GROUP 1 AUTOMOTIVE INC

//2006 Annual Report

//NYSE: GPI

GROUP 1 AUTOMOTIVE INC, a Fortune 500 automotive retailer, is a leading operator in the $1 trillion automotive retailing industry. Since its initial public offering in October 1997, Group 1 has grown to become one of the top five dealership groups in the United States. The company has achieved this success through a strategy that leverages management experience and emphasizes geographic and brand diversity, interrelated revenue streams, operational efficiencies and the prudent deployment of capital.

Group 1 owns 104 dealerships comprised of 143 franchises, 33 brands and 28 collision service centers in Alabama, California, Florida, Georgia, Kansas, Louisiana, Massachusetts, Mississippi, New Hampshire, New Jersey, New Mexico, New York, Oklahoma and Texas. Through its dealerships, the company sells new and used cars and light trucks; arranges related financing, vehicle service and insurance contracts; provides maintenance and repair services; and sells replacement parts. In 2006, the company sold more than 197,000 retail new and used vehicles.

www.Group1Auto.com

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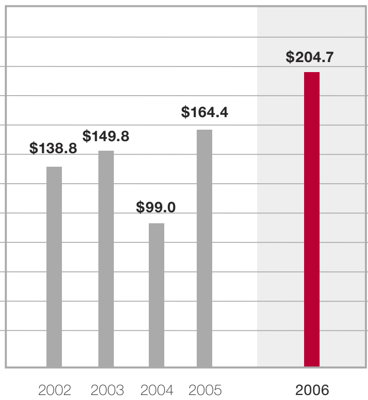
2006 FACTS & FIGURES

//Revenues
[In millions of dollars]

//Operating Income
[In millions of dollars]



//Diluted Earnings Per Share(1)
[In dollars]

//Financial Highlights

(Dollars and shares in thousands, except per share amounts)	//2006	//2005	//2004	//2003	//2002
Revenues	$6,083,484	$5,969,590	$5,435,033	$4,518,560	$4,214,364
Operating Income	$ 204,656	$ 164,401	$ 99,009	$ 149,823	$ 138,822
Income before cumulative effect of a change in accounting principle	$ 88,390	$ 70,269	$ 27,781	$ 76,126	$ 67,065
Diluted Earnings Per Share(1)	$ 3.62	$ 2.90	$ 1.18	$ 3.26	$ 2.80
Shares Outstanding (diluted)	24,446	24,229	23,494	23,346	23,968
Gross Margin	15.9%	15.6%	15.3%	16.0%	15.5%
SG&A as a % of Gross Profit	76.7%	79.5%	80.8%	77.6%	77.2%
Operating Margin	3.4%	2.8%	1.8%	3.3%	3.3%
Pretax Margin	2.3%	1.8%	0.9%	2.5%	2.5%
Return on Equity(1)	15.4%	11.5%	5.1%	15.8%	15.8%
Operating Cash Flow	$ 53,444	$ 365,379	$ 27,253	$ 313,009	$ (62,645)
Working Capital	$ 237,054	$ 137,196	$ 155,453	$ 275,582	$ 95,704
Inventories	$ 830,628	$ 756,838	$ 877,575	$ 671,279	$ 622,205
Total Assets	$2,113,955	$1,833,618	$1,947,220	$1,502,445	$1,437,590
Stockholders' Equity	$ 692,840	$ 626,793	$ 567,174	$ 518,109	$ 443,417

(1) Income before cumulative effect of a change in accounting principle

Notice: The 2006 Form 10-K report filed with the Securities and Exchange Commission includes financial data that supplements the material included in these highlights and in the annual report. Group 1 will, without charge, provide a copy to any stockholder upon written request to Investor Relations at our corporate headquarters.

"The hard work of our team, and the implementation of our strategic initiatives, resulted in solid performance improvements during 2006."

Earl J. Hesterberg

President and Chief Executive Officer

DEAR STOCKHOLDERS:

It is a pleasure to write to you and share the highlights of an eventful 2006 for Group 1 Automotive. Consistent with the automotive gear-shift pictured on the cover of this year's annual report, 2006 was a year when our company shifted into a higher gear relative to the more efficient operation of our group of more than 100 dealerships. I am also pleased that our key financial metrics, especially our return to stockholders for 2006, demonstrated a significant degree of acceleration.

We began 2006 with a new operating model designed to create greater control and uniformity relative to our dealership operating practices. We consolidated 13 operating platforms into four operating regions, each led by a Regional Vice President reporting directly to me. Not only were the savings associated with this change significant, but this regional operating structure also enabled us to further streamline our operations all the way down to the dealership department level.

Consistent with our drive for greater operating uniformity, we selected ADP as the sole supplier of our dealership management systems. This consolidates our dealership management computer systems from three suppliers to one, generating significant cost savings, as well as establishing a key element in our commonization strategy. By the end of 2006, we had nearly 90 percent of our dealerships on the ADP system. Other important operating systems were also commonized in 2006. This included our used vehicle management software system, which we completed installing in the first quarter of 2006, with noticeable used car improvements already being achieved as a result. We also implemented a common payroll system that is helping improve the management of our most important asset, our people. Finally, we began the implementation of a standard chart of accounts across all of our dealerships, which will enable us to benchmark revenue and cost performance effectively, even when comparing a Ford dealership with a BMW dealership.

We have much work to do in 2007 to further increase our operating efficiency, standardize our operating practices and leverage the scale of our company, but a solid foundation for these efforts has now been established.

