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**PENDRAGON**  
**INTERIM REPORT 2005**





	Unaudited 6 months to 30.06.05 £m	Unaudited 6 months to 30.06.04 £m
Revenue	1,751	1,598
Profit before tax and exceptionals up 19%	36.8	30.8
Underlying operating margin	3.2%	2.9%
Profit before tax	35.3	38.1
Adjusted earnings per share up 22%	20.7p	16.9p
Dividend per share up 57%	6.6p	4.2p
Net assets	238	207
Gearing	95%	140%

**Financial calendar**

Ex dividend date for 2005 proposed interim dividend	7 September 2005
Record date for 2005 proposed interim dividend	9 September 2005
Payment date for 2005 proposed interim dividend	3 October 2005
Final results for 2005 announced	February 2006
Annual general meeting	April 2006
Final dividend for 2005 payable	April 2006

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## CHIEF EXECUTIVE'S OPERATIONAL REVIEW

### Introduction

Trading performance across the group has been good in the first six months of the year. We are reporting growth in underlying earnings and a further reduction in gearing. Whilst we have made a number of small acquisitions this year, the main focus has continued to be on increasing efficiency through further deployment of our own dealer management systems and the integration of the major acquisition we made last year. We consider the integration to be complete and achieved with no disruption to the profit generation of the group.

Group revenues have increased by £152.8 million to £1,751.2 million mainly as a result of two extra months of trading from businesses acquired last year. On a like-for-like basis revenues were in line with last year despite a fall of 5.8% in new car registrations in the UK market. Operating profits before one-off exceptional items were £56.7 million compared to £46.4 million last year. Although the UK market has been more competitive we have improved the overall group underlying operating profit margin to 3.2% from 2.9%. This reflects the strength of the group over a number of brands, markets and activities.

The interim dividend is 6.6 pence per share compared to 4.2 pence last year. This level of dividend is in line with our decision to increase the 2004 final dividend made in the light of the contribution to earnings of our substantial acquisition last year.

We have now adopted International Financial Reporting Standards (IFRS) and have restated the prior year figures to reflect the changes made to our accounting policies.

### Results and Dividend

The results for the six months to 30 June 2005 are summarised as follows:

	2005 £m	2004 £m
Revenue	1,751.2	1,598.4
Underlying operating profit	56.7	46.4
Exceptional operating costs	(2.9)	(4.3)
Operating profit before other income	53.8	42.1
Other income - gain on sale of fixed assets	1.4	11.6
Operating profit	55.2	53.7
Finance costs	(19.9)	(15.6)
Profit before tax	35.3	38.1
Earnings per share - adjusted	20.7 p	16.9 p
Dividend per share	6.6 p	4.2 p

Revenue has increased to £1,751.2 million from £1,598.4 million. CD Bramall was acquired on 1 March 2004 and therefore the 2005 results include an additional two months trading. On a like-for-like basis revenues have been maintained at 2004 levels. Sale of new cars account for just over half of the revenue of the group with used cars accounting for a third. Aftersales activities account for the balance of revenues and contributed 44% of gross profits. These percentages are consistent with the prior period.

Operating profit, excluding exceptional costs and disposal profits, increased by £10.3 million to £56.7 million from £46.4 million in 2004. We have benefited from a full six months of contribution from acquisitions made in the first half last year, good performances of certain brands in the UK, strong results in the USA and a reduction in the level of losses in Germany.

Financing costs increased by £4.3 million to £19.9 million. This was due to a combination of factors including higher vehicle floorplan costs, interest rate rises and higher average borrowings compared to the first half last year. The level of borrowings at 30 June 2005 was £20.5 million lower than that at 31 December 2004 and we are achieving our internal targets for debt reduction following last year's major acquisition. The balance sheet gearing at 30 June 2005 was 95% compared to 112% at 31 December 2004 and 140% at 30 June 2004.

