

The background is a purple-tinted collage of various car brand logos and front-end views of vehicles. Visible logos include Toyota, Lexus, Jaguar, Subaru, and Mercedes-Benz. The word 'Mercedes-Benz' is also written in a script font at the bottom right.

Inchcape

International Financial Reporting Standards

13 May 2005



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Group Finance Director

Agenda

- Introduction and overview
- Key areas of impact
- Questions and answers

Introduction

- IFRS applied from 1 January 2005 to Inchcape plc's consolidated financial statements, with 2004 comparative information restated
- Rigorous and complex conversion project has resulted in significant internal work, supported throughout by external advisors
- All numbers are unaudited

Introduction continued

- Currently limited established practice on application of IFRS - best practice and interpretative guidance continue to evolve
- Further standards and interpretations of existing standards may be issued
- Given this, the financial information published may be subject to change when applied in the Group's first financial statements under IFRS

Overview

- No impact on business fundamentals
 - Cash flows
 - Financial strength and flexibility
 - Business and economic risks
- Broadly neutral impact on profit before tax and earnings, subject to achievement of hedge effectiveness
- Reduction in net assets, mainly due to recognition of pension deficit

Key areas of impact

- Share-based Payment (IFRS 2)
- Goodwill (IFRS 3/IAS 27)
- Business Combinations (IFRS 3)/Intangible Assets (IAS 38)
- Pensions (IAS 19)
- Financial Instruments (IAS 32/39)
- Stock Holding Interest (IAS 2)
- Contract Hire (IAS 18)
- Property Leases (IAS 17)
- Tax (IAS 12)
- Dividends (IAS 10)
- Segmental (IAS 14)

IFRS 2 Share-based Payment

- **UK GAAP Policy**

- Nil charge for Executive Share Option Scheme (ESOS) based on options granted at market value
- Save As You Earn (SAYE) excluded from UK options accounting
- Deferred Bonus Plan (DBP) fully expensed in year of award based on value of shares awarded

- **IFRS Policy**

- Transitional arrangements - only applied to options granted post November 2002
- Income statement charge based on fair value of share awards at grant date
- Results in income statement charge for DBP and ESOS/SAYE options
- Fair value determined using option pricing model

IFRS 2 Share-based Payment continued

- Financial impact

Income statement

- £0.1m increase in charge for the year ended 31 December 2004
- Ongoing annualised basis c.£2.0m - £3.0m additional charge

Balance sheet

- Nil

IFRS 3/IAS 27 Goodwill

- **UK GAAP Policy**

- Any excess of value paid over net assets for a business attributed to goodwill
- Capitalised goodwill amortised to income statement over useful economic life
- Test for impairment in first full year following acquisition and if indications of impairment exist
- Goodwill arising prior to 1998 and written off to shareholders' equity recycled in income statement on subsequent disposal

- **IFRS Policy**

- No amortisation of capitalised goodwill
- At least annual impairment reviews of cash generating units
- Goodwill written off to shareholders' equity (£114.4m at transition) is not recycled to the income statement on subsequent disposal

IFRS 3/IAS 27 Goodwill continued

- Financial impact

Income statement

- Reversal of goodwill amortisation of £5.5m, offset by accelerated amortisation charge of £1.3m treated as impairment under IFRS, giving net increase in profit before tax of £4.2m for the year ended 31 December 2004
- Goodwill in shareholders' equity not recycled on disposal, increased profit before tax by £6.0m in total for the year ended 31 December 2004

Balance sheet

- Capitalised goodwill 'frozen' at its UK GAAP carrying value of £60.9m at 1 January 2004
- Net assets at 31 December 2004 increased by £4.2m, reflecting net reversal of goodwill amortisation charge

IFRS 3 Business Combinations/ IAS 38 Intangible Assets

- **UK GAAP Policy**

- Any excess in value paid over net assets for a business attributed to goodwill
- Software development costs capitalised where appropriate as property, plant and equipment

- **IFRS Policy**

- Transitional arrangements - not applied to acquisitions pre 1 January 2004
- Separately identifiable intangible assets are split out from goodwill (e.g. back orders, customer agreements)
- No accounting value generally attributed to franchise agreements as not capable of reliable measurement
- Any intangible assets identified are amortised over useful life
- Software development costs included in intangible assets

IFRS 3 Business Combinations/ IAS 38 Intangible Assets continued

- Financial impact

Income statement

- Amortisation charge of £0.6m for the year ended 31 December 2004 relating to other intangible assets separated from goodwill

Balance sheet

- Reduction in net assets of £0.6m as a consequence of amortisation charge

IAS 19 Pensions

- **UK GAAP Policy**

- Accounting under SSAP 24 based on triennial actuarial valuation
- Income statement charge reflects service cost and spreading of valuation surplus/deficit
- FRS 17 valuation disclosed separately in notes to financial statements