Although it is critical to standardize many of our operating practices and increase our operating efficiency, we continue to place a high degree of emphasis on the quality of our people. Entrepreneurial spirit and local market knowledge are critical to success in automotive retailing. One of the key personnel development practices we implemented in 2006 was a focus on “promoting from within” at our Market Director and dealership General Manager levels. This strategy provides our top performers with greater career opportunities within the company, and our standardization of key operating practices enables this by allowing us to more effectively move people within the Group 1 organization.

Continuing with the theme of the importance of people, we were also able to dramatically strengthen our corporate headquarters team during 2006. We promoted one of Group 1’s original team members, Randy Callison, to Senior Vice President of Operations and Corporate Development. This integrates our dealership acquisition and disposal function with the organization responsible for operating our dealerships under someone with the detailed knowledge of our company, as well as the general automotive market in the United States. Our other Senior Vice President, John Rickel, served his first full year as Chief Financial Officer of Group 1 after a successful 21-year career with Ford Motor Company. John came to Group 1 with experience in automotive retailing and a broad background in corporate finance, which enabled him to provide an immediate, significant impact on our company.

We also added very experienced personnel as our General Counsel, Vice President of Fixed Operations and Vice President of Purchasing, which better prepares us to manage our fast-growing business.

On the subject of fast growing, we significantly increased the pace of acquisitions in 2006. This, following a year of integrating and improving our existing operations. In 2006, we acquired approximately $732 million in annualized revenues primarily in the area of import and luxury brands.

On the disposition front, we disposed of dealerships with $198 million of annualized revenues in 2006. These were dealerships that were not generating adequate returns and were primarily domestic brand stores.

During 2006, as a result of the dealerships we acquired and disposed of, our brand mix shifted to approximately 70 percent import and luxury and 30 percent domestic from approximately 38 percent domestic at the end of 2005. We have targeted to further increase this mix to be at least 75 percent import/luxury by the end of 2007. This shift should impact Group 1’s same-store new vehicle sales growth, which has been relatively flat due to the declining performance of the key domestic automotive brands in recent years and, in conjunction with our continuing focus on used vehicles and parts and service, should support better overall same-store results in the future.

The hard work of our team, and the implementation of the actions mentioned above, resulted in some solid performance improvements in key operating metrics during 2006. These include:

- Significant cost reduction with our total SG&A as a percent of gross profit improving by 280 basis points to 76.7 percent.
- Significant used vehicle operational improvement with a 3.4 percent increase in retail revenues and an improvement of 60 basis points in our overall margin to 9.7 percent.
- Increases in our operating margin and pretax margin by 60 basis points and 50 basis points, respectively.
- An increase in our earnings per share of 25 percent to $3.62 per diluted share.

Furthermore, we were able to achieve two very positive outcomes for you, our stockholders. These were:

- The initiation of our first common stock cash dividend in the first quarter of the year at $0.13 per share. During the second quarter, this dividend was increased to $0.14, and has remained at that level for each subsequent quarter.
- A 65 percent increase in our stock price, as our stock price grew from $31.43 on the first day of the year to close at $51.72 on December 29.

Our 8,785 employees were the ones who made the difference in 2006 and drove our business improvements. We ask them to “think like stockholders” and they have done so. In fact, a large number of our employees have become stockholders by investing their own money in GPI common stock through our Employee Stock Purchase Plan. We have 2,145 employees participating in the plan owning shares valued at approximately $13.9 million.

As I have described, 2006 was a meaningful year for our company. However, the year became more challenging in the second half as the overall market weakened slightly and the domestic brands continued to lose increasing amounts of market share. We have more work to do to continue to improve our performance in every area. We now have a highly-experienced team working within a well-defined business structure and operating strategy that should enable us to continue to build on our 2006 successes in 2007 and the years ahead.

I would like to thank all of you for your interest and confidence in our company and we will continue to do our best to work on your behalf.

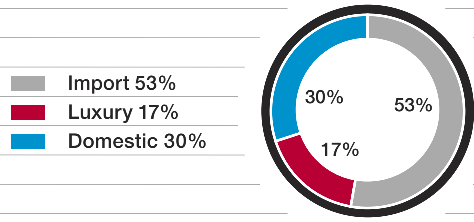
Sincerely,

Earl J. Hesterberg

Earl J. Hesterberg
President and Chief Executive Officer
Group 1 Automotive, Inc.