## CHIEF EXECUTIVE'S OPERATIONAL REVIEW *continued*

Exceptional operating costs of £2.9 million relate to write offs and costs in respect of our Rover dealerships. Of this amount £1.2 million relates to goodwill written off with the remainder being redundancy costs and manufacturer and warranty debts. Of the original 16 Rover sites which we operated at the beginning of the year, three have been closed and the properties are being sold. Three others have been closed as Rover dealers and will be reopened under different franchises. The remaining ten sites continue to sell Rover cars and provide aftersales to our customers and have had additional franchises added or will have in due course. We expect to fully recover the exceptional costs incurred in our Rover group through the profits which will be made on the Rover property disposals.

Underlying operating profit of £56.7 million (2004: £46.4 million) less interest cost of £19.9 million (2004: £15.6 million) resulted in profit before tax and exceptionals of £36.8 million (2004: £30.8 million). Adjusted earnings per share increased by 22.5% to 20.7p from 16.9p last year.

### Motor Retail Business

Our franchised motor retail activities are principally in the UK with a small but growing business in the USA. We currently operate 258 franchised sales points, of which 22 are overseas. We continue to represent a broad portfolio of brands each with sufficient scale to enable efficient operations within each franchise group. We also operate a number of franchised commercial truck businesses.

We have progressed well with the implementation of our new dealer management system, Pinnacle, within the group. So far we have installed systems at 63 sites and plan a further 45 by this year end. We expect that the roll out will continue to accelerate and with it the benefits that this technology brings to the operational efficiency of the group.

### UK

In the UK, new car registrations reduced by 5.8% compared to the first six months of 2004. The 2004 comparative period is the best on record whilst the UK market in 2005 remains in line with the average achieved in the last six years. The private sector retail sales, which tend to be more profitable, are down 11%, whilst corporate sales are down only 2.3%. The change in mix has put pressure on margins within the sector. The latest industry forecast for 2005 is for an annual new car market at 2.45 million, down 4.6% on 2004. This annual forecast compares to a 7.2% fall in quarter one and reflects the cooling in demand last year from quarter two onwards. The commercial vehicle market continues to perform strongly. Year to date registrations of light commercial vans and trucks are up 3% to just over 200,000 registrations.

In the UK we operate 236 franchised sales points representing specialist brands (44%), volume and motorbikes (47%) and truck franchises (9%). The results of the UK business can be summarised as follows:

£m	Revenue	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Existing	1,537.8	207.8	13.5	49.1	3.2
Disposed	48.0	8.0	16.6	0.3	0.6
<b>Total 2005</b>	<b>1,585.8</b>	<b>215.8</b>	<b>13.6</b>	<b>49.4</b>	<b>3.1</b>
Total 2004	1,470.8	198.3	13.5	39.4	2.7

Revenue increased by £115.0 million. This arose principally from a combination of an additional two months from CD Bramall dealerships less the impact of year-on-year disposals.

Gross margins for dealerships we operated at 30 June 2005 were maintained at 13.5%, despite the change in mix of national new car sales towards lower margin corporate. The split of profits from each of our activities has remained in line with last year with 44% from the high margin aftersales area of the business. The cost savings accruing from the increased scale of the group this year and some excellent performances from our Aston Martin, Porsche and DAF franchise groups have contributed towards operating margins increasing to 3.2% from 2.7% last year.

We had a fairly quiet first half in terms of acquisitions and disposals. We acquired four dealerships towards the end of the first half of 2005. A Jaguar and Volvo dealership in Plymouth, Jaguar in Solihull and Kia in Cardiff. We also established a greenfield site in Nottingham for SAAB, and rolled out our Cadillac sales centres to Manchester and Birmingham. We plan to open further Cadillac centres in the second half of the year in anticipation of new model launches early next year. The contribution to revenue from these new businesses is not significant in the context of our UK operations although they have had the effect of reducing margins and operating profit in the first six months of 2005.

