Pendragon | PLC

Pendragon PLC_**Annual Report** 2007

# Contents



# Group Review

| | **2007** | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | **£m** | £m | £m | £m | £m |
| Revenue (note 7) | **5,060.2** | 5,058.5 | 3,247.4 | 3,132.8 | 1,797.0 |
| Gross profit (note 7) | **672.7** | 701.3 | 462.5 | 445.5 | 259.7 |
| Operating profit before other income (note 7) | **87.3** | 139.7 | 97.5 | 84.9 | 50.4 |
| Profit before taxation (note 7) | **46.5** | 97.7 | 66.4 | 70.1 | 47.1 |
| Net assets | **339.6** | 306.0 | 239.3 | 219.1 | 147.1 |
| Net borrowings (note 8) | **332.0** | 369.7 | 177.0 | 246.8 | 96.7 |

**Other financial information**

| | | | | | |
|---|---|---|---|---|---|
| Gross margin (note 7) | **13.3 %** | 13.7 % | 14.1 % | 14.1 % | 14.1 % |
| Total operating margin (note 2 and 7) | **1.7 %** | 2.8 % | 3.0 % | 2.7 % | 2.8 % |
| After tax return on equity (note 3) | **12.7 %** | 24.8 % | 15.8 % | 22.7 % | 21.2 % |
| Basic earnings per share (note 4) | **6.5 p** | 10.7 p | 7.0 p | 7.4 p | 4.9 p |
| Adjusted earnings per share (note 5) | **4.1 p** | 7.5 p | 6.7 p | 6.0 p | 4.1 p |
| Dividends per share (note 6) | **4.00 p** | 3.45 p | 2.64 p | 2.04 p | 1.52 p |
| Dividend cover (times) | **1.6** | 3.1 | 2.6 | 3.7 | 3.2 |
| Interest cover (times) (note 7) | **1.8** | 2.4 | 2.6 | 2.9 | 4.5 |
| Gearing ( note 9) | **97.8 %** | 120.8 % | 74.0 % | 112.6 % | 65.8 % |

**Business development summary**

| | | | | | |
|---|---|---|---|---|---|
| Number of franchises | **354** | 390 | 289 | 244 | 139 |

note 1 The amounts disclosed for 2003 are stated on the basis of UK GAAP. It is not practicable to restate amounts for periods prior to the date of transition to IFRS.

note 2 Total operating margin is calculated after adding back goodwill impairment/amortisation and exceptional items, and excluding other income.

note 3 Return on equity is profit for the year as a percentage of average shareholders' funds.

note 4 Basic earnings per share has been restated for the impact of the 2003 bonus issue and the 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 5 Basic earnings per share adjusted to eliminate the effects of goodwill impairment/amortisation and exceptional operating and tax items, see note 10 of the financial statements. It has been restated for the impact of the 2003 bonus issue and the 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 6 Dividends per share are based on the interim dividend paid and final dividend declared for the year. Dividends per share has been restated for the impact of the 2003 bonus issue and the 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 7 All comparative amounts have been adjusted to eliminate the results of the discontinued operation (see note 6 of the financial statements).

note 8 Net borrowings comprise interest bearing loans and borrowings, cash and cash equivalents and derivate financial instruments. It excludes unamortised debt issuance costs.

note 9 Gearing is calculated as net borrowings as a percentage of net assets.

# Operational and Business Review

## Introduction

In the face of challenging market conditions, Pendragon has maintained revenues at £5.1 billion in 2007. We first highlighted the growing competitiveness of the new car market in April 2007. When transaction prices for new cars started to fall it had a negative effect on the used car market, especially on the nearly new market, causing margins to reduce as dealers sought to maintain volume. For the full year, profits before tax and exceptionals were £34.8 million, compared to £69.4 million in 2006. The 2007 figure includes £9.2 million of losses incurred on dealerships sold or closed. These losses were incurred as part of the programme we announced at our April 2007 AGM.

In August we acquired 19 dealerships from the administrator of Dixons for £16.3 million and these have, as we indicated they would at the time, made losses in 2007, including acquisition funding costs, of £1.8 million. We expect a positive contribution in 2008.

We made exceptional profits of £18.5 million principally from the sale of surplus properties. This was offset by goodwill impairments on closed businesses giving a net exceptional profit in the year of £11.7 million. Including these exceptionals, profit before tax was £46.5 million compared to £97.7 million for 2006 and basic earnings per share were 6.5 pence compared to 10.7 pence for 2006.

We have achieved good results in our aftersales and Support and Technology businesses. We have largely completed the changeover of our IT systems to Pinnacle, our new in house system, which enables us to move forward in 2008 with all our dealerships on a common software platform.

Overall we have made good progress to improve the quality of the business. The changes we have made to our physical footprint and the changes to our customer proposition, focusing on lower priced used cars, leave us better placed for the type of market we expect in 2008.

## Financial performance summary

| | **2007 £m** | 2006 £m |
|---|---|---|
| **Revenue** | **5,060.2** | 5,058.5 |
| **Underlying operating profit** | **94.1** | 135.7 |
| Exceptional operating items | **(6.8)** | 4.0 |
| **Operating profit before other income** | **87.3** | 139.7 |
| Other income - gain on sale of property and business | **18.5** | 24.3 |
| **Operating profit** | **105.8** | 164.0 |
| Finance costs | **(60.1)** | (66.7) |
| Share of joint venture profit | **0.8** | 0.4 |
| **Profit before tax** | **46.5** | 97.7 |
| Tax | **(3.3)** | (28.9) |
| Discontinued operation | **(2.1)** | (1.3) |
| **Profit after tax** | **41.1** | 67.5 |
| Earnings per share - basic | **6.5 p** | 10.7 p |
| Earnings per share - adjusted | **4.1 p** | 7.5 p |
| Dividend per share | **4.0 p** | 3.45 p |

## Dividend

The final dividend proposed is 2.0 pence per share, which together with the interim dividend of 2.0 pence gives a full year dividend of 4.0 pence per share, an increase of 15.9% over last year.

