



**PENDRAGON  
PLC**

**FOR IMMEDIATE RELEASE**

**15 February 2007**

**PRELIMINARY RESULTS TO 31 DECEMBER 2006**

Pendragon PLC, the UK's leading car retailer group, today reports preliminary results for the twelve months to 31 December 2006.

**Highlights:**

- Turnover £5.1 billion (2005 £3.3 billion)
- Underlying profits up 15% to £68.1 million (2005 £59.3 million)
- Profit before tax up 51% to £96.4 million (2005 £63.8 million)
- Basic earnings per share up 53% to 10.7p (2005 7.0p)
- Total dividend up 30.7% to 3.45p (2005 2.64p)
- Strong operating cash inflow of £219.4 million (2005 £130.4 million)
- Reg Vardy integration completed

Trevor Finn, Chief Executive, commented:

“Pendragon has delivered another solid financial performance in 2006. The highlight for the year was the acquisition and integration of Reg Vardy - the acquisition almost doubled our revenues and makes us clear market leader in what remains a very fragmented market.

We were able to repay a substantial amount of the money we borrowed to finance the Vardy acquisition and go into 2007 in good shape and with confidence that we will achieve our objectives for the year.”

**Enquiries:**

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Pendragon, the leading car retailer in the UK, has delivered another solid financial performance in 2006. We increased revenues by 55% to £5.1 billion from £3.3 billion in 2005. Profits before tax and exceptionals were up by 15% to £68.1 million and earnings per share on this basis increased 12.3% to 7.5 pence. We made exceptional profits and gains on the sale of fixed assets in the year of £28.3 million. The gains on the sale of fixed assets were mainly in respect of property sales. Including these exceptionals, profits before tax were up by 51% to £96.4 million from £63.8 million in 2005 giving basic earnings per share of 10.7 pence.

Our achievements in 2006 have been considerable and have consolidated our position as the leading car retailer in the UK. We implemented a new divisional management structure which integrated the Reg Vardy business which was acquired early in the year. We have made significant inroads to the reduction of borrowings which we put in place for the Vardy acquisition. The roll out of our shared services business model is going well along with the implementation of our in house IT systems.

### **Financial Performance**

£m	<b>2006</b>	2005
<b>Revenue</b>	<b>5,101.0</b>	3,284.5
<b>Underlying operating profit</b>	<b>135.3</b>	98.8
Exceptional operating items and other income	28.3	4.5
<b>Operating profit</b>	<b>163.6</b>	103.3
Finance costs / share of joint venture	(67.2)	(39.5)

<b>Profit before tax</b>	<b>96.4</b>	63.8
Earnings per share – basic	10.7p	7.0p
Earnings per share – adjusted	7.50p	6.68p
Dividend per share	3.45p	2.64p

## **Dividend**

The final dividend proposed is 2.0 pence per share, which together with the interim dividend of 1.45 pence gives a full year dividend of 3.45 pence per share, an increase of 30.7% over last year. We believe that this increase reflects the strong earnings potential and cash generating ability of the enlarged Group.

## **Strategy and shareholder value**

Pendragon is the largest independent operator of franchised motor car dealerships in the UK, operating 390 franchises. We also operate motor car dealerships from nine locations in California and five in Germany. The UK is the principal market, which accounts for 95% of the Group's revenues. Pendragon sells a broad range of makes of motor cars and commercial vehicles, has a substantial presence in the UK vehicle leasing, wholesale parts and dealer management software markets.

Last year we successfully pursued our strategy of growing the business in partnership with a range of vehicle manufacturers and generating our income from three principal areas; new car sales, used car sales and after sales service and parts. We have created economies of scale through the deployment of more of our own IT systems, by further utilisation of our shared services centre and reducing operational gearing through improved asset utilisation. Having diverse revenue streams, not simply focused on new

car sales, we believe, reduces exposure to the normal retail economic cycles. One of the benefits that we highlighted at the time of the Vardy acquisition was that it gave us more exposure to the used car market which has continued to perform well and will be a major growth area for us.

Our strategy has delivered, and continues to deliver, outstanding results and in 2006 our after tax return on equity rose to 24.8% compared to 18.8% last year. We have also seen real growth rates in earnings and dividends. In 2006 adjusted earnings per share increased by 12.3% and dividends by 30.7%. Over the past five years our compound adjusted earnings per share growth rate has been 26.4% per annum and in the same period the compound dividend growth rate has been 22.1% per annum.

### **Our markets**

We operate in markets which offer excellent growth prospects. The UK vehicle retailing market is our principal one where changes to franchising rules have freed up the market for acquisitions and consolidation. Pendragon is the leading player in this consolidation. The total motor car parc in the UK now stands at around 30 million with annual sales of new and used motor cars of just under 10 million units. The new car market over the past four years has weakened by 5.25% and is expected, by industry analysts, to stabilise around the 2006 level for the next two years. The used car market by contrast has continued to perform well. The size of the market for after sales has grown in line with the car parc in the UK and tends to be less affected by economic cycles as motor cars require regular maintenance and repair for both safety and performance reasons.

We own a large vehicle leasing and contract hire business in the UK. The market has been stable and importantly used car residual values have held up well enabling end of contract vehicles to be sold profitably.