We sold our Mercedes truck operation in June in addition to the closure of part of our Rover Group. The demise of MG Rover car production has resulted in some exceptional costs to the group which we expect to recover through sale of properties from the Rover dealerships which we have closed. We expect to sell out of our remaining new Rover and MG stock in the second half of the year and to continue with the franchising plans commenced last year.

## USA

The overall market for new cars in the USA has improved this year by 1.9% to 8.6 million registrations. We continue to represent only a few brands in California being Jaguar, Land Rover, Lincoln Mercury, Aston Martin and SAAB. We added the two SAAB dealerships in January of this year. All our brands are performing well in terms of sales volumes other than Jaguar which has suffered due to lower X-type sales. Results of the USA business for the first half of 2005 are summarised as follows:

£m	Revenue	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Existing	90.3	14.2	15.8	2.8	3.1
Acquired	10.2	1.1	10.6	(0.3)	(2.7)
<b>Total 2005</b>	<b>100.5</b>	<b>15.3</b>	<b>15.2</b>	<b>2.5</b>	<b>2.5</b>
Total 2004	77.8	14.0	18.0	2.3	2.9

Revenues increased, in part due to a number of large fleet deals for Lincoln Mercury products which had the effect of diluting the gross margin. Jaguar and Land Rover margins are also down on last year, Jaguar due to lower volumes, increasing competition and Land Rover awaiting new product launches. In June 2005 we saw an improvement in Land Rover margins with the launch of the Range Rover Sport and the new supercharged Range Rover.

Operating profit improved at the existing businesses by 22% to £2.8 million. This reflects the reduction in the cost base achieved of circa £0.3 million whilst increasing revenue.

The two new SAAB dealerships acquired at the start of the new year is an important step in both building on the relationship we enjoy with General Motors in the UK and, also in extending the franchises we represent in the Californian market which hitherto had been entirely with Ford brands. The margins in the new SAAB businesses are below those of our existing dealers presenting us with the opportunity to improve their returns.

### Germany

Our German operation, representing Jaguar, Land Rover and Aston Martin in Frankfurt and Munich has shown a marginal improvement with a reduction in operating losses of £0.3 million. This was achieved through higher sales and an improved gross margin. The cost base remained static after reductions made last year.

### Support Services

We provide a broad range of support services to both the Pendragon group and to outside customers. The services are provided by a number of specialist businesses which comprise contract hire and leasing, computer software solutions, wholesale parts distribution and our shared services centre. The results for the first half of 2005 are summarised as follows:

£m	Revenue	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
<b>Total 2005</b>	<b>76.1</b>	<b>20.9</b>	<b>27.5</b>	<b>5.7</b>	<b>7.5</b>
Total 2004	63.8	18.2	28.5	5.9	9.2

Revenue increased with a full six month contribution from the contract hire and parts wholesale businesses that were acquired last year. As a consequence the relative mix of sales has changed which has had the effect of reducing year-on-year margins. Overall profits have fallen slightly.

### Finance

Our borrowings at 30 June 2005 were £226.3 million, a reduction of £20.5 million from the 2004 year end balance of £246.8 million. Gearing at 30 June 2005 was 95%. The level of borrowings is within the plan we set ourselves at the time of the acquisition of CD Bramall and gearing is continuing to fall.

Operating cash inflow for the first six months was £80.9 million, which compares with £118.6 million generated in 2004. We reduced working capital investment in the period by £2.7 million in comparison to the reduction of £46.5 million following the CD Bramall acquisition last year. As the new car market has slowed this year there has been extra focus, across the group, on new and used car stock levels to ensure they remain at appropriate levels.

Investments of £13.0 million were made in respect of business acquisitions. This includes the acquisitions of SAAB, in the USA, Jaguar and Volvo in Plymouth, Jaguar Solihull and Kia in Cardiff. Deferred consideration was paid for the Citroën/Jeep business that we acquired in September 2004.

Net investment in property, plant and equipment for the six months was £24.2 million (2004: £11.0 million). This includes investment in new properties and refurbishments plus a net increase in the contract hire fleet and service loan cars. Proceeds from property disposals were £5.9 million (2004: £22.0 million). In addition to this £14.0 million was raised from business disposals (2004: £14.3 million).

