2006 £m	2005 £m
At 1 January	3.4	(0.5)
Credited to the profit and loss account	0.8	0.7
(Debited) credited to the profit and loss account reserve	(2.0)	3.2
At 31 December	2.2	3.4

Deferred tax arises in respect of share-based payments.

10 Provisions for liabilities and charges

	2006 £m
At 1 January	2.8
Charged to the profit and loss account	0.2
At 31 December	**3.0**

Provision has been made for warranties, indemnities and other litigation issues in relation to non-motors business exits, based on expected outcomes.

Notes to the accounts continued

11 Guarantees and contingencies

	2006 £m	2005 £m
Guarantees of various subsidiaries' borrowings against which £165.0m has been drawn at year end (2005 – £nil)	**600.0**	275.0

The Company is party to composite cross guarantees between banks and its subsidiaries. The Company's contingent liability under these guarantees at 31 December 2006 was £41.2m (2005 – £25.5m).

12 Share capital

a **Authorised**

	Number of shares		Ordinary share capital	
	2006 Number	2005 Number	2006 £m	2005 £m
Ordinary share capital (25.0p per share)	**786,000,000**	786,000,000	**196.5**	196.5

b **Allotted, called up and fully paid up**

	Number of shares		Ordinary share capital	
	2006 Number	2005 Number	2006 £m	2005 £m
Ordinary shares of 25.0p each				
At 1 January	**480,216,708**	477,939,462	**120.1**	119.5
Allotted under share option schemes	**2,082,275**	2,277,246	**0.5**	0.6
At 31 December	**482,298,983**	480,216,708	**120.6**	120.1

c **Share split**
On 15 May 2006, the Company effected a six for one share split reducing the nominal value of the Company's ordinary share capital from 150.0p per share to 25.0p per share and increasing the number of authorised ordinary shares from 131,000,000 to 786,000,000.

d **Share buy back programme**
During the year, the Company repurchased 7,792,578 (2005 – 10,088,028) of its own shares through purchases on the London Stock Exchange. The total consideration paid was £34.0m (2005 – £31.0m) and this has been deducted from the Profit and loss account reserve. The shares repurchased during the year equate to 1.6% (2005 – 2.1%) of the issued share capital. The shares are held as treasury shares and may either be cancelled or used to satisfy share options at a later date.

e **Substantial shareholdings**
Details of substantial interests in the Company's issued ordinary share capital received by the Company at 4 March 2007 under the provisions of the Companies Act 1985 have been disclosed in the substantial shareholdings section of the Directors' report.

12 Share capital continued

f **Share options**

At 31 December 2006, options to acquire ordinary shares of 25.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Number of ordinary shares at 25.0p each	Exercisable until	Option price
The Inchcape 1999 Share Option Plan – approved (Part II – UK)		
3,966	21 March 2011	64.0p
13,122	17 March 2012	114.1p
55,752	19 March 2013	127.0p
29,244	31 August 2013	205.1p
351,804	20 May 2014	262.0p
77,160	29 September 2014	259.1p
266,466	6 March 2015	342.6p
55,818	11 September 2015	358.0p
7,602	13 December 2015	394.3p
323,700	29 March 2016	445.3p
6,772	21 May 2016	443.0p
13,128	10 August 2016	457.0p
– unapproved (Part I – UK)		
17,514	17 March 2012	114.1p
555,222	15 October 2012	111.6p
269,022	19 March 2013	127.0p
14,616	31 August 2013	205.1p
979,356	20 May 2014	262.0p
44,748	29 September 2014	259.1p
865,229	6 March 2015	342.6p
414,798	11 September 2015	358.0p
5,706	13 December 2015	394.3p
1,428,766	29 March 2016	445.3p
340,857	21 May 2016	443.0p
29,539	10 August 2016	457.0p
– unapproved overseas (Part I – Overseas)		
15,462	7 September 2009	64.6p
31,680	9 August 2010	47.3p
148,428	21 March 2011	64.0p
122,562	17 March 2012	114.1p
302,082	19 March 2013	127.0p
2,436	31 August 2013	205.1p
1,201,782	20 May 2014	262.0p
982,560	6 March 2015	342.6p
802,248	29 March 2016	445.3p

Number of ordinary shares of 25.0p each	Exercisable until	Option price
The Inchcape SAYE Share Option Scheme – approved		
722,318	1 December 2007	195.1p
418,488	1 May 2008	222.6p
391,104	1 December 2008	274.1p
312,291	1 May 2009	282.5p
461,376	1 December 2009	345.3p
425,018	1 May 2010	368.0p

Included within the Profit and loss account reserve are 1,715,739 (2005 – 2,810,172) own ordinary shares held by the ESOP Trust, a general discretionary trust whose beneficiaries include current and former employees of the Group and their dependants. The book value of these shares at 31 December 2006 was £5.4m (2005 – £5.3m). The market value of these shares at 31 December 2006 was £8.7m and at 5 March 2007 was £8.7m (31 December 2005 – £10.7m, 3 March 2006 – £11.8m).

Notes to the accounts continued

As at 31 December 2006

13 Dividends

The following dividends were paid by the Company.

	2006 £m	2005 £m
Interim dividend for the six months ended 30 June 2006 of 5.0p per share (2005 – 3.2p per share)	**23.0**	14.8
Final dividend for the year ended 31 December 2005 of 6.3p per share (2004 – 5.8p per share)	**29.6**	27.2
	52.6	42.0

The final proposed dividend for the year ended 31 December 2006 of 10.0p per share (£42.6m) is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2006.