The commercial van and truck market in the UK has enjoyed a period of growth in line with the UK economy and is around 0.4 million new units per annum. The key area in this market is after sales service which remained strong in 2006.

We have gradually built a presence in the UK market for dealer management systems. The market for these systems is primarily linked to the number of franchised dealers and is served by a relatively small number of providers. We mainly sell into the UK although we see other overseas markets such as North America and South Africa being additional markets for our products. We see this as a good growth area for our business.

### **Operational Review**

Our Group is structured operationally to reflect the range of business activities undertaken and has six distinct trading entities.

**Stratstone** Under our Stratstone brand we are the UK's leading luxury motor car retailer with 170 locations. Stratstone holds franchises to sell and service Aston Martin, BMW, Cadillac, Chrysler Jeep, Corvette, Dodge, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes Benz, MINI, Saab and Volvo.

New vehicle registrations in this luxury sector declined by 1.2% in 2006 with marques represented by Stratstone down slightly more, by 2.8%. The used car market was stable

year on year with no noticeable weakening of prices. Income from sales of finance and insurance products was up year on year. The after sales market continued to perform well and despite increased cost pressures we managed to maintain gross margins in this area.

The split of activities within the Stratstone brand is detailed below showing the respective share of revenue, gross profit and the gross margins achieved.

	2006			2005		
	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin
New	47%	36%	10.1%	49%	39%	10.2%
Used	36%	20%	7.3%	35%	18%	6.8%
Aftersales	10%	45%	58.1%	10%	44%	57.6%
Trade cars	7%	(1)%	(1.2)%	6%	(1)%	(2.9)%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>13.3%</b>	<b>100%</b>	<b>100%</b>	<b>12.9%</b>

The relative proportion of gross profit generated by activity in 2006 was in line with the previous year. Aftersales continued to contribute just under half of the total gross profits. Trade sales represents cars sent to auction which did not fit Stratstone's sales profile. In after sales we have developed new products priced specifically for vehicles in the 4 to 6 year old market where we expect to grow our business, whereas historically our focus has been on the 0 to 3 year old car market.

We are including information relating to total units sold and gross profits per unit for the first time this year. We believe this information will give a better understanding of the dynamics of the business. Total units sold consists of both new and used cars. Gross

profit per unit is the margin achieved on sales before overheads and includes income from finance and insurance products.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %	Total units sold '000	Gross profit per unit £
Existing	1,444.9	192.5	13.3%	36.8	2.6%	52.9	1,752
Acquired	463.3	61.0	13.2%	13.4	2.9%	18.5	1,912
Disposed	19.3	2.1	10.7%	(0.7)	(3.8)%	0.9	1,448
<b>Total 2006</b>	<b>1,927.5</b>	<b>255.6</b>	<b>13.3%</b>	<b>49.5</b>	<b>2.6%</b>	<b>72.3</b>	<b>1,796</b>
Total 2005	1,344.8	173.9	12.9%	45.6	3.4%	50.0	1,806

The revenue generated by existing businesses is marginally up on last year with much of the £100.1 million growth being achieved by the acquisitions and greenfield start ups completed in 2005.

Higher rents of £4.3 million, following the sale of some freehold properties to our property joint venture in 2005, and a loss of £3.5 million in respect of our start up Cadillac retail operation resulted in margins in the existing business reducing by 0.8%. We set up five greenfield sites during 2006 which normally take two years to establish themselves in their market place. In the year these greenfield sites made a loss of £0.3 million.

Profits per unit in the existing business were down year on year mainly due to the weakness in the new car market. Profits per unit and the operating margin in the acquired businesses were higher than the existing business due a richer mix of franchises.

We have been actively branding our luxury car dealerships as Stratstone during the year and this task has now been largely completed. This means that moving into 2007 we can increase promotion of the brand and firmly establish it as the leading luxury car retail brand in the UK.

**Evans Halshaw** Under our Evans Halshaw brand we are the UK's leading volume motor car retailer with 183 locations. Evans Halshaw holds franchises to sell and service Chevrolet, Citroen, Fiat, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall.

New car registrations have declined in the volume motor car sector by 3.8% in 2006.

Evans Halshaw does not represent all the makes of volume cars sold in the UK and, for makes represented, national registrations fell by 5.1% year on year. In general the used car market was good and demand for nearly new used cars continued to be strong. The aftersales market was in line with the previous year although there has been some pressure on costs especially in terms of wage inflation and utility and fuel prices which led to small declines in margins.



	2006			2005		
	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin
New	45%	25%	7.2%	50%	25%	7.0%
Used	27%	34%	16.6%	27%	28%	13.9%
Aftersales	11%	41%	49.0%	13%	47%	49.9%
National fleet	10%	-	0.2%	-	-	-
Trade cars	4%	-	(1.7)%	5%	(1)%	(1.6)%
Wholesale	3%	-	0.7%	5%	1%	1.5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>13.2%</b>	<b>100%</b>	<b>100%</b>	<b>13.9%</b>

The mix of gross profits generated has changed year on year primarily due to an increase in used car profits where gross margins improved 2.7%. After sales continued to contribute a significant proportion of profits and margins held up well despite cost pressures during the year. These cost pressures were absorbed by increased labour sales and tight control of overhead expenses. Trade sales represents cars sent to auction which do not fit Evans Halshaw's sales profile. National fleet is sales to daily rental operators at very low margins which distorts the overall margin performance. The large proportion of profits from aftersales helps to mitigate the effect of economic cycles in that motor vehicles are serviced and repaired at least each year to ensure safety and performance standards are maintained.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %	Total units sold '000	Gross profit per unit