### **Current Trading and Prospects**

Current trading remains in line with expectations as we continue to absorb the effects of the downturn in the UK new car market with minimal impact on our profits. However, there is no doubt that had demand continued at levels experienced during the first quarter of 2004 profitability would be much higher this year. Compared to last year, profits continue to be more difficult to generate. The aftersales market is stable and currently appears to be little affected by reductions in consumer spending.

Looking forward to the remainder of the year we anticipate that trading will remain in line with expectations. We anticipate debt reduction to continue from strong cashflow, Pinnacle roll out to enable increased scale economies and that our plans for growth will be achieved.

We are confident the group will continue to build upon the success we have achieved over the last 18 months and will meet our short-term goals whilst building for our long-term future.

**TREVOR FINN**

**Chief Executive**

**4 August 2005**

## CONSOLIDATED INCOME STATEMENT

### Interim Results

for the six months ended 30 June 2005

	6 Months to 30.06.05	6 Months to 30.06.04	12 Months to 31.12.04
	£m	£m	£m
<b>Revenue</b>	<b>1,751.2</b>	1,598.4	3,168.2
Cost of sales	<b>(1,499.8)</b>	(1,369.8)	(2,718.1)
<b>Gross profit</b>	<b>251.4</b>	228.6	450.1
Operating expenses	<b>(197.6)</b>	(186.5)	(369.0)
Operating profit before other income	<b>53.8</b>	42.1	81.1
Other income - gain on sale of fixed assets	<b>1.4</b>	11.6	18.9
<b>Operating profit</b>	<b>55.2</b>	53.7	100.0

  

Operating profit before other income, analysed as:			
Before exceptional items	56.7	46.4	87.7
Goodwill impairment	(1.2)	-	(1.9)
Closure and integration costs	(1.7)	(4.3)	(4.7)
<b>Operating profit before other income</b>	<b>53.8</b>	42.1	81.1

  

Finance costs (note 5)	(20.8)	(15.8)	(35.1)
Finance income (note 6)	0.9	0.2	0.5
<b>Profit before tax</b>	<b>35.3</b>	38.1	65.4
Taxation (note 7)	(11.0)	(12.0)	(19.7)
<b>Profit attributable to equity holders of the parent</b>	<b>24.3</b>	26.1	45.7

  

Earnings per ordinary share (note 9)	19.7p	21.3p	37.1p
Diluted earnings per ordinary share (note 9)	19.1p	20.6p	36.0p

All amounts are unaudited

## CONSOLIDATED BALANCE SHEET

	30.06.05 £m	30.06.04 £m	31.12.04 £m
<b>Non-current assets</b>			
Property, plant and equipment	474.0	467.8	471.7
Goodwill	164.6	190.3	172.8
Other intangible assets	1.4	2.9	1.6
Derivative financial instruments	5.7	-	-
Investment in associated company	-	2.3	-
<b>Total non-current assets</b>	<b>645.7</b>	<b>663.3</b>	<b>646.1</b>
<b>Current assets</b>			
Inventories	471.0	422.8	446.8
Trade receivables	119.4	127.8	84.0
Other current assets	72.4	69.0	51.8
Bank balances and cash equivalents	92.9	86.2	114.3
<b>Total current assets</b>	<b>755.7</b>	<b>705.8</b>	<b>696.9</b>
<b>Total assets</b>	<b>1,401.4</b>	<b>1,369.1</b>	<b>1,343.0</b>
<b>Current liabilities</b>			
Bank overdrafts	(22.3)	-	-
Short-term borrowings	(53.2)	(24.8)	(71.3)
Trade and other payables	(733.4)	(683.1)	(657.0)
Current obligations under finance leases	(1.2)	(5.0)	(1.1)
Current tax payable	(21.2)	(20.8)	(18.5)
<b>Total current liabilities</b>	<b>(831.3)</b>	<b>(733.7)</b>	<b>(747.9)</b>
<b>Non-current liabilities</b>			
Long-term borrowings	(245.4)	(338.5)	(285.3)
Deferred tax	(5.5)	(9.1)	(5.5)
Obligations under finance leases	(2.8)	(7.0)	(3.4)
Retirement benefit obligations	(76.2)	(71.6)	(78.3)
Long-term provisions	(2.1)	(2.7)	(2.2)
<b>Total non-current liabilities</b>	<b>(332.0)</b>	<b>(428.9)</b>	<b>(374.7)</b>
<b>Total liabilities</b>	<b>(1,163.3)</b>	<b>(1,162.6)</b>	<b>(1,122.6)</b>
<b>Net assets</b>	<b>238.1</b>	<b>206.5</b>	<b>220.4</b>
<b>Shareholders' equity</b>			
Called up share capital	32.8	32.8	32.8
Share premium	56.8	56.8	56.8
Other reserves	15.1	15.1	15.1
Translation differences	(0.1)	0.1	(0.3)
Profit and loss account	133.5	101.7	116.0
<b>Total shareholders' equity</b>	<b>238.1</b>	<b>206.5</b>	<b>220.4</b>