//Brand Mix

New Vehicle Unit Sales

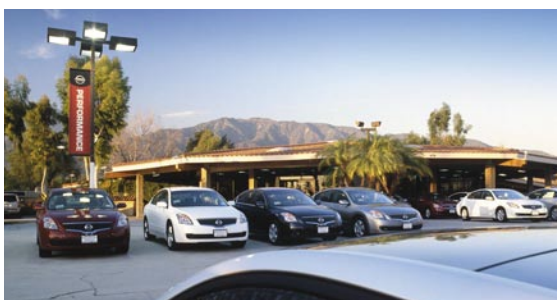


Boardwalk Acura—Atlantic City, New Jersey

ACQUISITIONS

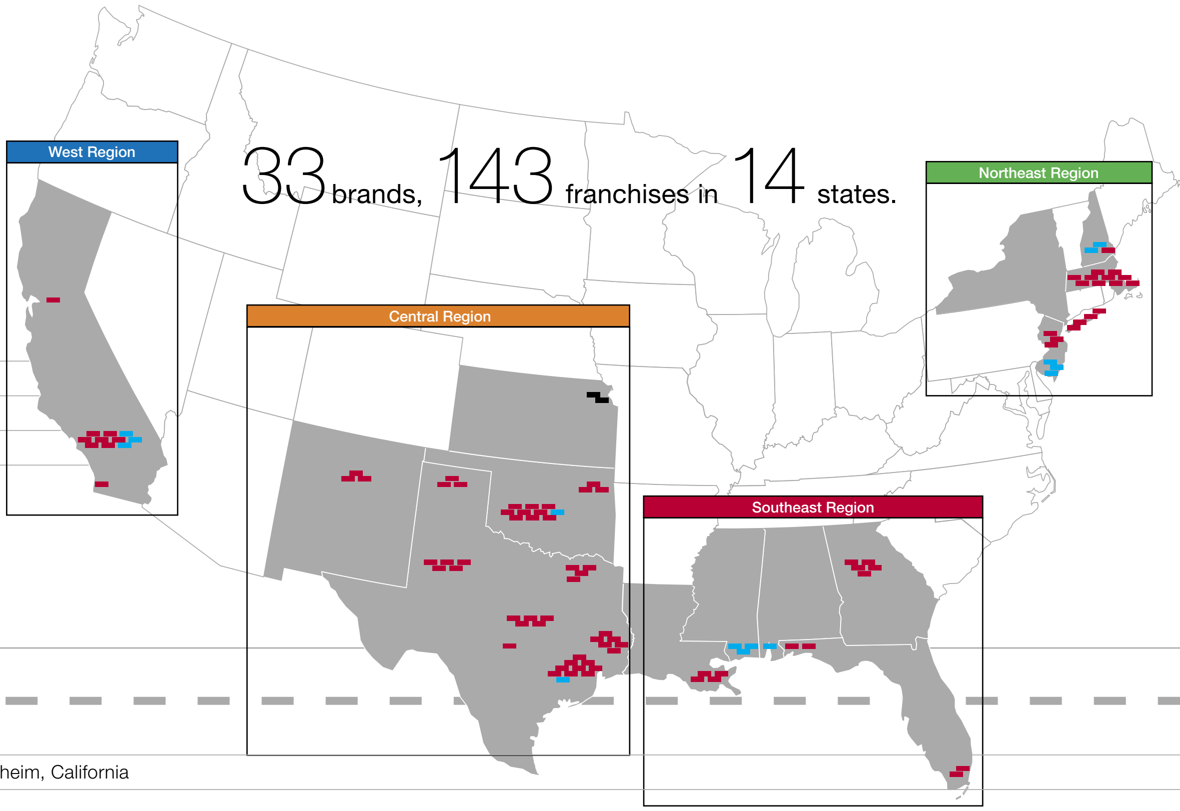
Pat Peck Honda—
Gulfport, Mississippi

Baron BMW/Mini—Kansas City, Kansas



Performance Nissan—
Duarte, California

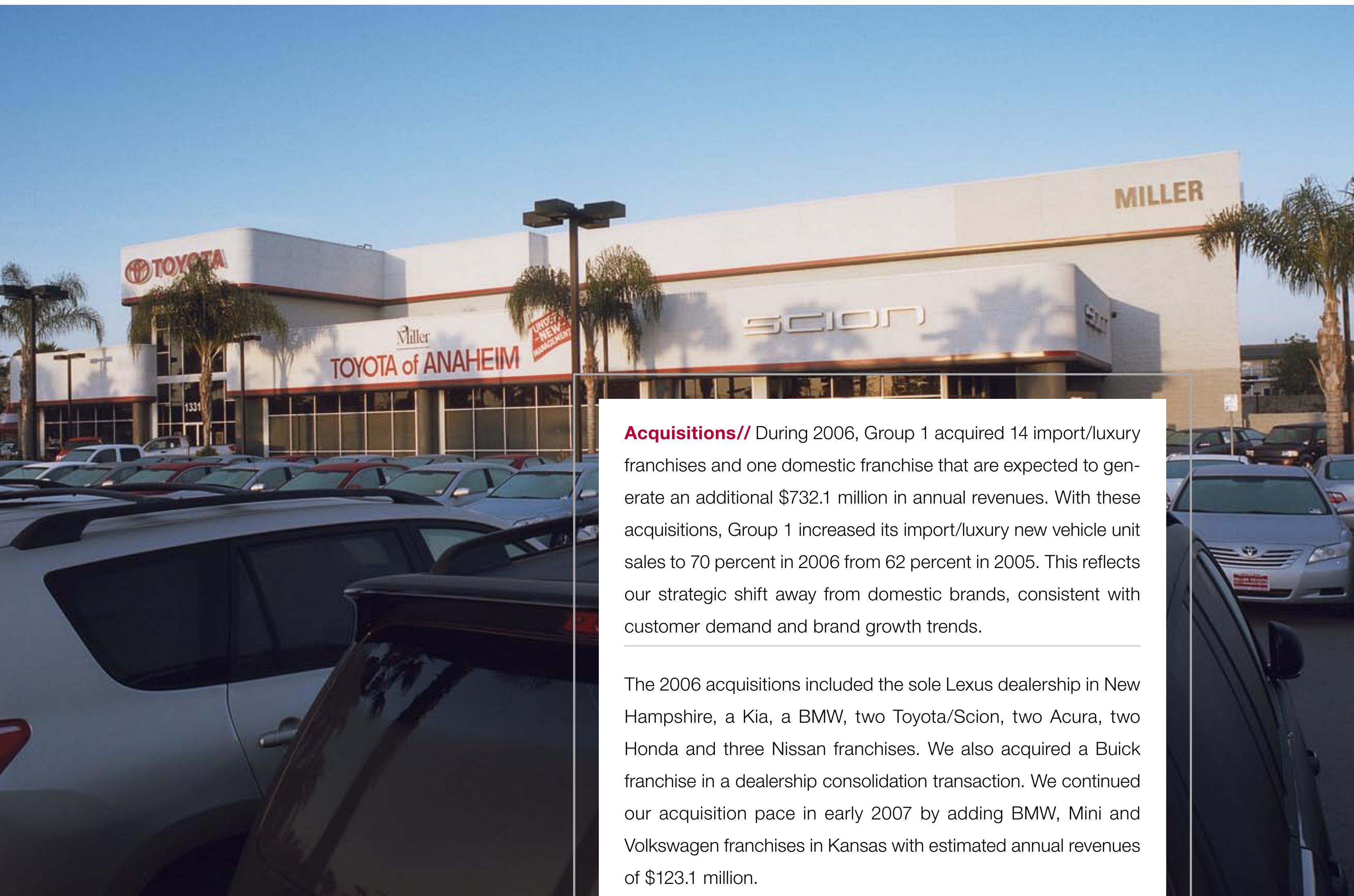
33 brands, 143 franchises in 14 states.