							£
Existing	1,385.3	189.0	13.6%	25.5	1.8%	125.9	648
Acquired	1,206.7	154.0	12.8%	30.0	2.5%	104.2	721
Disposed	32.5	3.0	9.1%	(1.9)	(5.9)%	2.8	685
<b>Total 2006</b>	<b>2,624.5</b>	<b>346.0</b>	<b>13.2%</b>	<b>53.6</b>	<b>2.0%</b>	<b>232.9</b>	<b>694</b>
Total 2005	1,372.0	190.1	13.9%	25.5	1.9%	124.0	669

In the existing business we increased revenue by £50.0 million, mainly within our Ford and Vauxhall dealerships where we sold an extra 3,000 units. The additions we made to our dealership portfolio in 2005 have contributed a further £61.4 million of revenue which has in part offset the reduction in sales of £97.9 million from last years disposals. Profits per unit in the existing business were down year on year mainly due to the weakness in the new car market. Profits per unit and operating margin in the acquired businesses were higher than the existing business due a larger proportion of profits in these dealerships coming from higher margin used car sales.

We have a number of initiatives planned in 2007 to promote the Evans Halshaw brand and in January this year we used our first television advertising campaign in the North West. We envisage more television campaigns throughout the year.

**Chatfields** Under our Chatfields brand we sell and service commercial vans and trucks in the UK from 21 locations. Chatfields holds franchises to sell and service Iveco, DAF, LDV and MAN ERF.

The market for new truck sales in 2006 was down by 5.6% overall whereas the van market was up 1.3%. The market was distorted by regulatory changes last year relating to engine emissions standards which have led operators to delay purchases because of manufacturer price increases on these new cleaner engines.

	2006			2005		
	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin
New	67%	27%	5.6%	69%	30%	5.9%
Used	5%	4%	13.3%	5%	4%	13.1%
Aftersales	25%	68%	37.6%	24%	65%	36.5%
Trade vehicles	3%	1%	3.1%	2%	1%	5.6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>13.9%</b>	<b>100%</b>	<b>100%</b>	<b>13.6%</b>

Over two thirds of gross profits in this division are derived from the after sales activity. This tends to be a higher proportion than in the motor car divisions because of the shorter service intervals required for commercial vehicles and the use of overnight servicing in many of the locations.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %	Total units sold '000	Gross profit per unit £
<b>Total 2006</b>	<b>200.4</b>	<b>27.8</b>	<b>13.9%</b>	<b>6.1</b>	<b>3.1%</b>	<b>5.5</b>	<b>1,550</b>
Total 2005	239.7	32.6	13.6%	8.5	3.5%	7.2	1,489

The year in the trucks division has been more difficult with truck sales down with its knock on effect on operating margins. In common with our other businesses inflationary cost pressures have been managed well. The 2005 figures included £1.6 million of operating profits and 937 unit sales contributed by our Mercedes-Benz franchise prior to its sale in July 2005.

**Leasing** We operate under three separate brands for vehicle leasing and contract hire. The brands are Pendragon Contracts, Bramall Contracts and Vardy Contract Motoring. Each offers a range of leasing and contract hire products mainly to the small corporate and fleet market and to local authorities. The market in which we operate is predominantly fleet sizes of up to 1,000 vehicles.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %	Fleet numbers 000's
Existing	33.9	8.5	25.1%	7.1	21.1%	11.1
Acquired	10.4	2.9	27.4%	2.5	24.0%	7.1
<b>Total 2006</b>	<b>44.3</b>	<b>11.4</b>	<b>25.7%</b>	<b>9.6</b>	<b>22.8%</b>	<b>18.2</b>
Total 2005	48.5	8.9	18.3%	7.5	15.5%	10.8

The existing vehicle fleet remained static during 2006 at eleven thousand units with an average lease period of 30 months. Profits are mainly generated through the sale of the vehicles at the end of the rental period. In 2006 we increased the profit per unit on disposal in the Bramall and Pendragon brands by £285 and £166 respectively. We acquired Vardy Contract Motoring as part of the Reg Vardy acquisition in February 2006.

The performance of this business was much improved in the year with disposal profits per unit up considerably.

**Quickco** The market for parts sales via the independent wholesaler has been significantly enhanced by changes to the franchising laws in the UK whereby franchised dealers need no longer source all their parts from the franchisor. Under our Quickco brand we are the leading independent genuine parts wholesale business in the UK. Quickco distributes both genuine manufacturer labelled parts and matching quality parts sourced from the original manufacturers. Currently 75% of revenues come from Ford related business and we are seeking to diversify by developing other profit streams. For example, we have been awarded franchises from seven other vehicle manufacturers to distribute their parts. Quickco has a national business with a fleet of 180 vans making 60,000 deliveries per month on a next day or same day basis.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %
Existing	74.0	18.9	25.6%	4.9	6.7%
Acquired	5.2	1.3	26.0%	0.1	2.0%
<b>Total 2006</b>	<b>79.2</b>	<b>20.2</b>	<b>25.6%</b>	<b>5.0</b>	<b>6.4%</b>
Total 2005	74.6	18.1	24.2%	3.6	4.9%

Revenues in 2006 for the existing business were in line with the previous year. The improvements in the operating profit have been achieved through a combination of better buying from its main suppliers and through a reduction in overheads. The overhead reductions were realised mainly by cutting out a number of inefficient delivery routes.