## Strategy

Pendragon is the largest independent operator of franchised motor car dealerships in the UK, operating 343 franchises. We also operate 11 motor car franchises in California. Pendragon sells a broad range of motor cars and commercial vehicles and has a substantial presence in the UK vehicle leasing, wholesale parts and dealership management software markets.

The UK franchised car market remains very fragmented with the largest ten dealer groups owning only 20% of the total franchised dealers in the UK. Our strategy is to grow the business through acquisitions which in turn enables us to reduce the fixed overheads related to operating car franchises and take the benefit of economies of scale. In line with this strategy we acquired 19 franchised dealerships from the administrators of Dixons.

# Operational and Business Review continued

We explained in our AGM statement in April 2007 that the financial benefit of holding a new car franchise in smaller secondary retail locations is outweighed by the cost and complexity of its operation. Consequently, as part of our strategy, we closed a number of our franchised locations during the year and, in most instances, transferred the business to one of our larger adjacent sites. The effect of this is to reduce the number of stand alone new car franchise points and reduce our fixed overheads. Of the programme we set out last April we have ceased operating at 21 of the 26 sites we had identified at that time as being marginal. The remaining businesses will be closed or sold in 2008. In the second half of the year we have also sold our Dundee Ford operation and rationalised our Cadillac network.

We said in last year's statement that we saw the used car market as a major growth area for us. The used car market in the UK is roughly three times the size of the new car market. In the second half of the year we started to roll out changes to our used car offer across the Group. Broadly speaking the main changes relate to moving our price banding to encompass older, lower value cars.

Our strategy of reducing the number of retail sites or moving to lower cost locations resulted in us being able to sell 21 surplus properties with cash proceeds of £48.2 million and profits of £17.4 million. Over the past three years we have realised £100.9 million of proceeds and made profits of £30.0 million from the sale of surplus properties.

### Our markets

The UK vehicle retailing market is our principal one. Changes to new car franchising rules in 2003 have freed up the market for franchised dealer 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 around 10 million units. In 2007 the total number of new car registrations in the UK was 2.4 million which was an increase of 2.5% over 2006. We believe that in order to have achieved that growth in new car registrations manufacturers have forced product into the market with the knock on effect that the nearly new used car market has suffered. The size of the market for aftersales 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. In 2007 the group sold 338,000 new and used cars. Like for like our unit sales were in line with 2006; new unit sales were down 0.9% and used were up 1.1%.

We operate a vehicle leasing and contract hire business in the UK. The market became more price competitive for new business contracts in 2007. Our residual value policy ensures we take a very cautious approach to future used car values and that has enabled us to maintain margins in 2007 although our fleet size did fall.

We are a large player in the commercial van and truck market in the UK which has enjoyed a period of growth in line with the UK economy over the past few years and is around 0.4 million new units per annum. The key area in this market is aftersales service which remained strong in 2007.

In the UK we have continued to build a presence in the 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 countries such as North America and South Africa being additional markets for our products. This will continue to be a good growth area for our business.

We operate a niche division in California. The USA car market was 16.2 million units in 2007, down 2.5% on 2006. The brands we represent had a mixed year. Land Rover, helped by the introduction of the new Freelander increased sales by 3.7%. Jaguar units fell by 24.2% and SAAB fell by 10.0%.

### Operational review

Our Group is structured operationally to reflect the range of business activities we undertake and we have five distinct trading divisions. Support businesses consist of leasing, parts wholesale and software.

A summary of revenues and operating profits by division is summarised below:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Revenue £m** | **Operating Profit £m** | Revenue £m | Operating Profit £m |
| Stratstone | **1,898.7** | **30.3** | 1,927.5 | 49.5 |
| Evans Halshaw | **2,690.6** | **30.6** | 2,624.5 | 53.6 |
| Chatfields | **197.9** | **4.8** | 200.4 | 6.1 |
| Support Businesses | **160.9** | **23.8** | 148.9 | 20.0 |
| California | **180.3** | **4.6** | 214.8 | 6.5 |

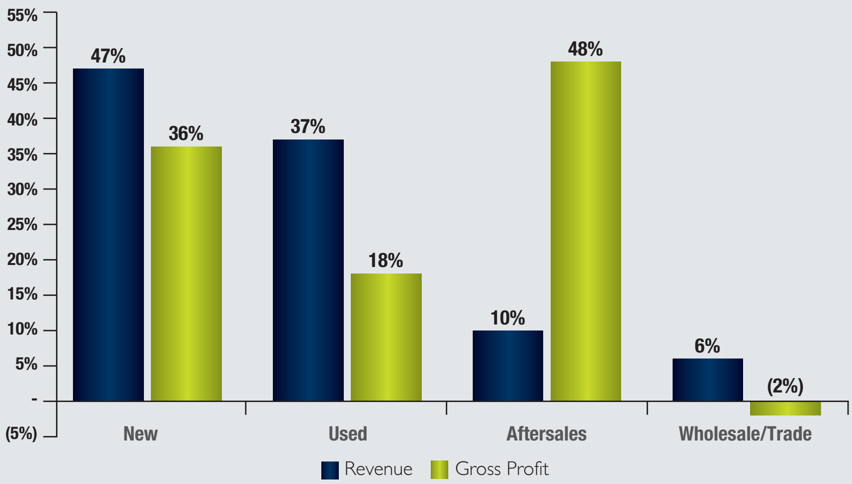
## Stratstone


Under our Stratstone brand we are the UK's leading luxury motor car retailer with 161 retail franchise points. Each location retails new and used vehicles and undertakes aftersales service and parts sales. Stratstone holds franchises to sell and service Aston Martin, BMW, Cadillac, Chrysler Jeep, Corvette, Dodge, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, MINI, Saab, Mercedes-Benz and Volvo.