Dealership Locations

- Existing Group 1 Locations
- 2006 Acquisitions
- 2007 Acquisitions

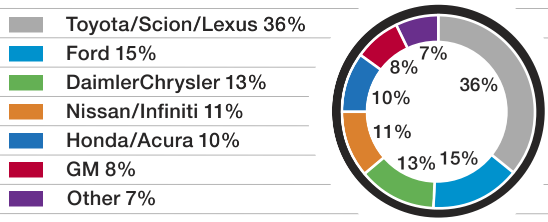
Miller Toyota/Scion of Anaheim—Anaheim, California



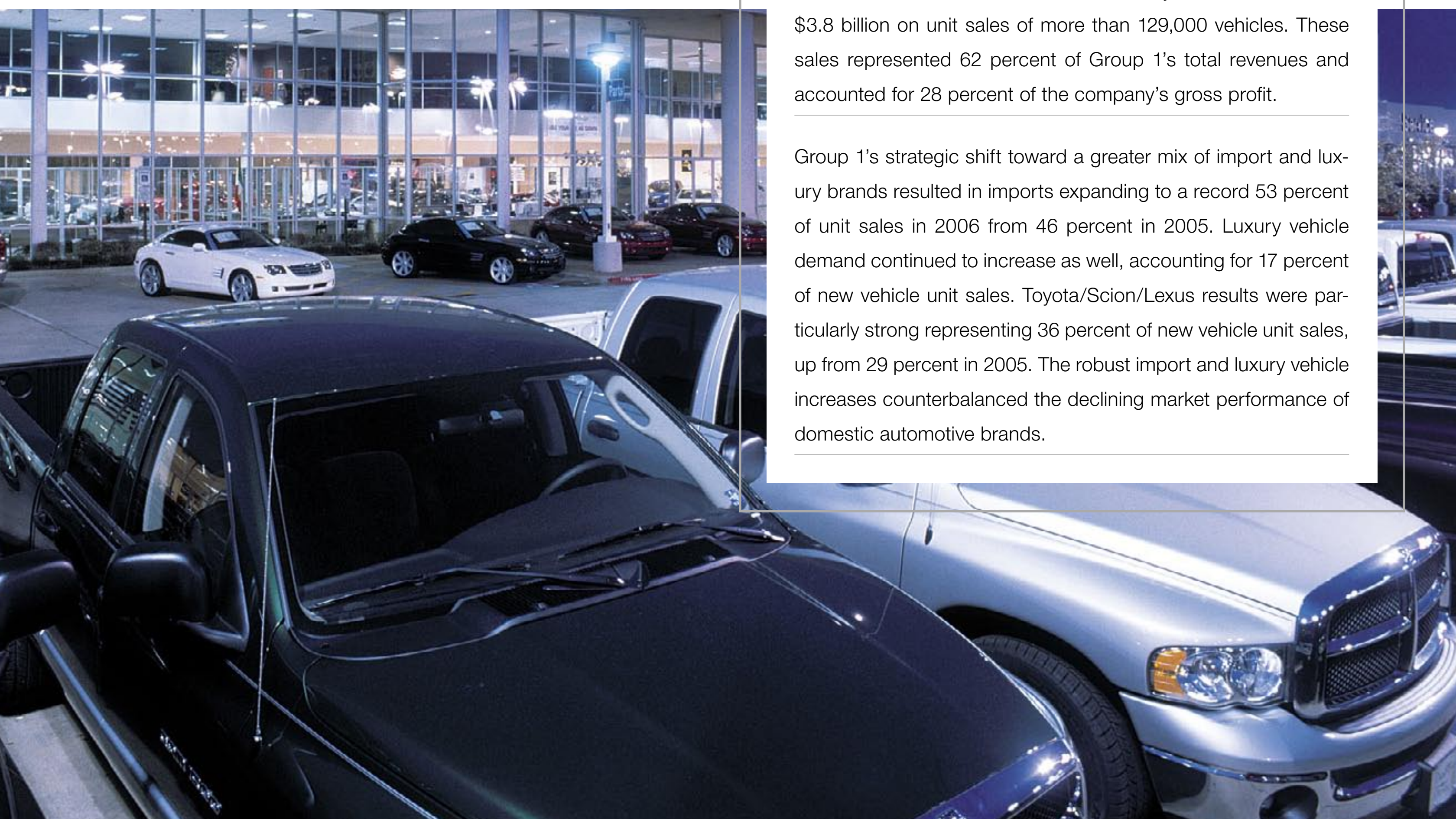
Acquisitions// During 2006, Group 1 acquired 14 import/luxury franchises and one domestic franchise that are expected to generate an additional $732.1 million in annual revenues. With these acquisitions, Group 1 increased its import/luxury new vehicle unit sales to 70 percent in 2006 from 62 percent in 2005. This reflects our strategic shift away from domestic brands, consistent with customer demand and brand growth trends.