Looking forward, we aim to expand our product lines and build on our new franchise relationships.

**Pinewood** Under our Pinewood brand we are the UK's third largest provider of software solutions to the retail motor industry. The principal product is Pinnacle which is a web enabled dealer management system designed with manufacturer interface and modules for vehicle sales and marketing, aftersales and bookkeeping and accounts generation. The market for technology solutions in the industry continues to grow especially for software packages which are simple to deploy and require minimal training. Under the CFC brand other products are sold which include fleet and workshop management solutions. Currently CFC has customers in over 20 countries.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %
<b>Total 2006</b>	<b>25.4</b>	<b>15.2</b>	<b>59.8%</b>	<b>5.3</b>	<b>21.0%</b>
Total 2005	22.2	11.3	51.0%	2.9	13.0%

At the end of 2006 we had over 7,000 Pinnacle user licenses in place in over 400 dealerships in the UK. About 40% of the licenses have been sold to third party dealers with the balance being used in Group. The Pinnacle product was launched three years ago and sales are now gathering momentum. We have recently secured our first overseas contract for Pinnacle in South Africa. We now have a development team of 40 which is actively working on existing and new products.

**California** The California business consists of nine locations in Southern California which operate franchises for Jaguar, Land Rover, Aston Martin and Saab.

	2006			2005		
	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin
New	66%	46%	10.8%	63%	42%	10.4%
Used	15%	7%	7.5%	17%	9%	8.3%
Aftersales	14%	47%	51.5%	15%	49%	51.3%
Trade cars	5%	-	0.4%	5%	-	(0.5)%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>15.7%</b>	<b>100%</b>	<b>100%</b>	<b>15.4%</b>

The gross profit splits show a similar pattern to those in the UK for after sales which contributes just under half of the gross profits. A significant difference is the lower proportion of used car gross profit due to a traditional emphasis on new car sales in this market.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %	Total units sold '000	Gross profit per unit £
Existing	201.8	32.2	16.0%	7.8	3.9%	6.2	2,513
Disposed	13.0	1.4	11.1%	(1.3)	(9.7)%	0.4	890
<b>Total 2006</b>	<b>214.8</b>	<b>33.6</b>	<b>15.7%</b>	<b>6.5</b>	<b>3.0%</b>	<b>6.6</b>	<b>2,417</b>
Total 2005	217.6	33.6	15.4%	7.0	3.2%	7.4	2,123

Excluding the impact of the change in the dollar sterling exchange rate, revenues in the USA were marginally ahead of 2005. Sales of Range Rover Sport were very strong throughout the year which contrasted with sales of Jaguar which were poor. The same was true in after sales where Land Rover had a good year whereas Jaguar was down year on year. Overall operating margins are similar to last year although they should improve going forward as, towards the end of the year, we sold our Lincoln Mercury dealership and closed our Saab operation in South Bay. Both businesses were loss making.

We were pleased to open our custom built Jaguar and Land Rover dealership in Mission Viejo in December and this year we are redeveloping our Land Rover site in Newport Beach to take Land Rover, Jaguar and Aston Martin franchises. We look forward to completing that development later this year.

**Germany** Our German dealerships remain a relatively small part of the Group, contributing just 1% of revenues. In 2006 their performance improved at operating profit level by £1.5 million to a small loss of £0.3 million. We reduced the number of sites during the year which leaves five remaining around Frankfurt and Munich.

### **IT roll out and shared services centre**

Our scale allows us to invest in information technology solutions and to use a shared services business model. Over the last year we have implemented 83 new Pinnacle systems in our own dealership group and it is planned to have all our locations on the new operating platform by the end of 2007. Our shared services centre now has a team of 425 providing a range of services to around half of our Group including call centre and



accounting. The financial benefits for the Group are accounted for in the divisions for which they perform the services.

### **Acquisitions and Disposals**

We acquired the entire share capital of Reg Vardy Plc in February 2006. We paid £504.2 million and acquired a business with 97 motor car franchises which enhanced our geographic coverage in the UK. Vardy held franchises which were complementary to those held by Pendragon and furthered our strategic growth plans. The process of integrating Vardy with Pendragon was prolonged due to an investigation by the Office of Fair Trading to determine whether there were any areas where competition was substantially reduced as a consequence of the takeover. As a result of the investigation we agreed to sell four dealerships out of our portfolio. The delay to the integration and consequent disruption of having to manage the Vardy businesses separately until November is now behind us. The Vardy and Pendragon businesses have been integrated as part of the overall restructure of the Group last year.

In March 2006 we purchased the business of Speeds Motor Group which consists of nine Volvo and three Chrysler Jeep dealerships. The dealerships are predominantly located in the East Midlands. We also acquired five Peugeot and one Citroen dealership to add to our Evans Halshaw division.