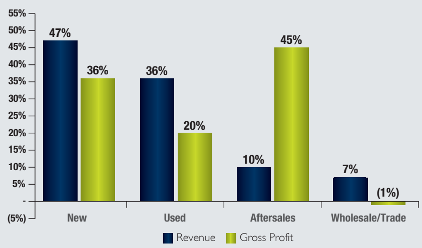
Nationally the market for new vehicle registrations for brands we represent in this luxury sector increased by 4.3%. The overall improvement disguises some big movements in individual brands. For example Jaguar was down almost 20% year on year which has a disproportional adverse effect as Stratstone has around 26% of new Jaguar sales in the UK. In total our new car volumes were 5.9 % down on 2006 and our gross margins were 4.0% down on 2006 on a like for like basis. The used car market across all brands was more competitive. Our like for like volumes were up by 1.5% on 2006 and gross margins down by 13.9% year on year. The aftersales market continued to perform well, and 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.

**2007**




**2006**




| Gross Margin % | 2007 | 2006 |
|---|---|---|
| New | **9.7%** | 10.1% |
| Used | **6.2%** | 7.2% |
| Aftersales | **61.8%** | 61.2% |
| Trade/Wholesale | **(3.6%)** | (1.2%) |
| **Gross Margin (%)** | **12.7%** | 13.3% |
| **New & Used Units ('000)** | **70.2** | 72.3 |
| **PPU (£)** | **1,801** | 1,944 |

The relative proportion of gross profit generated by activity in 2007 was in line with last year. Aftersales continued to contribute just under half of the total gross profits. Trade sales represents cars sent to auction which did not fit the Group's sales profile. Trade sales margins were down in line with the general market.

The following information relates to total units sold and gross profits per unit. Total units sold consist 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.

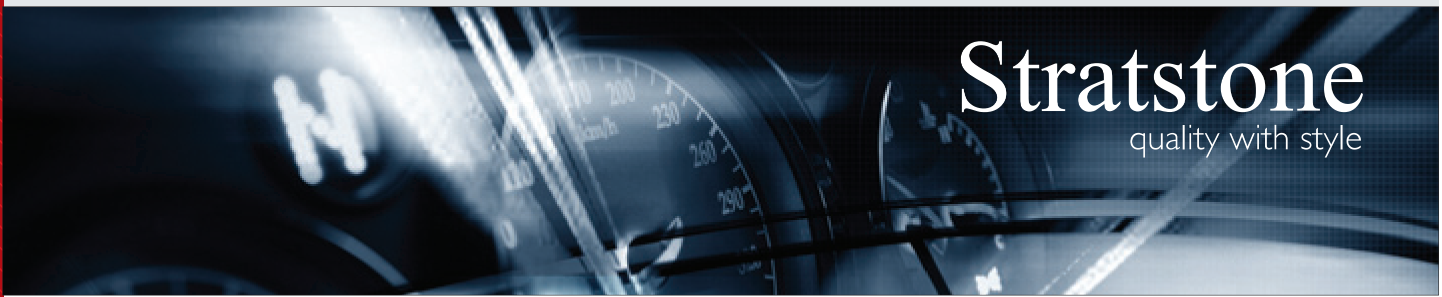
# Operational and Business Review continued

| | Revenue £m | Gross Profit £m | Gross Margin % | Operating Profit £m | Operating Margin % |
|---|---|---|---|---|---|
| Existing | 1,874.4 | 239.3 | 12.8 | 33.4 | 1.8 |
| Disposed | 24.3 | 2.6 | 10.6 | (3.1) | (12.7) |
| **Total 2007** | **1,898.7** | **241.9** | **12.7** | **30.3** | **1.6** |
| Total 2006 | 1,927.5 | 255.6 | 13.3 | 49.5 | 2.6 |

Revenue at our existing dealerships was in line with the prior year. The full year effect of owning the ex-Vardy dealerships added £13.3 million whereas the revenue from the dealers closed or sold fell £44.5 million. The lower revenue reduced gross profit by £3.8 million. Like for like new and used car sales were down by 2.2%.

The gross margin was lower in 2007 which resulted in gross profit being down by almost £10.0 million. The main factors were the lower margins achieved on new and used car sales as already discussed. Margins in aftersales remained strong.

Operating profit fell by £19.2 million. Over half of this arose from the lower gross profit with the remainder principally consisting of the increased rent of £5.3 million and the operating losses incurred at the closed dealers. The closed dealers incurred operating losses of £3.1 million compared to a breakeven performance in 2006.




## Our Story

Stratstone has a proud heritage dating back to 1921. Motor enthusiasts Undecimus Stratton and Ernest Instone established the company to offer unrivalled personalised service to its customers.

Now as the UK's leading luxury automotive retailer, Stratstone upholds the values of its founders and prides itself on providing the very highest standards of quality service in Stratstone style.

**1920s** **Stratton-Instone Limited formed in 1921**
Mssrs Stratton and Instone went into partnership and assumed control of the Daimler Company's London premises. This heralded the arrival of the motor distribution system as we know it today.