The 2006 acquisitions included the sole Lexus dealership in New Hampshire, a Kia, a BMW, two Toyota/Scion, two Acura, two Honda and three Nissan franchises. We also acquired a Buick franchise in a dealership consolidation transaction. We continued our acquisition pace in early 2007 by adding BMW, Mini and Volkswagen franchises in Kansas with estimated annual revenues of $123.1 million.

//Brand Diversity
New Vehicle Unit Sales



NEW VEHICLES



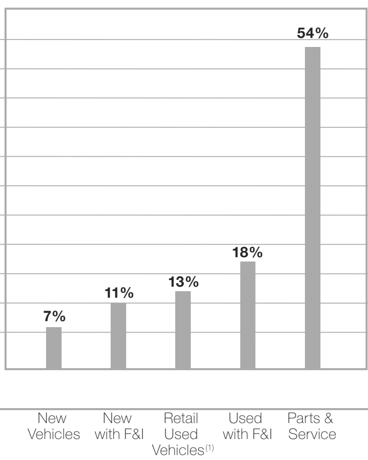
New Vehicle// sales had another record year with revenues of $3.8 billion on unit sales of more than 129,000 vehicles. These sales represented 62 percent of Group 1's total revenues and accounted for 28 percent of the company's gross profit.

Group 1's strategic shift toward a greater mix of import and luxury brands resulted in imports expanding to a record 53 percent of unit sales in 2006 from 46 percent in 2005. Luxury vehicle demand continued to increase as well, accounting for 17 percent of new vehicle unit sales. Toyota/Scion/Lexus results were particularly strong representing 36 percent of new vehicle unit sales, up from 29 percent in 2005. The robust import and luxury vehicle increases counterbalanced the declining market performance of domestic automotive brands.

GROUP 1'S F&I EMPLOYEES ARE EXTENSIVELY TRAINED IN THE PRODUCTS THEY SELL.

FINANCE & INSURANCE

//Gross Margin Breakdown



(1) Total used vehicle profit, including net wholesale profit or loss, divided by used retail revenues.

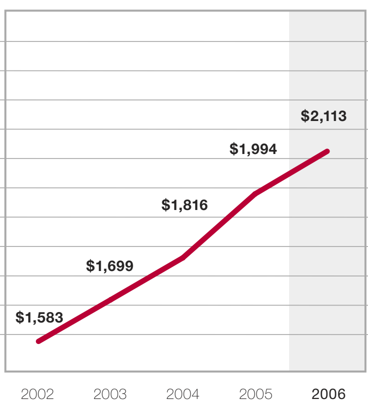
Finance and Insurance// (F&I) is a strong contributor to Group 1's profits. With revenues of $192.6 million — three percent of total revenues — the income in this area accounted for 20 percent of Group 1's gross profit. Group 1 earns third-party provider fees for arranging financing and selling other consumer products that include vehicle service contracts, GAP insurance and security products. Group 1 placed vehicle service contracts on 37 percent of the vehicles it sold and arranged financing on 69 percent of the new and used vehicles it retailed in 2006.

Group 1 uses sophisticated Internet technology to support a convenient "one-stop" automobile shopping experience, including a seamless link to financing alternatives. The company is in the process of expanding the use of these technologies to consistently provide the broadest possible range of competitive product offerings to all customers shopping at Group 1 dealerships.

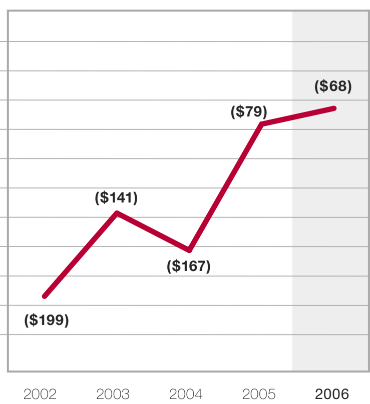
“The focus placed on our used vehicle business was rewarded with margin improvements.”

USED VEHICLES

//Gross Profit Per Used Vehicle Retail Unit



//Wholesale Gain (Loss) Per Used Vehicle Unit



Used Vehicle// retail revenues were $1.1 billion on 67,868 units sold with wholesale used vehicle revenues of $329.7 million on 45,706 vehicles sold in 2006. In total, used vehicle sales contributed 24 percent of Group 1's revenues and 15 percent, or $140.3 million, of total gross profit.

A strategic decision to put greater emphasis on used vehicle sales at the beginning of 2006 led to a significant shift in mix with more vehicles being retailed and less wholesaled. As part of that initiative, a state-of-the-art, pre-owned inventory management software system was installed in all of Group 1's dealerships by the end of the first quarter 2006. This system improves tracking and allows stocking guides to change based on local market demand. It also allows Group 1 dealers to see and sell from the inventory of other dealerships in their region, improving opportunities to match customer preferences. These tools facilitate Group 1's response to customer demand for a broad selection of popular, high-quality, low-mileage vehicles.