### **Property**

Our strategy is to ensure the maximum utilisation of property assets by maximising throughput; that surplus properties are disposed of so as to maximise proceeds, which

may involve a change of use; and to utilise our property joint venture structure where appropriate in order to release cash to be invested in higher yielding business assets.

As planned we completed a major sale and leaseback transaction in December 2006 with our property joint venture. We sold 79 properties with a net book value of £191 million for a total consideration of £250 million. As a consequence of the interest we have retained in the properties through the joint venture structure, we are not able to recognise the entire disposal profits in the income statements in our accounts although all the cash has been received. The profit we are able to recognise on the transaction in our income statement is £17.7 million. The joint venture structure gives us operational flexibility mainly through being able to substitute properties.

In addition to the joint venture transaction we disposed of a further eleven properties which were operationally surplus to requirements. Included was the property at Solihull Business Park on which we made a profit of £10 million.

### **Cash flow**

Our borrowings as at 31 December 2006 were £369.7 million compared to £177.0 million at the end of 2005. At the time of the Vardy acquisition, in early 2006, we said our target would be to reduce our borrowings to more normal levels by the end of 2007. We are well on course to achieve this target with reductions from a combination of good cash flow from operations and property and business disposals.

The cash flows of the business may be summarised as follows:

<b>£m</b>	<b>2006</b>	<b>2005</b>
Cash generated from operations	219.4	130.4
Net interest paid	(67.2)	(43.2)
Tax	(24.2)	(16.6)
Replacement capital expenditure	(43.8)	(45.2)
Free cash flow	<b>84.2</b>	<b>25.4</b>
Acquisitions	(570.2)	(60.8)
Disposals	312.9	119.7
Dividend	(17.4)	(15.6)
Other	(2.2)	1.1
(Increase) / reduction in net debt	<b>(192.7)</b>	<b>69.8</b>

Cash flow generated from operations was £219.4 million, which compares with £130.4 million generated in 2005. This is made up of two key components, operating profit and working capital movements. The operating profit element after adding back depreciation, intangible charges and property profits was £206.2 million, up £61.3 million on the £144.9 million in 2005. In respect of working capital we made a net reduction of £13.2 million which is after £23.1 million of final salary pension schemes funding. In 2005 we had a net increase in working capital of £14.5 million.

Net interest paid has increased year on year. This reflects the higher borrowings during the year following the acquisitions and increased interest rates in the second half.

Replacement capital expenditure was £43.8 million which includes plant and machinery, fixtures and fittings and motor vehicles (2005: £45.2 million). Expenditure on plant and machinery and fixtures and fittings was £11.5 million, up slightly on the £9.1 million in 2005. The balance of the expenditure of £32.3 million (2005: £36.1 million) is in respect

of motor vehicles used either for our contract hire fleet or for service loan cars for our customers.

Acquisitions consist of businesses purchased during the year and property developments. In 2006 we have spent £540.9 million which includes the cost of acquiring Reg Vardy and its associated borrowings, our £15.1 million investment in the property joint venture plus the acquisition of 18 other dealerships. Dealership property developments totalled £28.3 million (2005: £19.2 million).

Business disposals raised £23.1 million in 2006 (2005: £16.2 million), which related to the sale of five dealerships. Property disposals raised £289.8 million (2005: £103.5 million). This includes the disposal of properties in December to our property joint venture company.

### **Financing costs**

The total net interest charge for the year of £67.6 million includes bank interest, vehicle stocking charges and finance charges of £38.8 million, £25.5 million and £3.3 million respectively. Cover for bank interest was 2.9 times compared with 4.5 times in 2005.

### **Tax**

The overall effective tax rate for the year was 30.0 per cent (2005: 32.4 per cent). The reduction in tax rate in 2006 was due to certain one off tax credits.

## **Pension Funds**

In 1999 we stopped accepting new members into our final salary schemes. During 2006 we took the difficult decision to cease future accruals in all the final salary schemes that were in operation due to the unpredictable nature of the cost of operating these arrangements. The final salary schemes' deficit before tax now stands at £65.1 million, a reduction of £25.2 million. All members of the final salary schemes are now either deferred or pensioner members.

In the 2005 financial statements the Group applied the corridor method to recognise actuarial gains and losses and spread them over the expected working lives of employees in the plans. We have changed this policy to recognise all actuarial gains and losses arising from defined benefit plans directly in equity each year. This change in accounting policy was due to the closure of the schemes to future accruals, and as employees no longer participate in the plan the service period over which the corridor movements are spread is nil. As a consequence the directors consider it is no longer appropriate to spread the gains and losses over the service period and the comparative balance sheet has been restated in line with the new policy.

## **Share capital**

During the year a five for one share split was implemented, increasing the number of shares in issue to 656,027,350 including 18,750 shares issued during the year through the share option scheme. Comparative data in the report and accounts which is calculated based on the number of shares in issue, such as earnings per share and dividends per share, have been restated to reflect the share split.

## **Outlook**

The outlook remains positive for the Group with Pendragon the clear leader in a highly fragmented market. The Vardy acquisition has given us greater scale and more of our businesses have adopted the Pinnacle IT platform and shared service model. The new divisional structure now in place has been designed to enable the Group to continue to expand and to optimise scale economies.