**Joseph Mackle assumes control in 1929**
When our founders passed away Joseph Mackle, a former engineer with
**1930s** Daimler, took control and renamed the company Stratstone Limited.

**Business booms in Stratstone style**
Business surged following the launch of the Light 15 Daimlers. Stratstone extended its operations in England and Stratstone style became very much what it is today.

Number 27 Pall Mall, London became a popular rendezvous for the growing list of wealthy and famous customers, particularly as a butler served champagne at a given time each morning.

**The Stratstone Royal Connection**
The Royal Warrant, first gained in 1921 was held by Stratstone until a change of ownership in 1982.

In the thirties' slump in England the government considered that national interest in cars might be stimulated if the King had a new fleet. Stratstone was commissioned to supply six new limousines to King George V.

**Stratstone acquired by the Thomas Tilling Group in 1938**
Following its acquisition and with war becoming likely, the leases on the
**1940s** Pall Mall and Euston Road Premises were not renewed and the head office was relocated to Berkeley Street.

**Stratstone change of venue during the war**
During the war the Berkeley Street showroom was requisitioned by the Royal Air Force. As no cars were being manufactured, there was urgent
**1950s** demand for large cars that could be converted to ambulances. The company
**1960s** undertook these conversions, while smaller cars were sold to the police.
**1970s**

**Stratstone expand in 1971**
Stratstone expanded taking over a London service depot at Willsden, providing a specialist service north of the river.

**James Smillie takes the helm**
Throughout the 1970s rapidly rising inflation in England took its toll and tough measures had to be taken to cope with its effect on Stratstone. A fleet sales department was set up in 1973 to supply limousines to top companies, embassies and foreign governments together with the special requests of the funeral profession.

**1980s**

James Smillie the Managing Director successfully acquired the equity and in 1982 Stratstone Limited became a private company after a break of 46 years.

**Stratstone sets the standard**
1988 saw the largest and most advanced service centre in Britain open at Grays Inn Road, London WC1. There were 24 work bays covering an area of 279 square metres and occupying two floors, with a retail and trade counter.

Stratstone commenced work to completely refurbish the Berkeley Street showroom. The décor reflected the elegance of bygone days and at the same time complemented the image of the high quality modern products it represented; this Stratstone style has been an aspect of the brand that
**1990s** has been maintained to this day.

**Stratstone has national coverage**
In 1992 Stratstone grew through acquisition to become the largest luxury retailer in the UK.

**2000s**

**Stratstone today**
The Stratstone brand sits proudly alongside over 20 of the world's premium automotive manufacturers. Stratstone delivers fantastic products and outstanding service in our unique Stratstone style showroom environments.

Stratstone has national coverage and this scale affords the group great opportunities to share its best practice and expertise of the luxury and specialist car markets and offer the Stratstone experience countrywide.

## Evans Halshaw

Under our Evans Halshaw brand we are the UK's leading volume motor car retailer with 161 franchise points. Evans Halshaw holds franchises to sell and service Chevrolet, Citroen, Fiat, Ford, Hyundai, Kia, Nissan, Peugeot, Renault, Suzuki and Vauxhall.


**Vauxhall East Kilbride**
Evans Halshaw dealer of the year

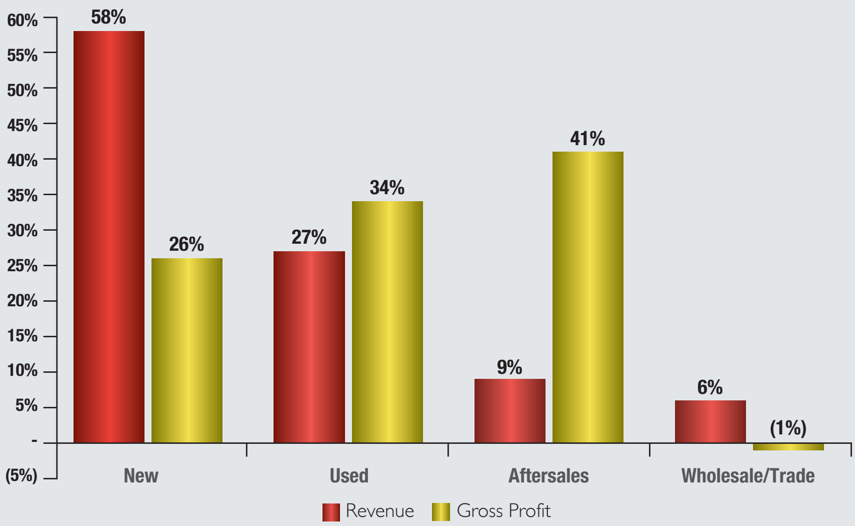
National new vehicle registrations for brands we represent in the volume sector increased by 1.9%. Our principal brands, Vauxhall and Ford, saw registrations increase by 9.8% and 1.3% respectively. The aftersales market performed satisfactorily.

The mix of business was reasonably stable year on year. Difficult market conditions caused new and used margins to fall and it increased the losses we suffered on trade cars which represent cars sent to auction which do not fit the Group's sales profile.

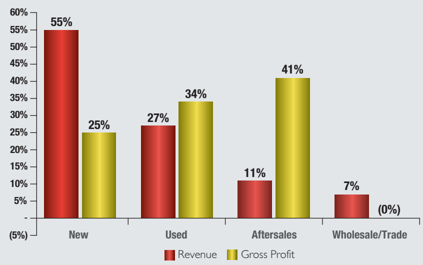
Aftersales continues to contribute a significant proportion of gross profit and margins. Motor vehicles are regularly serviced and repaired to ensure safety and performance standards and importantly to protect their resale value. Aftersales therefore plays an important role in mitigating the effect of the economic cycle.