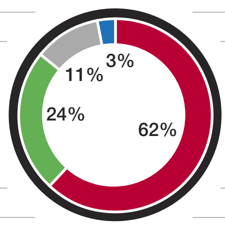
Management focus on the used vehicle business, combined with better per unit data from the new inventory management system, resulted in an 11 percent increase in total used vehicle profit per unit sold. As part of these improvements, retail used vehicle gross profit improved 6 percent to $2,113 per vehicle in 2006 from $1,994 in 2005, and wholesale losses were reduced 13.9 percent to a $68 per unit loss in 2006, as compared to a $79 loss per unit in 2005.

> “Group 1’s growing focus on import and luxury brands increases profit potential as units in operation increase.”

PARTS & SERVICE

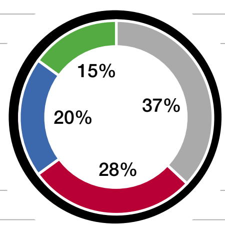
//Revenue Breakdown

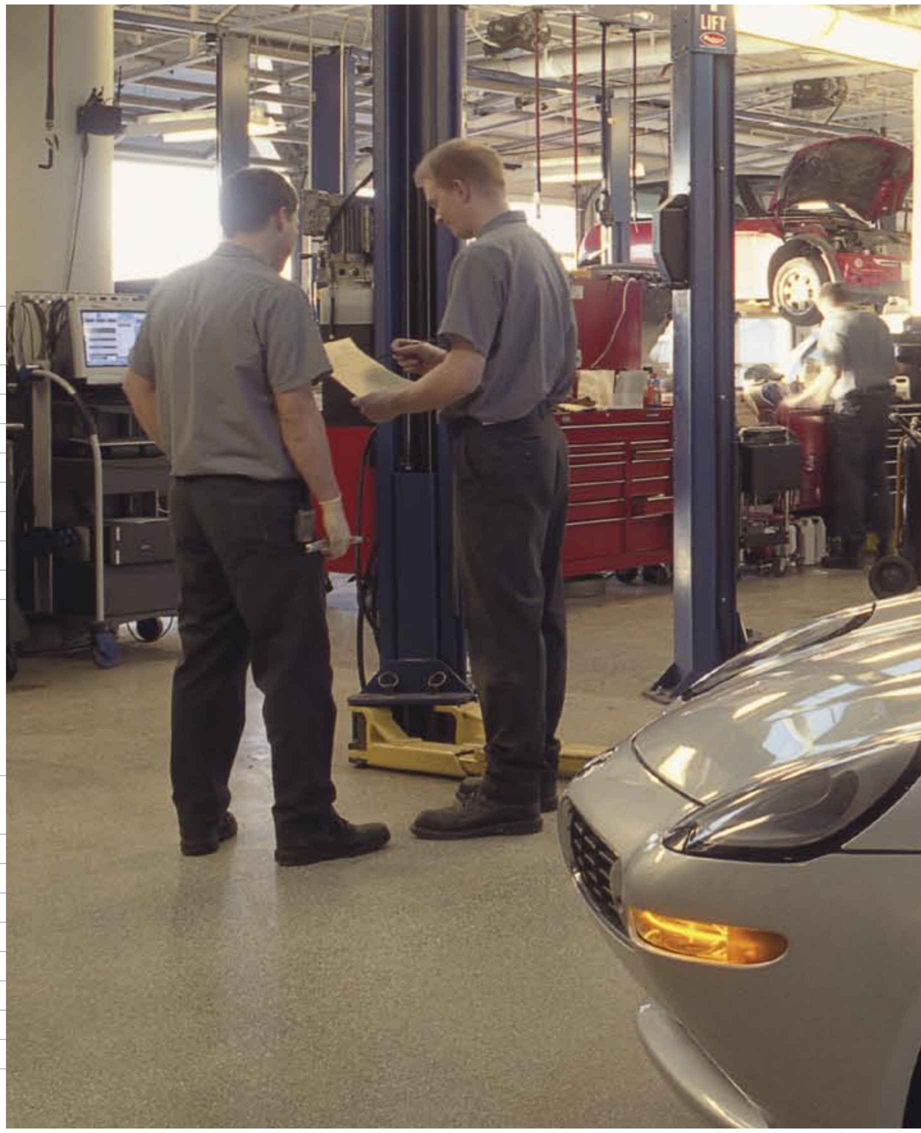
- New Vehicles 62%
- Used Vehicles 24%
- Parts & Service 11%
- Finance & Insurance 3%