We have a positive view on the used car market and believe that the Group is well placed to expand its business in this market in 2007 and grow its like for like unit sales volumes. Profits from new car sales have become less important for the Group as we have expanded our used car revenues and continue to derive a significant proportion of profits from aftersales. As far as after sales is concerned we see the market continuing to be stable and through some initiatives we have taken this year will see our revenues grow. Pinewood now has a strong foothold in the dealer management systems market in the UK and we expect to increase third party sales this year. We may see some reduction in profits in our leasing business in 2007 due to fewer cars being returned for disposal and we expect Quickco, our parts wholesale business, to have a good year in 2007.

We have put new operating structures in place during 2006 which are now settled and each division has its sights set firmly on achieving its objectives in 2007. We have set a number of objectives at Group level this year which include reducing the gearing as planned, implementing the Pinnacle system in all our dealerships and driving forward total shareholder returns. Our strategy has delivered superior returns for shareholders over the years and we look forward to continuing that into 2007.



## Consolidated Income Statement

Year ended 31 December 2006

	Existing £m	Acquisitions £m	2006 Total £m	2005 Total £m
<b>Revenue</b>	3,415.9	1,685.1	<b>5,101.0</b>	3,284.8
Cost of sales	(2,928.4)	(1,465.0)	<b>(4,393.4)</b>	(2,816.8)
<b>Gross profit</b>	487.5	220.1	<b>707.6</b>	467.0
Operating expenses	(390.3)	(178.0)	<b>(568.3)</b>	(371.8)
<b>Operating profit before other income</b>	97.2	42.1	<b>139.3</b>	95.2
<b>Operating profit before other income, analysed as:</b>				
Before exceptional items	89.2	46.1	<b>135.3</b>	98.0
Goodwill impairment	(0.9)	-	<b>(0.9)</b>	(1.1)
Closure and integration costs	-	(4.0)	<b>(4.0)</b>	(1.8)
Abortive acquisition costs	(1.0)	-	<b>(1.0)</b>	-
Gain on curtailment of defined benefit pension schemes	9.9	-	<b>9.9</b>	-
<b>Operating profit before other income</b>	97.2	42.1	<b>139.3</b>	95.2
Other income – gains on the sale of businesses and property			<b>24.3</b>	7.0
<b>Operating profit</b>			<b>163.6</b>	103.0
Finance costs			<b>(85.3)</b>	(54.9)
Finance income			<b>17.7</b>	15.0
Net finance costs			<b>(67.6)</b>	(39.6)
Share of profit before tax from joint venture			<b>0.5</b>	0.0
Share of income tax expense from joint venture			<b>(0.1)</b>	-
Share of post tax profit from joint venture			<b>0.4</b>	0.0
<b>Profit before taxation</b>			<b>96.4</b>	63.0
Income tax expense			<b>(28.9)</b>	(20.7)
<b>Profit for the year attributable to equity shareholders</b>			<b>67.5</b>	43.0
Basic earnings per ordinary share *			<b>10.7p</b>	7.0p
Diluted earnings per ordinary share *			<b>10.6p</b>	6.8p

\* restated following the subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.



## Consolidated Balance Sheet

At 31 December 2006

	<b>2006</b>	Restated *
	<b>£m</b>	<b>2005</b>
		<b>£m</b>
<b>Non-current assets</b>		
Property, plant and equipment	420.4	394.0
Goodwill	433.8	166.3
Other intangible assets	1.4	1.2
Derivative financial instruments	-	6.5
Investment in joint venture	3.0	1.4
<b>Total non-current assets</b>	<b>858.6</b>	<b>569.4</b>
<b>Current assets</b>		
Inventories	850.2	641.8
Trade and other receivables	260.9	161.6
Cash and cash equivalents	19.7	82.1
Non current assets classified as held for sale	38.4	18.9
<b>Total current assets</b>	<b>1,169.2</b>	<b>904.4</b>
<b>Total assets</b>	<b>2,027.8</b>	<b>1,473.8</b>
<b>Current liabilities</b>		
Bank overdrafts	-	(4.7)
Interest bearing loans and borrowings	(10.4)	(4.9)
Trade and other payables	(1,171.8)	(855.5)
Deferred income	(0.9)	-
Current tax payable	(19.5)	(19.1)
Provisions	(4.3)	(0.7)
<b>Total current liabilities</b>	<b>(1,206.9)</b>	<b>(884.9)</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	(371.0)	(256.0)
Derivative financial instruments	(8.0)	-
Deferred income	(21.1)	-
Deferred tax liabilities	(42.0)	(2.0)
Retirement benefit obligations	(65.2)	(90.4)
Provisions	(7.6)	(1.2)
<b>Total non-current liabilities</b>	<b>(514.9)</b>	<b>(349.6)</b>
<b>Total liabilities</b>	<b>(1,721.8)</b>	<b>(1,234.5)</b>
<b>Net assets</b>	<b>306.0</b>	<b>239.3</b>
<b>Capital and reserves</b>		
Called up share capital	32.8	32.8
Share premium account	56.8	56.8
Capital redemption reserve	2.5	2.5
Other reserves	12.6	12.6
Translation reserve	(0.3)	(0.1)
Retained earnings	201.6	134.7
<b>Total equity</b>	<b>306.0</b>	<b>239.3</b>

\* see note 1 below.