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

**2007**




**2006**




| Gross Margin % | 2007 | 2006 |
|---|---|---|
| New | **5.5%** | 6.0% |
| Used | **15.5%** | 16.0% |
| Aftersales | **55.6%** | 54.0% |
| Trade/Wholesale | **(2.0%)** | (0.6%) |
| **Gross Margin (%)** | **12.4%** | 13.2% |
| **New & Used Units ('000)** | **256.6** | 246.0 |
| **PPU (£)** | **764** | 824 |

| | Revenue £m | Gross Profit £m | Gross Margin % | Operating Profit £m | Operating Margin % |
|---|---|---|---|---|---|
| Existing | 2,573.5 | 319.4 | 12.4 | 37.8 | 1.5 |
| Acquired | 52.6 | 8.7 | 16.6 | (1.3) | (2.4) |
| Disposed | 64.5 | 5.9 | 9.1 | (5.9) | (9.2) |
| **Total 2007** | **2,690.6** | **334.0** | **12.4** | **30.6** | **1.1** |
| Total 2006 | 2,624.5 | 346.0 | 13.2 | 53.6 | 2.0 |

In the existing business, excluding those acquired in 2006, we increased revenue by £50.4 million, mainly within our Ford and Vauxhall dealerships. The additions we made to our dealership portfolio in 2006 have contributed a further £97.6 million of revenue which has been offset by the reduction in sales of £135.5 million from the year on year impact of disposals and closures. The acquired businesses revenue in 2007 adds £52.6 million which consist of ex-Dixons sites. The additional revenue added £8.7 million to gross profit. Like for like new and used vehicle sales were up 0.6%. Gross margin reduced by 0.8%, equivalent to a gross profit reduction of £20.7 million. The main factor was the lower margins achieved on new and used car sales.

Operating profit fell by £23.0 million. The reduction in gross profit accounts for just over half of the movement in operating profit. The remainder arises from higher rents incurred in the Evans Halshaw division, the dilutive impact of acquiring the ex-Dixon businesses and the impact of the closures we have made. These increases in costs have been offset by the savings we have achieved through the combination of the Pendragon and Vardy structures. The closed dealers generated losses of £5.9 million in 2007.

Evans Halshaw brand recognition has increased significantly during the year and is now the most popular dealership internet site for new and used car enquiries. In the last twelve months there have been nearly four million visits to the website.


**1920's**

Evans Halshaw began life as two separate companies; P J Evans and the Halshaw Group.

P J Evans was founded by the man of the same name in 1927. The midlands-based group quickly established a strong partnership with Jaguar and Sir William Lyons in the 1920's.

When Evans was tragically killed in an aeroplane accident in 1952, two of his former associates, Steeley and Rodway, took over the running of the company.

**1940's**

In 1945 and after the disruption of the Second World War, Steeley and Rodway acquired Broad Street Motors and with it a Rolls Royce and Bentley franchise. In 1947 they became listed on the Birmingham stock exchange.

**1960's**

P J Evans businesses flourished in the post-war years and this led to some small but significant acquisitions in and around the midlands area during the 1960's. The Jaguar businesses in particular were thriving in the post-war boom.

**1970's**

By now P J Evans was very successful but also a relatively small company, and after courtship by several other automotive retailers, the company was finally acquired by LCP, (a midlands-based property and coal distribution conglomerate.) Further expansion occurred in 1977, when the group acquired its first Ford dealership in Gwent, followed by a further four Ford sites. In 1978 perhaps the most important milestone in the history of the group occurred; the Halshaw Group, a private automotive retailer, was purchased, prompting a change in the company's name to Evans Halshaw.

**1980's**

The early 1980's was dogged by recession and was a difficult time for the British motor trade, but Evans Halshaw kept on expanding; the group now had a £100 million a year turnover and had taken on Vauxhall franchises to add to the Ford, Rolls Royce and Bentley brands. In 1985, amidst a backdrop of mounting debt and ever more difficult trading conditions, LCP were looking for a way out of the British motor industry. A management buyout was launched by Peter Green, Geoff Dale and Anthony Archer for £9 million. In the late 1980's the group acquired two Peugeot outlets, several Iveco truck dealerships and yet more Ford franchises.

**1990's**

Throughout the 1990's the UK motoring industry was going through a period of mass consolidation and it was during this period that Pendragon PLC acquired the group for £83.7m, creating the largest automotive retailer. As a result of further acquisitions Pendragon had significant representation nationwide of all the leading volume manufacturers and decided that the well established Evans Halshaw brand would enhance the choice and value customers had grown to expect. In the last decade Evans Halshaw has grown through further acquisitions and the strengthening of long term relationships with its chosen manufacturers.

**Today**

The Evans Halshaw brand now has national coverage and this scale affords the group great opportunities to share its best practice and expertise countrywide.

Today, PJ Evans would surely be proud that the company he started in 1927 has prospered. Evans Halshaw continues to deliver what customers want by providing a unique personalised service with exceptional choice and value.