All amounts are unaudited

## CONSOLIDATED CASH FLOW STATEMENT

	6 Months to 30.06.05 £m	6 Months to 30.06.04 £m	12 Months to 31.12.04 £m
<b>Cash flows from operating activities</b>			
Operating profit	55.2	53.7	100.0
Profit on sale of fixed assets	(1.4)	(11.6)	(18.9)
Depreciation and amortisation	23.0	29.9	58.7
Share based payments	0.2	0.1	0.3
Goodwill impairment	1.2	-	1.9
Decrease in working capital	2.7	46.5	45.4
Cash generated from operating activities	80.9	118.6	187.4
Interest paid	(20.1)	(15.6)	(26.4)
Tax paid	(10.2)	(8.6)	(19.3)
<b>Net cash from operating activities</b>	<b>50.6</b>	<b>94.4</b>	<b>141.7</b>
<b>Cash flows from investing activities</b>			
Business acquisitions (net of cash acquired)	(13.0)	(229.4)	(232.5)
Proceeds from sale of businesses	14.0	14.3	17.9
Purchase of property, plant and equipment	(69.0)	(46.9)	(132.5)
Proceeds from sale of property, plant and equipment	44.8	45.9	133.3
Receipts from sales of investments	-	0.6	0.8
<b>Net cash used in investing activities</b>	<b>(23.2)</b>	<b>(215.5)</b>	<b>(213.0)</b>
<b>Cash flows from financing activities</b>			
Payment of capital element of finance lease rentals	(0.5)	(1.7)	(11.4)
Repayment of unsecured bank loans	-	(92.8)	(92.2)
Repayment of loan notes	(62.8)	(0.5)	(0.5)
Proceeds from issue of unsecured loans	-	301.8	294.6
Repayment of unsecured loans	(0.3)	-	-
Dividends paid to shareholders	(7.4)	(4.7)	(9.8)
<b>Net cash (used in)/generated from financing activities</b>	<b>(71.0)</b>	<b>202.1</b>	<b>180.7</b>
Effects of exchange rate changes	(0.1)	-	(0.3)
Net (decrease)/increase in cash and cash equivalents	(43.7)	81.0	109.1
Opening cash and cash equivalents	114.3	5.2	5.2
<b>Closing cash and cash equivalents (note 10)</b>	<b>70.6</b>	<b>86.2</b>	<b>114.3</b>