## Consolidated Cash Flow Statement

Year ended 31 December 2006

	2006 £m	2005 £m
<b>Cash flow from operating activities</b>		
Profit after taxation	67.5	43.1
Adjustment for income from joint venture	(0.4)	(0.1)
Adjustment for taxation	28.9	20.7
Adjustment for interest	67.6	39.6
<b>Operating profit</b>	<b>163.6</b>	<b>103.3</b>
Depreciation and amortisation	65.1	47.5
Share based payments	0.9	0.4
Profit on sale of businesses and property	(24.3)	(7.4)
Goodwill impairment	0.9	1.1
Changes in inventories	74.9	(8.4)
Changes in trade and other receivables	(31.8)	(28.4)
Changes in trade and other payables	(9.6)	29.5
Changes in retirement benefit obligations	(23.1)	(6.9)
Changes in provisions	2.8	(0.3)
<b>Cash generated from operations</b>	<b>219.4</b>	<b>130.4</b>
Taxation paid	(24.2)	(16.6)
Interest received	0.8	1.3
Interest paid	(68.0)	(44.5)
<b>Net cash from operating activities</b>	<b>128.0</b>	<b>70.6</b>
<b>Cash flows from investing activities</b>		
Business acquisitions	(466.0)	(35.1)
Proceeds from sale of businesses	23.1	16.2
Purchase of investments	(15.1)	(6.5)
Purchase of property, plant and equipment	(171.2)	(154.4)
Proceeds from sale of property, plant and equipment	388.9	193.5
Receipts from sales of investments	1.7	0.3
<b>Net cash (used in) / from investing activities</b>	<b>(238.6)</b>	<b>14.0</b>
<b>Cash flows from financing activities</b>		
Payment of capital element of finance lease rentals	(5.6)	(1.0)
Repayment of unsecured bank loans	(413.3)	(73.2)
Repayment of loan notes	(12.5)	(32.7)
Proceeds from the issue of unsecured loans	502.8	-
Dividends paid to shareholders	(17.4)	(15.6)
<b>Net cash inflow / (outflow) from financing activities</b>	<b>54.0</b>	<b>(122.5)</b>
Effects of exchange rate changes on cash held	(1.1)	1.0
Net decrease in cash and cash equivalents	(57.7)	(36.9)
Cash and cash equivalents at 31 December 2005	77.4	114.3
Cash and cash equivalents at 31 December 2006	19.7	77.4

**Consolidated Statement of Recognised Income and Expense**

Year ended 31 December 2006

	<b>2006</b>	Restated *
	<b>£m</b>	2005 £m
Foreign currency translation differences for foreign operations	<b>(0.2)</b>	0.2
Defined benefit plan actuarial gains and losses	<b>18.1</b>	(17.1)
Income tax on income and expense recognised directly in equity	<b>(5.4)</b>	5.1
Income and expense recognised directly in equity	<b>12.5</b>	(11.8)
Profit for the period	<b>67.5</b>	43.1
Total recognised income and expense for the period attributable to equity holders of the company	<b>80.0</b>	31.3
Impact of change in accounting policy on retained earnings at 1 January	<b>(13.3)</b>	-

\* see note 1 below

## Notes to the Financial Statements

### 1.

#### Change in accounting policy

The group recognises all actuarial gains and losses arising from defined benefit plans directly in equity . In its financial statements for periods beginning before 1 January 2006 the group applied the corridor method to recognise in the income statement actuarial gains and losses over the expected working lives of employees in the plans. This change in accounting policy was due to the closure of the schemes to future accrual, employees no longer participate in the plan and the service period over which the corridor movements are spread is nil. As a consequence of this the directors consider it is no longer appropriate to spread the gains and losses over the service period and that full recognition of the actuarial gains and losses in the 'Statement of Recognised Income and Expense' gives more reliable and relevant information. The directors consider this to be more reliable and relevant as the revised policy will therefore reflect the full pension obligation on the balance sheet.

The change in accounting policy was recognised retrospectively in accordance with the transitional provisions of the amendment, and comparatives have been restated. The change in accounting policy had the following impact on these financial statements:

Income Statement for the year ended 31 December 2005

#### No impact

Consolidated Statement of Recognised Income and Expense	2006 £m	2005 £m
Increase / (decrease) in net income recognised directly in equity	12.6	(12.0)
Increase / (decrease) in total recognised income and expense for the year	12.6	(12.0)
<b>Balance Sheet</b>		
Cumulative decrease / (increase) in retirement benefit obligations	18.0 (5.4)	(19.0) 5.7
<b>Cumulative (decrease) / increase in deferred tax asset</b>		
	12.6	(13.3)
Cumulative increase / (decrease) in retained earnings		

The adjustment to retained earnings at 1 January 2005 was a decrease of £1.3 million.

### 2.

#### Dividends

Subject to final approval at the Annual General Meeting, the final dividend of 2.00p per share (2005 : 1.32p) will be paid on 2 May 2007 to shareholders appearing on the register at the close of business on 10 April 2007. An interim dividend of 1.45p per share (2005 : 1.32p) was paid in October 2006 which makes a total of 3.45p (2005 : 2.64p) for the financial year.