- **IFRS Policy**

- Basis of valuation similar to FRS 17
- Accounting based on annual valuation
- Transitional arrangements - elected for full deficit to be recognised on balance sheet
- Income statement charge covers service cost and financing cost/income
- Actuarial gains and losses recognised immediately in statement of recognised income and expense assuming amendment to IAS 19 endorsed by EU

IAS 19 Pensions continued

- Financial impact

Income statement

- Increased service cost of £1.3m for the year ended 31 December 2004
- Net financing income of £0.5m for the year ended 31 December 2004
- Overall net decrease in profit before tax of £0.8m

Balance sheet

- Recognition of net deficit of £58.9m offset by reversal of SSAP 24 liability of £7.3m, giving reduction in net assets of £51.6m at 31 December 2004

IAS 32/39 Financial Instruments - Hedge Accounting

- **UK GAAP Policy**

- Hedging derivatives generally off balance sheet
- Forward foreign exchange rate applied to translate relevant transactions
- FRS 13 disclosures provided

- **IFRS Policy**

- Transitional arrangements adopted in full from 1 January 2005 with no restatement of comparative information
- Derivative financial instruments on balance sheet measured at fair value
- Underlying transaction booked at spot rate

IAS 32/39 Financial Instruments - Hedge Accounting continued

- **Financial impact**

Income statement

- Limited impact on profit before tax on the basis that hedge effectiveness is achieved

Balance sheet

- Net assets at 1 January 2005 reduced by £5.5m reflecting £9.8m value of derivatives brought onto balance sheet, offset by adjustment to trade and other payables of £4.3m

IAS 32/39 Financial Instruments - Offsetting

- **UK GAAP Policy**

- Offset of assets and liabilities which can be legally netted (e.g. cash pooling facilities)

- **IFRS Policy**

- Balance sheet netting only where there is both the legal ability and intention to settle net
- No effect on cash flows

IAS 32/39 Financial Instruments - Offsetting continued

- Financial impact

Income statement

- Nil

Balance sheet

- Gross up of cash and borrowings of £66.4m at 1 January 2005
- No overall impact on net assets

IAS 2 Stock Holding Interest

- **UK GAAP Policy**

- Stock holding interest included as part of operating expenses

- **IFRS Policy**

- Stock holding interest to be charged to finance costs

IAS 2 Stock Holding Interest continued

- Financial impact

Income statement

- Reclassification from operating expenses to finance costs of £7.2m for the year ended 31 December 2004
- No overall impact on profit before tax

Balance sheet

- Nil

IAS 18 Contract Hire

- **UK GAAP Policy**

- FRS 5 allows separation of initial sale of vehicle and subsequent repurchase of vehicle at agreed residual value
- Profit recognised on initial sale
- Residual value commitment recognised in inventories/ payables relating to vehicles sourced from both within and outside the Group - £66.4m at 31 December 2004

IAS 18 Contract Hire continued

- **IFRS Policy**

- No equivalent partial derecognition override where significant risks and rewards do not pass, initial sale cannot be recognised
- Vehicle classified within property, plant and equipment and written down to residual value over life of lease
- Vehicle profit released to income statement over life of lease
- Above accounting treatment only required where vehicle sourced from within the Group
- Vehicles sourced as an agent from outside the Group are not recognised on the balance sheet until the repurchase commitment crystallises at the end of the lease

IAS 18 Contract Hire continued

- Financial impact

Income statement

- Profit before tax increased by £0.1m for the year ended 31 December 2004

Balance sheet

- Net assets reduced by £1.2m at 31 December 2004, relating to the deferral of profit in respect of buy back vehicles
- Gross assets and liabilities reduced by £21.7m at 31 December 2004, reflecting the removal of vehicles sourced from outside the Group

IAS 17 Property Leases

- **UK GAAP Policy**

- Leases that cover both land and buildings treated as a single lease
- Finance leases/leasehold properties capitalised as property, plant and equipment and depreciated
- Carrying value of leases included any previous revaluation

- **IFRS Policy**

- Land and buildings element of lease must be separated
- Land element generally treated as an operating lease (considered to have an infinite life)
- Buildings generally continue to be treated as under UK GAAP
- Carrying value of land element of leaseholds reduced to original cost (reversing previous revaluations)
- Original cost shown as a prepayment and amortised over lease term

IAS 17 Property Leases continued

- Financial impact

Income statement

- Profit before tax increased by £0.3m for the year ended 31 December 2004

Balance sheet

- Decrease in net assets of £11.2m at 31 December 2004, reflecting the reversal of previous revaluations

IAS 12 Tax

- **UK GAAP Policy**

- Generally full provision on 'timing' differences
 - No deferred tax provided on revaluations or rolled over gains on property where no binding commitment to sell the asset
 - No deferred tax provided on non-qualifying properties acquired as part of a business combination