All amounts are unaudited

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Other reserves £m	Translation differences £m	Accumulated profit £m	Total £m
Balance at 1 January 2004	32.8	56.8	15.1	-	77.1	<b>181.8</b>
Currency translation differences	-	-	-	(0.3)	-	<b>(0.3)</b>
Share based payments	-	-	-	-	2.2	<b>2.2</b>
Profit attributable to equity holders of the parent	-	-	-	-	45.7	<b>45.7</b>
Dividends	-	-	-	-	(9.8)	<b>(9.8)</b>
Disposal of own shares in share trusts	-	-	-	-	0.8	<b>0.8</b>
Balance at 31 December 2004	32.8	56.8	15.1	(0.3)	116.0	<b>220.4</b>
Adoption of IAS 39	-	-	-	-	0.4	<b>0.4</b>
Balance at 1 January 2005	32.8	56.8	15.1	(0.3)	116.4	<b>220.8</b>
Currency translation differences	-	-	-	0.2	-	<b>0.2</b>
Share based payments	-	-	-	-	0.2	<b>0.2</b>
Profit attributable to equity holders of the parent	-	-	-	-	24.3	<b>24.3</b>
Dividends	-	-	-	-	(7.4)	<b>(7.4)</b>
Balance at 30 June 2005	32.8	56.8	15.1	(0.1)	133.5	<b>238.1</b>

## NOTES

1. Pendragon has previously reported its results under UK Generally Accepted Accounting Principles (UK GAAP). Following adoption of Regulation 1606/2002 by the European Parliament in July 2002 all EU listed companies are required to report their consolidated financial statements under International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 1 January 2005. This interim report has been prepared in accordance with all current IFRS (including International Financial Reporting Interpretations Committee pronouncements) in place for reporting to 31 December 2005. The IFRS applied are those that have been, or are expected to be, endorsed by the European Commission by the time the group prepares its first set of consolidated financial statements at 31 December 2005.

The changes arising to the income statement on adoption of IFRS are relatively insignificant, whilst the net assets of the group increase by £34.7 million as at 1 January 2004 with a restatement in the value of assets which is in part offset by the pension fund deficit that has been recognised and an increase in the deferred tax liability of the group. A full report detailing the changes to Pendragon accounting policies and their financial effect was published on 22 July 2005 and is available on the company's website (<http://www.pendragonplc.com/news.asp?newsid=612>).

The principal changes the group has made to its accounting policies on adoption of IFRS to those presented in the financial statements for the year ended 31 December 2004 are as follows: (accounting policies that have not changed with the introduction of IFRS have not been reproduced below).

- a) Tangible fixed assets - land and buildings have been restated to fair value as at 1 January 2004.
- b) Employee share options - the fair value of the options granted to employees are expensed to the income statement.
- c) Goodwill - is no longer amortised but is tested instead for impairment at least once a year.
- d) Intangible assets - are recognised on acquisition if they can be separately identified and reliably measured.
- e) Dividends - final dividends recognised once approved at AGM or interim dividends when approved by directors.
- f) Deferred tax - provided in full including capital gains that have been rolled over.
- g) Leases - buildings are treated as fixed assets if they are long-term and all the risks and rewards have substantially transferred to the group.
- h) Revenue recognition - contract hire vehicles remain on balance sheet as fixed assets if the group has a future repurchase commitment. Profit is spread over the period of the lease.
- i) Employee pensions - the full deficit on the pension schemes is recognised on balance sheet, and future costs will be calculated in accordance with the "corridor" approach.
- j) Financial instruments - asset and liability of financial derivatives are recognised on balance sheet.

The application of IFRS has also changed the cash flow statement in terms of its presentation and lay out.

## NOTES continued

2. The comparative results for the year ended 31 December 2004 are not the company's statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP, have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement under s237 (2) or (3) of the Companies Act 1985.

3. The interim report has been approved by the Board of directors on 4 August 2005 and is unaudited.

4. Exceptional items incurred during the first half of 2005 total £2.9 million. This is in respect of our Rover Franchise Group, and consists of £1.2 million impairment of goodwill and £1.7 million for redundancy costs and non payment of manufacturer bonus and warranty debtors. Exceptional costs incurred during the first half of 2004 of £4.3 million are in respect of integration costs arising from the acquisition of CD Bramall PLC which included redundancy payments made to the former directors.