Evanshalshaw.com

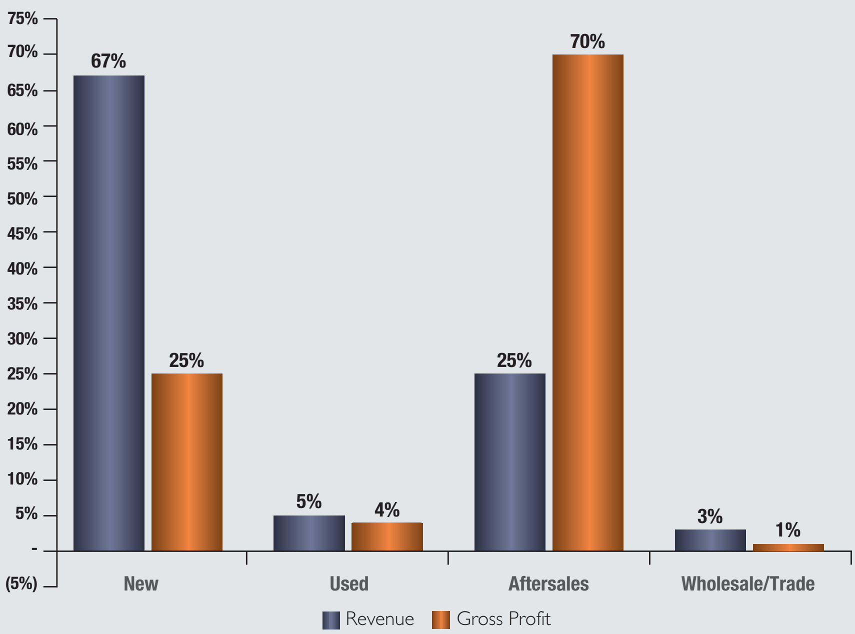
### Chatfields

Under our Chatfields brand we sell and service commercial vans and trucks in the UK with 21 franchise points. Chatfields holds franchises to sell and service Iveco, DAF and LDV.

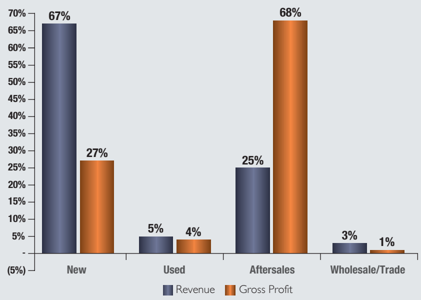
The market for new truck sales in 2007 was down by 8.7% overall whereas the van market was up 3.2%. The truck market was affected by supply shortages during the year due to high worldwide demand for heavy trucks. Order books remain strong which would suggest buoyant commercial vehicle demand this year although we expect that supply constraints will remain an issue.

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

**2007**




**2006**




| Gross Margin % | 2007 | 2006 |
|---|---|---|
| New | **5.0%** | 5.6% |
| Used | **9.6%** | 13.3% |
| Aftersales | **38.0%** | 37.6% |
| Trade/Wholesale | **6.8%** | 3.1% |
| **Gross Margin (%)** | **13.5%** | 13.9% |
| **New & Used Units ('000)** | **5.2** | 5.5 |
| **PPU (£)** | **1,533** | 1,620 |

| | Revenue £m | Gross Profit £m | Gross Margin % | Operating Profit £m | Operating Margin % |
|---|---|---|---|---|---|
| Existing | 194.2 | 26.1 | 13.4 | 5.0 | 2.6 |
| Disposed | 3.7 | 0.7 | 19.6 | (0.2) | (5.2) |
| **Total 2007** | **197.9** | **26.8** | **13.5** | **4.8** | **2.4** |
| Total 2006 | 200.4 | 27.8 | 13.9 | 6.1 | 3.1 |

Over two thirds of gross profits in this division are derived from the aftersales 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. Gross margins for new and used vehicles were down on 2006, reflecting a higher van mix plus the impact of the disposal of our two MAN ERF sites.

The results for the trucks division have been satisfactory although truck sales were down due to supply constraints. In total like for like sales are in line with last year with increased van sales, although this has diluted gross margin.

The operating profit is down £1.3 million. This is due to the reduction in gross profit and the dilution caused by the two disposals.

### 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.

The existing vehicle fleet reduced slightly to 17,600 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 and have improved on last year as we have reduced our exposure to 12 month contract business, which has historically had lower returns.

| | Revenue £m | Gross Profit £m | Gross Margin % | Operating Profit £m | Operating Margin % | Fleet numbers 000's |
|---|---|---|---|---|---|---|
| **Total 2007** | **47.2** | **13.0** | **27.5** | **10.3** | **21.7** | **17.6** |
| Total 2006 | 44.3 | 12.1 | 27.3 | 9.6 | 21.7 | 18.2 |

### Quickco

The market for parts sales via the independent wholesaler has been significantly improved 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 operate an independent genuine parts wholesale business. 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.

Currently 75% of revenues come from Ford related business. Ford is currently rolling out a new distribution network for their OEM parts and this will reduce the profit of the Quickco division in 2008. Looking forward, we aim to replace the Ford business by expanding our product range and build on our other franchise relationships.

We are pleased with the results of Quickco, which despite a fall in gross margin has increased its operating profit through good control of operating costs.

| | Revenue £m | Gross Profit £m | Gross Margin % | Operating Profit £m | Operating Margin % |
|---|---|---|---|---|---|
| **Total 2007** | **81.1** | **20.2** | **24.9** | **5.4** | **6.6** |
| Total 2006 | 79.2 | 20.2 | 25.6 | 5.0 | 6.4 |

**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.

**Pinewood**
Training Room

| | Revenue £m | Gross Profit £m | Gross Margin % | Operating Profit £m | Operating Margin % |
|---|---|---|---|---|---|
| **Total 2007** | **32.5** | **17.3** | **53.0** | **8.1** | **25.0** |
| Total 2006 | 25.4 | 15.2 | 59.8 | 5.3 | 21.0 |

The operating profit of Pinewood has increased to £8.1 million. The increase in revenue reflects the further roll out of Pinnacle across the Group. At the end of 2007 we had over 13,000 Pinnacle user licenses in place, up from 7,000 at the end of 2006, in over 600 dealerships in the UK. About 40% of the licenses have been sold to third party dealers with the balance being used by the Group. The Pinnacle product was launched four years ago and sales are continuing to gather momentum.