Dividends paid above exclude £1.9m (2005 – £1.2m) payable on treasury shares and shares held by the ESOP Trust.

14 Reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1 January 2005	119.5	110.7	16.4	448.8	695.4
Profit for the financial year	–	–	–	39.2	39.2
Dividends	–	–	–	(42.0)	(42.0)
Issue of ordinary share capital	0.6	1.8	–	–	2.4
Net disposal of own shares by ESOP Trust	–	–	–	0.1	0.1
Share-based payments charge (net of tax)	–	–	–	6.1	6.1
Share buy back programme	–	–	–	(31.0)	(31.0)
At 1 January 2006	**120.1**	**112.5**	**16.4**	**421.2**	**670.2**
Profit for the financial year	**–**	**–**	**–**	**(37.3)**	**(37.3)**
Dividends	**–**	**–**	**–**	**(52.6)**	**(52.6)**
Issue of ordinary share capital	**0.5**	**3.4**	**–**	**–**	**3.9**
Net disposal of own shares by ESOP Trust	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Share-based payments charge (net of tax)	**–**	**–**	**–**	**4.0**	**4.0**
Share buy back programme	**–**	**–**	**–**	**(34.0)**	**(34.0)**
At 31 December 2006	**120.6**	**115.9**	**16.4**	**301.1**	**554.0**

15 Principal subsidiaries at 31 December 2006

The Company is a limited company incorporated in the UK whose shares are publicly traded on the London Stock Exchange. The principal subsidiaries in which the Company holds an investment are as follows:

	Country of Incorporation	Shareholding	Description
Inchcape Automotive Limited	United Kingdom	100.0%	Vehicle logistics and refurbishments
Inchcape Finance plc	United Kingdom	100.0%	Central treasury company
Inchcape International Holdings Limited	United Kingdom	100.0%	Intermediate holding company

16 Post balance sheet events

On 15 December 2006, the Group announced its intention to acquire European Motor Holdings plc (EMH) to extend its retail presence in the UK. As at 31 December, the Company had acquired 18.55% of the share capital for a cash consideration of £49.2m. On 29 January 2007, the Group announced that the offer for EMH had been declared unconditional in all respects and, aside from standard regulatory clearances, the acquisition had been completed. The total cash consideration expected to be paid for 100.0% of the share capital is £262.9m, with net assets acquired of c.£95.0m (based upon the January 2007 management accounts of EMH).

Following the completion of the acquisition of EMH, the Group has strategically reviewed its UK businesses and as a result intends to dispose of up to forty-seven UK sites. In addition, the Group intends to dispose of Inchcape Automotive Ltd.

Company details

Registered office

Inchcape plc
22a St James's Square
London SW1Y 5LP.
Tel: +44 (0) 20 7546 0022
Fax: +44 (0) 20 7546 0010

Advisors

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

Share Registrars
Computershare Investor Services PLC
Registrar's Department, PO Box No 82
Bristol BS99 7NH.
Tel: +44 (0) 870 707 1076

Solicitors
Slaughter and May

Financial advisors
Dresdner Kleinwort
JPMorgan Cazenove

Corporate brokers
Dresdner Kleinwort
Merrill Lynch

Inchcape PEPS

Individual Savings Accounts (ISAs) replaced Personal Equity Plans (PEPs) as the vehicle for tax efficient savings. Existing PEPs may be retained.

Inchcape PEPs are managed by The Share Centre Ltd, who can be contacted at PO Box 2000, Oxford House, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB.
Tel: +44 (0) 1296 414144

Inchcape ISA

Inchcape has established a Corporate Individual Savings Account (ISA). This is managed by HSBC Trust Company (UK) Limited who may be contacted for full details at the Corporate PEP and ISA Centre, 1st floor, Courtwood House, Silver Street Head, Sheffield S1 2BH.
Tel: +44 (0) 845 745 6123
Fax: +44 (0) 114 252 8116

From 1 January 2007, ISAs are managed by Lloyds TSB Registrars who may be contacted for full details at The Causeway, Worthing, West Sussex BN99 6DA.
Tel: 0870 600 3989
International callers: +44 121 415 7047

Financial calendar

Annual General Meeting
10 May 2007

Ex-dividend date for 2007 final dividend
16 May 2007

Record date for 2007 final dividend
18 May 2007

Final 2007 ordinary dividend payable
15 June 2007

Announcement of 2007 interim results
2 August 2007

Executive Committee

André Lacroix
Group Chief Executive

Barbara Richmond
Group Finance Director

Trevor Amery
Chairman
Inchcape Motors Australia
Subaru, Australia

George Ashford
Managing Director
Europe Retail

Dale Butcher
Group Development Director

Claire Chapman
Group Legal Counsel

Tony George
Group Human Resources Director

Ken Lee
Group Communications Director

Patrick Lee
Managing Director
Crown Motors Limited, Hong Kong

Spencer Lock
Chief Executive
Inchcape UK

John McConnell
Chief Executive
Inchcape Motors Australia

Immo Rupf
Group Strategy Director

Martin Taylor
Chief Executive Europe
Distribution Africa and South America

William Tsui
Chief Executive
Inchcape Asia Pacific

Roy Williams
Group Company Secretary

Peter Wilson
Group Information Systems Director

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