5. Finance costs	6 Months to 30.06.05 £m	6 Months to 30.06.04 £m	12 Months to 31.12.04 £m
Interest payable on bank borrowings	5.9	6.1	13.2
Interest payable on loan notes	5.0	3.5	8.6
Vehicle stocking plan interest	8.3	4.3	9.4
Interest payable on finance leases	0.1	0.1	0.4
Unwinding of discounts in contract hire residual values	1.3	1.5	2.9
Interest on pension scheme obligations	0.2	0.3	0.8
	<b>20.8</b>	<b>15.8</b>	<b>35.3</b>
Less interest capitalised	-	-	(0.2)
Total finance costs	<b>20.8</b>	<b>15.8</b>	<b>35.1</b>

6. Finance income	6 Months to 30.06.05 £m	6 Months to 30.06.04 £m	12 Months to 31.12.04 £m
Fair value gains - interest rate swaps	0.2	-	-
Interest receivable on bank deposits	0.2	0.2	0.5
Other interest receivable	0.5	-	-
Total finance income	<b>0.9</b>	<b>0.2</b>	<b>0.5</b>

7. The effective tax rate for 2005 of 31.2% (2004 : 31.5%) is an estimate based upon the anticipated charge for the full year on profit on ordinary activities before taxation.

8. A dividend of 6.6p (2004 : 4.2p) net per ordinary share will be paid on 3 October 2005 to shareholders appearing on the register at the close of business on 9 September 2005.

9. Earnings per share	30.06.05 pence	30.06.04 pence	31.12.04 pence
Basic earnings per share	19.7	21.3	37.1
Effect of non-trading items	1.0	(4.4)	(7.1)
Adjusted earnings per share	20.7	16.9	30.0
Diluted earnings per share	19.1	20.6	36.0

The calculation of basic, diluted and adjusted earnings per share is based on:

Number of shares (millions)	30.06.05 number	30.06.04 number	31.12.04 number
Weighted average number of shares used in basic and adjusted earnings per share calculation	123.5	122.7	123.0
Weighted average number of dilutive shares under option	3.8	3.9	3.9
Diluted weighted average number of shares used in diluted earnings per share calculation	127.3	126.6	126.9

Earnings	30.06.05 £m	30.06.04 £m	31.12.04 £m
Earnings for basic and diluted earnings per share calculation	24.3	26.1	45.7
Non-trading items:			
Profit on fixed asset and business disposals	(1.4)	(11.6)	(18.9)
Goodwill impairment	1.2	-	1.9
Exceptional costs	1.7	4.3	4.7
Tax effect of non-trading items	(0.2)	1.9	3.5
Earnings for adjusted earnings per share calculation	25.6	20.7	36.9

The directors consider that the adjusted earnings per share figures provide a better measure of comparative performance.

10. Cash and cash equivalents	30.06.05 £m	30.06.04 £m	31.12.04 £m
Bank balances and cash equivalents	92.9	86.2	114.3
Bank overdrafts	(22.3)	-	-
	70.6	86.2	114.3

11. Net debt	30.06.05 £m	30.06.04 £m	31.12.04 £m
Cash and cash equivalents (note10)	70.6	86.2	114.3
Short-term borrowings	(53.2)	(24.8)	(71.3)
Long-term borrowings	(245.4)	(338.5)	(285.3)
Derivative financial instruments	5.7	-	-
Obligations under finance leases	(4.0)	(12.0)	(4.5)
	(226.3)	(289.1)	(246.8)

# INDEPENDENT REVIEW REPORT TO PENDRAGON PLC

## Introduction

We have been engaged by the company to review the financial information set out on pages 7 to 12 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in note 1 to the financial information, the next annual financial statements of the group will be prepared in accordance with IFRS adopted for use in the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRS adopted for use by the European Union.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

KPMG Audit Plc  
Chartered Accountants  
Birmingham  
4 August 2005