Our first overseas installation in South Africa is now complete.

We have a development team of 40 which is actively working on existing and new products. One of these new products, Contract Manager 4, is an updated product designed for the Contract Hire market and was launched during the year.

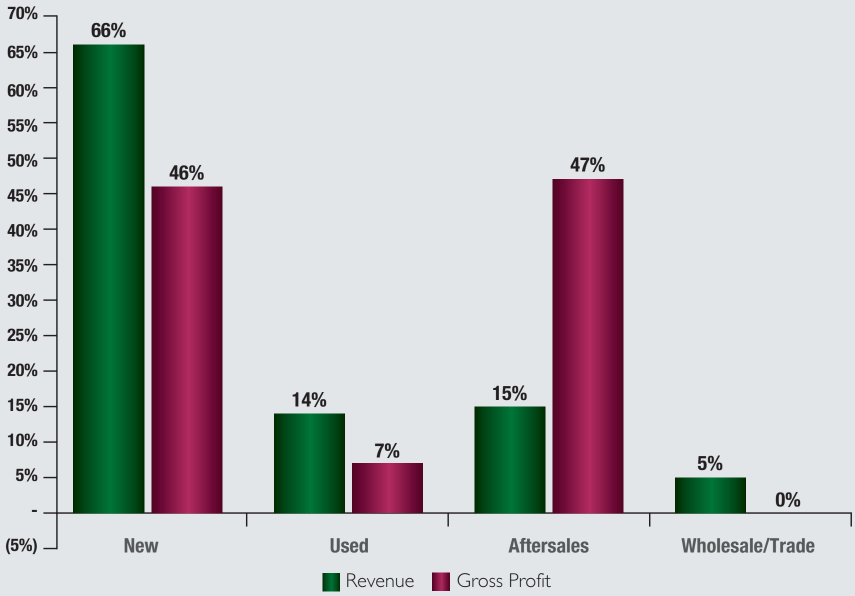
### California

At the end of the year the California business consisted of 11 franchises in Southern California which operate franchises for Jaguar, Land Rover, Aston Martin, Saturn and Saab sales points.

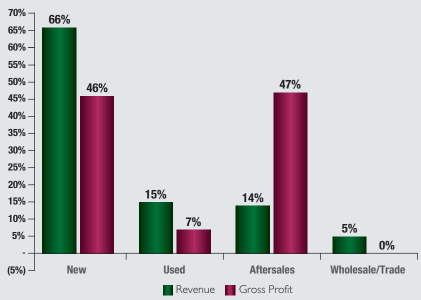

**California**
Land Rover and Jaguar Mission Viejo

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

**2007**




**2006**




| **Gross Margin %** | **2007** | 2006 |
|---|---|---|
| New | **11.0%** | 10.8% |
| Used | **7.5%** | 7.5% |
| Aftersales | **51.1%** | 51.5% |
| Trade/Wholesale | **(1.4%)** | 0.4% |
| **Gross Margin (%)** | **16.0%** | 15.7% |
| **New & Used Units ('000)** | **6.0** | 6.5 |
| **PPU (£)** | **2,497** | 2,728 |

The gross profit splits show a similar pattern to those in the UK for after sales which contribute 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.

| | Revenue £m | Gross Profit £m | Gross Margin % | Operating Profit £m | Operating Margin % |
|---|---|---|---|---|---|
| **Total 2007** | **180.3** | **28.8** | **16.0** | **1.6** | **2.6** |
| Total 2006 | 214.8 | 33.6 | 15.7 | 6.5 | 3.0 |

Revenue has fallen as we have reduced the number of locations. At the end of 2006 we exited two loss making dealerships, Lincoln Mercury Irvine and SAAB South Bay. We also closed one satellite Jaguar dealership. These locations contributed £22.6 million of revenue in 2006. The reduction in gross profit is all attributable to the lower sales.

Against the national picture our sales performance has been good. New and used unit volumes have been maintained although the change in sales mix has also resulted in lower revenue and profit per unit. In the previous year we achieved higher sales numbers and strong profit per unit on the Range Rover Sport, which has shown a decline in 2007. At the same time we have sold more units of the lower priced Freelander model.

Operating margins have fallen. Our Mission Viejo site has incurred a higher level of operating cost following its redevelopment last year. This redevelopment also contributed to a period of disruption to trade which will take some time to recover from. The greenfield addition of Saturn has also been dilutive with an operating loss of £0.4 million in the second half of the year.

On 1 February 2008 we sold our remaining SAAB dealership in Santa Monica. The proceeds of $2.2 million cover our current investment in the SAAB franchise. We will complete the development of our Newport Beach operation in the first quarter of 2008. This site will represent Aston Martin, Jaguar and Land Rover in a key market area. The launch in spring of the new Jaguar XF should also provide a fresh impetus to the Jaguar brand in the Californian market.

### Germany

We completed the disposal of our German dealerships at the end of June 2007. The net proceeds of the sale were £6.0 million. During the year we made a loss in Germany before tax of £1.6 million (2006: £1.3 million loss) and a further loss on disposal of £0.5 million. The German business has been reclassified as a discontinued operation in the income statement and its results are therefore excluded from the continuing business. The comparatives have been shown on a similar basis.