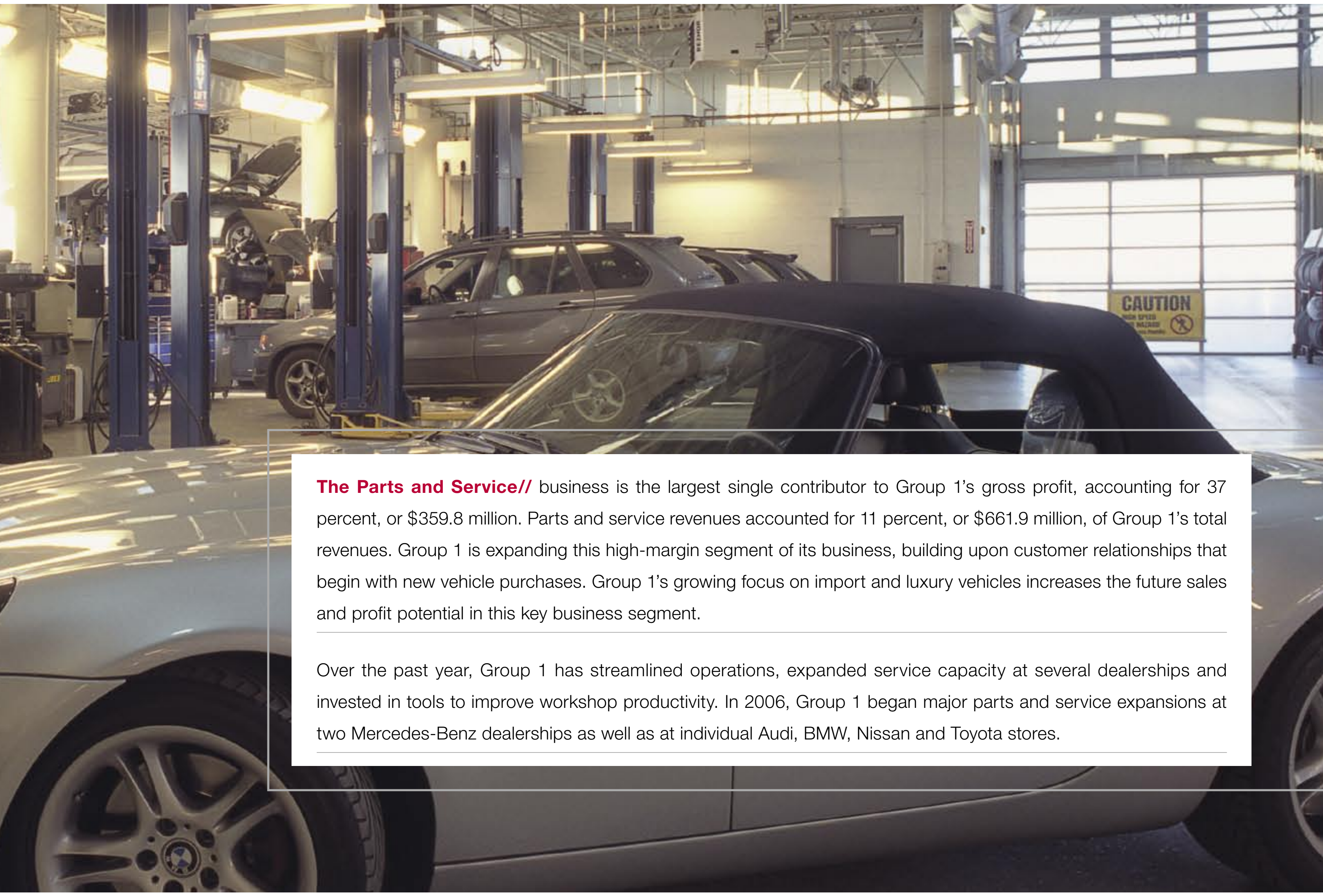


//Gross Profit Breakdown

- Parts & Service 37%
- New Vehicles 28%
- Finance & Insurance 20%
- Used Vehicles 15%







The Parts and Service// business is the largest single contributor to Group 1's gross profit, accounting for 37 percent, or $359.8 million. Parts and service revenues accounted for 11 percent, or $661.9 million, of Group 1's total revenues. Group 1 is expanding this high-margin segment of its business, building upon customer relationships that begin with new vehicle purchases. Group 1's growing focus on import and luxury vehicles increases the future sales and profit potential in this key business segment.

Over the past year, Group 1 has streamlined operations, expanded service capacity at several dealerships and invested in tools to improve workshop productivity. In 2006, Group 1 began major parts and service expansions at two Mercedes-Benz dealerships as well as at individual Audi, BMW, Nissan and Toyota stores.

BOARD OF DIRECTORS

Sitting left to right// Robert E. Howard II[3] Retired President, Bob Howard Auto Group// John L. Adams[1,2,3,4] Chairman; Vice Chairman, Trinity Industries, Inc.// J. Terry Strange[1F*,2] Retired Vice Chairman, KPMG, LLP//

Standing left to right// Max P. Watson, Jr.[2*,3,4] Retired Chairman, President and Chief Executive Officer, BMC Software, Inc.// Earl J. Hesterberg[3] President and Chief Executive Officer// Stephen D. Quinn [1,3*,4] Retired General Partner and Managing Director, Goldman, Sachs & Co.// Louis E. Lataif[1,2,4*] Dean, School of Management, Boston University//

1 Audit Committee
F Financial Expert
2 Compensation Committee
3 Finance/Risk Management Committee
4 Nominating/Governance Committee
*Committee Chairman

LEADERSHIP IN MANAGEMENT

> "We now have a highly-experienced team that should enable us to build on our successes."

Earl J. Hesterberg
President and Chief Executive Officer

John C. Rickel
Senior Vice President and Chief Financial Officer

Randy L. Callison
Senior Vice President, Operations and Corporate Development

Darryl M. Burman
Vice President, General Counsel and Corporate Secretary

Peter C. DeLongchamps
Vice President, Manufacturer Relations and Public Affairs

James R. Druzbik
Vice President, Information Systems

Wade D. Hubbard
Vice President, Fixed Operations

J. Brooks O'Hara
Vice President, Human Resources

Gigi L. Myung
Vice President, Purchasing

Leadership Strategy// Group 1 Automotive has assembled one of the very best dealership group management teams in the automotive industry. The team shares a wealth of expertise, having served in senior management roles such as sales, marketing, finance and operations for a number of top automotive manufacturers and dealerships.

Group 1's management team is governed by a board of directors with deep and balanced experience in the automotive industry, as well as in accounting, finance, information technology and management education.