### 3. Earnings per share

	<b>2006</b>	<b>2006</b>	restated *	restated *
	<b>Earnings per</b>	<b>Total</b>	2005	2005
	<b>share</b>	<b>£m</b>	Earnings per	Total
	<b>pence</b>		share	£m
			pence	
Basic earnings per share	<b>10.7</b>	<b>67.5</b>	7.0	43.1
Adjusting items:				
Profit on business and property disposals	<b>(3.9)</b>	<b>(24.3)</b>	(1.2)	(7.4)
Goodwill impairment	<b>0.1</b>	<b>0.9</b>	0.2	1.1
Abortive acquisition costs	<b>0.2</b>	<b>1.0</b>	-	-
Gain on curtailment of defined benefit pension schemes	<b>(1.6)</b>	<b>(9.9)</b>	-	-
Operating exceptional costs	<b>0.6</b>	<b>4.0</b>	0.3	1.8
Tax effect of adjusting items	<b>1.4</b>	<b>8.1</b>	0.4	2.8
<b>Adjusted earnings per share</b>	<b>7.5</b>	<b>47.3</b>	6.7	41.4
<b>Diluted earnings per share</b>	<b>10.6</b>	<b>67.5</b>	6.8	43.1

The calculation of basic, adjusted and diluted earnings per share is based on the following number of shares in issue (millions)

	<b>2006</b>	2005
	<b>number</b>	number
Weighted average number of ordinary shares in issue	<b>629.0</b>	619.3
Weighted average number of dilutive shares under option	<b>10.7</b>	17.0
<b>Weighted average number of shares in issue taking account of applicable outstanding share options</b>	<b>639.7</b>	636.3

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

\* The note has been restated following the subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each during the year.

### 4. Finance costs

	<b>2006</b>	2005
	<b>£m</b>	£m
Interest payable on bank borrowings	<b>30.0</b>	11.1
Interest payable on loan notes	<b>9.5</b>	8.9
Vehicle stocking plan interest	<b>25.5</b>	18.6
Interest payable on finance leases	<b>0.4</b>	0.1
Fair value losses – interest rate swaps	<b>1.0</b>	-
Unwinding of discounts in contract hire residual values	<b>2.7</b>	2.5
Interest on pension scheme obligations	<b>16.5</b>	13.8
	<b>85.6</b>	55.0
Less : interest capitalised	<b>(0.3)</b>	(0.1)
	<b>85.3</b>	54.9

### 5. Finance income

	<b>2006</b>	2005
	<b>£m</b>	£m
Fair value gains – interest rate swaps	<b>-</b>	0.4
Interest receivable on bank deposits	<b>0.8</b>	0.8
Interest on pension scheme assets	<b>16.9</b>	13.6
Other interest receivable	<b>-</b>	0.5
	<b>17.7</b>	15.3

<b>6. <u>Cash and cash equivalents</u></b>	<b>2006</b>	2005
	<b>£m</b>	£m
Bank balances and cash equivalents	19.7	82.1
Bank overdrafts	-	(4.7)
	<b>19.7</b>	<b>77.4</b>

<b>7. <u>Net debt</u></b>	<b>2006</b>	2005
	<b>£m</b>	£m
Cash and cash equivalents (see note 6)	19.7	77.4
Short-term borrowings	(5.3)	(4.0)
Long-term borrowings	(364.5)	(253.4)
Derivative financial instruments	(8.0)	6.5
Obligations under finance leases	(11.6)	(3.5)
	<b>(369.7)</b>	<b>(177.0)</b>

#### **8. Acquisition of Reg Vardy Plc**

On 14 February 2006 the group acquired all the shares in Reg Vardy Plc for a total consideration including costs of £504.2m in cash.

Net Assets at date of acquisition	Book value at acquisition £m	Fair value adjustments £m	Fair value at acquisition £m
Property, plant and equipment	205.6	48.2	<b>253.8</b>
Intangible assets	1.1	2.1	<b>3.2</b>
Non current assets classified as held for sale	12.2	6.3	<b>18.5</b>
Inventories	306.9	0.1	<b>307.0</b>
Trade and other receivables	67.4	0.1	<b>67.5</b>
Trade and other payables	(350.7)	(4.9)	<b>(355.6)</b>
Cash and cash equivalents	49.1	-	<b>49.1</b>
Retirement benefit obligations	(15.0)	(0.9)	<b>(15.9)</b>
Bank loans	(50.0)	-	<b>(50.0)</b>
Obligations under finance leases	(10.8)	-	<b>(10.8)</b>
Tax liabilities	(6.7)	0.5	<b>(6.2)</b>
Provisions	(7.2)	-	<b>(7.2)</b>
Deferred tax liabilities	(5.1)	(14.6)	<b>(19.7)</b>
	196.8	36.9	<b>233.7</b>
Goodwill			<b>270.5</b>
Consideration (including costs)			<b>504.2</b>

#### **Annual Report**

#### **9.**

The above financial information does not represent the full financial statements of the company. Full financial statements for the year ended 31 December 2005, containing an unqualified audit report have been delivered to the registrar of companies. Full financial statements for the year ended 31 December 2006, which have been reported on without qualification by the group's auditors, will shortly be posted to shareholders, and after adoption at the Annual General Meeting on 27 April 2007 will be delivered to the registrar.

Copies of this announcement are available from Pendragon PLC, Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire NG15 0DR.