- **IFRS Policy**

- Full provision on 'temporary' differences, wider than 'timing' differences
 - Deferred tax provided on revaluations and rolled over gains
 - Deferred tax provided on non-qualifying properties acquired as part of a business combination

IAS 12 Tax continued

- Financial impact

Income statement

- Impact on tax charge of £2.0m for year ended 31 December 2004
- Ongoing impact likely to be less

Balance sheet

- Decrease in net assets of £2.8m at 31 December 2004

IAS 10 Dividends

- **UK GAAP Policy**

- Dividends recognised as an adjusting post balance sheet event

- **IFRS Policy**

- Proposed dividends are not a liability under IFRS
- Dividends charged to shareholders' equity when declared or ratified

IAS 10 Dividends continued

- Financial impact

Income statement

- Dividends presented as a deduction in shareholders' equity under IFRS rather than as a deduction in the income statement as under UK GAAP

Balance sheet

- Net assets increased by £28.2m at 31 December 2004 reflecting the reversal of the accrued dividend at this date

IAS 14 Segmental

- Under IFRS the Group's primary basis of segmentation is by geography
- Geographical segments disclosed under UK GAAP have been refined under IFRS as below:
 - UK
 - Greece
 - Belgium
 - Australia
 - Singapore
 - Hong Kong
 - Other

IAS 14 Segmental continued

- The Group's secondary basis of segmentation is by business (e.g. Retail, Financial Services)
- Additional voluntary disclosure will be given for UK Retail
- The following slides show the geographical split for 2002, 2003 and 2004, segmented on an IFRS basis (excluding joint ventures and associates)
- The 2004 revenue and operating profit numbers have been adjusted for all IFRS differences identified

IAS 14 Segmental continued

- The 2002 and 2003 revenue and operating profit numbers are provided for illustrative purposes only and have been adjusted for the principal IFRS differences that impact the income statement (namely stock holding interest and pensions)

Revenue

Year ended 31 December 2004

	2004 £m	Pro forma 2003 £m	Pro forma 2002 £m
UK	1,331.3	1,244.8	1,201.9
Greece	348.0	312.2	288.3
Belgium	462.7	465.1	408.9
Australia	567.3	505.0	435.0
Hong Kong	237.2	224.3	289.7
Singapore	652.5	577.0	454.4
Other	520.5	464.8	335.6
	4,119.5	3,793.2	3,413.8

Revenue

Six months ended 30 June 2004

	2004 £m	Pro forma 2003 £m	Pro forma 2002 £m
UK	683.5	634.9	603.1
Greece	197.4	154.4	130.6
Belgium	257.9	252.8	239.6
Australia	302.1	247.6	221.1
Hong Kong	118.9	112.7	154.1
Singapore	338.2	280.6	235.6
Other	260.5	227.7	171.2
	2,158.5	1,910.7	1,755.3

Operating profit*

Year ended 31 December 2004

	2004 £m	Pro forma 2003 £m	Pro forma 2002 £m
UK	25.8	20.0	17.2
Greece	17.7	13.7	12.2
Belgium	12.6	13.8	6.3
Australia	28.1	22.8	18.6
Hong Kong	25.6	18.0	24.9
Singapore	53.5	45.4	30.6
Other	26.7	18.2	13.5
	190.0	151.9	123.3
Group costs	(17.9)	(18.2)	(14.5)
	172.1	133.7	108.8

* Before exceptional items

Operating profit*

Six months ended 30 June 2004

	2004 £m	Pro forma 2003 £m	Pro forma 2002 £m
UK	13.9	11.0	9.5
Greece	8.3	7.4	4.9
Belgium	8.0	7.4	6.9
Australia	14.2	12.1	10.2
Hong Kong	11.8	7.7	13.4
Singapore	28.4	19.2	9.4
Other	15.1	10.6	6.9
	99.7	75.4	61.2
Group costs	(10.7)	(9.6)	(6.1)
	89.0	65.8	55.0

* Before exceptional items

The background is a solid purple color. Overlaid on this are various car brand logos and parts of vehicles in a lighter, semi-transparent purple. At the top, the Toyota logo and the word 'TOYOTA' are prominent. Below them, the Lexus logo and 'LEXUS' are visible. To the right, the Jaguar logo and 'JAGUAR' are shown. In the bottom left, the Subaru logo and 'SUBARU' are present, with 'ALL-WHEEL DRIVE' written below it. In the bottom right, the Mercedes-Benz logo and 'Mercedes-Benz' are visible. The central text 'Thank you for your attention!' is written in a bold, italicized, yellow font with a black outline. The overall composition is a collage of automotive branding elements.

***Thank you
for your attention!***

The background is a purple-tinted collage of various car brand logos and front-end views of vehicles. Visible logos include Toyota, Lexus, Jaguar, Subaru, and Mercedes-Benz. The word 'Inchcape' is prominently displayed in the center in a bold, yellow, sans-serif font.

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