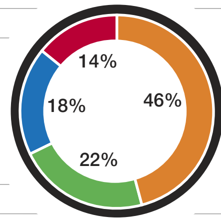
Lance A. Parker
Vice President and Corporate Controller

J. Steve Waller
Vice President, Corporate Development

//Geographic Diversity

New Vehicle Unit Sales

- Central 46%
- Northeast 22%
- West 18%
- Southeast 14%



LEADERSHIP IN OUR REGIONS

Regional Leadership// By consolidating its dealership management structure into four regions — Northeast, Southeast, Central and West — Group 1 has been able to blend the advantages of scale with a necessary understanding of local markets. The four regional vice presidents, who report directly to Group 1's President and CEO, Earl Hesterberg, have deep understanding of the industry and their markets, having been engaged in the auto industry for more than 110 years combined.

Martin E. Collins

Southeast Regional Vice President

The Southeast Region includes 17 dealerships in Alabama, Florida, Georgia, Louisiana and Mississippi.

Marty began his automotive retailing career in 1985, holding a variety of assignments with a domestic manufacturer including marketing and sales positions in the United States and United Kingdom, before joining Group 1 in 2006.

SOUTHEAST REGION

Frank Grese, Jr.

Central Regional Vice President

The Central Region includes 52 dealerships in Kansas, New Mexico, Oklahoma and Texas.

Frank began his automotive career in 1974, gaining experience working for both domestic and import manufacturers for 10 years and then holding a variety of executive positions at large private and public dealer groups, before joining Group 1 in 2004.

CENTRAL REGION

David W. Hult

Northeast Regional Vice President

The Northeast Region includes 23 dealerships in Massachusetts, New Hampshire, New Jersey and New York.

David began his automotive retailing career in 1985, gaining experience in finance and insurance, sales, management and executive positions at various individual dealerships and large, private and public dealer groups, before joining Group 1 in 2000.

NORTHEAST REGION

David L. Hutton

West Regional Vice President

The West Region includes 12 dealerships in California.

Dave began his automotive retailing career in 1965, holding positions in parts and service, business management and accounting in various dealerships prior to joining the Miller Automotive Group in 1986 where he most recently served as Chief Operating Officer, before joining Group 1 in 2002.

WEST REGION

CORPORATE INFORMATION

Required Certifications
Group 1 has included as Exhibit 31 to its Annual Report on Form 10-K for fiscal year 2006 filed with the Securities and Exchange Commission certificates of Group 1's Chief Executive Officer and Chief Financial Officer certifying the quality of the company's public disclosure. Group 1's Chief Executive Officer has also submitted to the New York Stock Exchange (NYSE) a certificate certifying that he is not aware of any violations by Group 1 of the NYSE corporate governance listing standards.

Corporate Headquarters
Group 1 Automotive, Inc.
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Houston, Texas 77024
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www.Group1Auto.com

Annual Meeting
Thursday, May 17, 2007
10:00 AM CDT
JPMorgan Chase
Mezzanine Board Room
707 Travis Street
Houston, Texas 77002

Common Stock Listing
Ticker Symbol: GPI
New York Stock Exchange

Independent Auditors
Ernst & Young LLP
Houston, Texas

Stock Transfer Agent and Registrar
Mellon Investor Services LLC
Plaza of the Americas
600 North Pearl Street
Suite 1010
Dallas, Texas 75201-2884

Bond Trustee
Wells Fargo
Corporate Trust
505 Main Street
Suite 301
Ft. Worth, Texas 76102

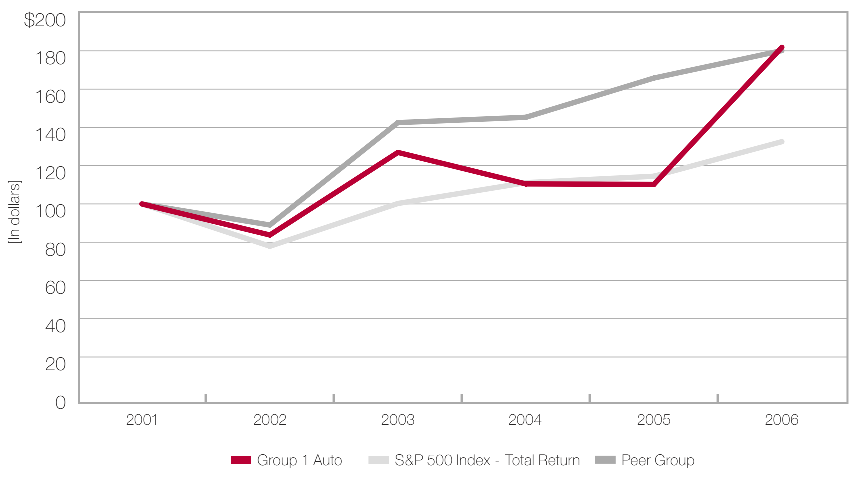
Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

Common Stock Quarterly Data

Year Ended December 31,	//Market Price		//Dividends
2006	High	Low	Paid
First Quarter	$50.17	$30.94	$0.13
Second Quarter	63.97	47.54	0.14
Third Quarter	61.73	43.27	0.14
Fourth Quarter	58.68	47.80	0.14
2005	High	Low	
First Quarter	$31.78	$25.65	$ —
Second Quarter	27.55	24.04	—
Third Quarter	32.98	24.05	—
Fourth Quarter	32.94	25.87	—

There were 73 holders of record of our common stock as of February 23, 2007.

Comparison of 5-Year Cumulative Total Return Assumes Initial Investment of $100
December 2006



www.Group1Auto.com

//CORPORATE HEADQUARTERS//
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