### 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 104 new Pinnacle systems in our own dealerships which brings the total number of Group installations to 329. Our shared services centre now has a team of 430, slightly up on last year, providing a range of services to around two thirds of our Group including call centre and accounting. The financial benefits for the Group are allocated to the divisions for which they perform the services.

### 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.

At the year end we held £183.7 million of freehold properties on the balance sheet plus £59.7 million of properties held for sale. Our property joint venture is a flexible structure in which we have a 51% economic interest and it holds £370.0 million of property. The joint venture structure allows us to substitute properties on a like for like basis. During the year we paid rents to the joint venture of £23.1 million which is offset by a lower bank interest charge and lower depreciation.

In 2007 we disposed of 21 properties which were operationally surplus to requirements. This resulted in proceeds of £48.2 million and profits of £17.4 million.

Three properties were sold after our December preclose statement increasing the annual profit achieved. We currently have surplus properties under offer with estimated proceeds of £26.8 million and a book value of £18.2 million.

### Cash flow

Our borrowings as at 31 December 2007 were £332.0 million compared to £369.7 million at the end of 2006. Gearing was 97.8% compared to 120.8%. 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 were at the upper end of our target range at the end of the year and will be seeking further reductions in debt over the coming year.

The cash flows of the business are summarised as follows:

| £m | 2007 | 2006 |
|---|---|---|
| Cash generated from operations | **160.0** | 219.4 |
| Net interest paid | **(63.2)** | (67.2) |
| Tax | **(4.8)** | (24.2) |
| Replacement capital expenditure | **(59.7)** | (43.8) |
| **Free cash flow** | **32.3** | 84.2 |
| Acquisitions | **(34.2)** | (570.2) |
| Disposals | **68.8** | 312.9 |
| Dividend | **(25.4)** | (17.4) |
| Other | **(3.8)** | (2.2) |
| **Reduction / (increase) in net debt** | **37.7** | (192.7) |

Cash flow generated from operations was £160.0 million, which compares with £219.4 million generated in 2006. 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 £152.6 million, down £53.6 million on the £206.2 million in 2006. In respect of working capital there was a net reduction of £7.4 million, and this is stated after £18.9 million cash payments made to reduce the deficit in our pension schemes. In 2006 we reduced working capital by £13.2 million. Net interest paid has reduced year on year. This reflects the lower amount of interest cost in the year on the reduced level of borrowings

Replacement capital expenditure was £59.7 million which includes plant and machinery, fixtures and fittings and motor vehicles (2006: £43.8 million). Expenditure on plant and machinery and fixtures and fittings was £15.8 million, up slightly on the £11.5 million in 2006. The balance of the expenditure of £43.9 million (2006: £32.3 million) is in respect of motor vehicles used either for our contract hire fleet or for service loan cars for our customers.

Acquisitions include the ex-Dixons dealerships purchased during the year, £16.3 million (2006: £526.8 million), investment in joint venture £0.2 million (2006: £15.1 million) and property developments of £17.7 million (2006: £28.3 million). Business disposals raised £20.6 million in 2007 (2006: £23.1 million), which related to the sale of nine dealerships. Surplus property disposals raised £48.2 million (2006: £289.8 million, which includes property disposal to joint venture).

### Financing costs

The total net interest charge for the year of £60.1 million includes bank interest, vehicle stocking charges and IFRS finance income of £28.8 million, £32.9 million and £1.6 million respectively. Cover for bank interest was 2.1 times compared with 2.9 times in 2006.

### VAT

In common with other companies in the industry the Group is in discussion with HM Revenue and Customs over a number of issues arising from recent developments in case law, the treatment of partial exemption within our finance and insurance operations and the VAT treatment of sales of vehicles to certain disabled customers. Additional amounts of VAT receivable and payable may be recognised in future periods in relation to these outstanding matters, and although these amounts, if any, could potentially be significant it is not possible at present to quantify them. Accordingly, no gain or loss has been included in the 2007 financial statements.

### Outlook

In 2007 we repositioned our customer proposition with lower priced used cars and reduced our exposure to nearly new cars where values have been adversely affected by deflationary pressure from lower new car transaction prices. We also identified marginally profitable sites, the bulk of which were closed last year and we withdrew from the loss making German market. The cost of these closures was taken last year. Consequently, we are now better placed to face the challenges in what remains an uncertain market in 2008.

**Trevor Finn**
**Chief Executive**
**20 February 2008**

# Directors and Advisors



**Sir Nigel Rudd (61)**
**Non-executive Chairman (N) (R)**
Appointed non-executive chairman of Pendragon in October 1989. He is chairman of BAA Limited, deputy chairman of Barclays PLC and a non-executive director of BAE Systems PLC . Sir Nigel chairs the company's Nomination Committee.

**William Rhodes (69)**
**Non-executive Director † (N)**
Joined Pendragon in October 1989. He is a director of a number of private companies. Mr. Rhodes chairs the boards of trustees of a number of the group's occupational pension schemes.

**John Holt (68)**
**Non-executive Director (A) (N) (R)**
Joined Pendragon in November 1999. He was previously head of Coopers & Lybrand's (now PricewaterhouseCoopers) computer assurance practice in the North of England. Mr Holt is the senior non-executive director and chairman of the Audit Committee.

**Mike Davies (60)**
**Non-executive Director (A) (N) (R)**
Joined Pendragon in October 2004. He is non-executive chairman of Marshalls plc and the Royal Mint. He is also a non-executive director of Taylor Wimpey plc. He is the chairman of the Remuneration Committee.

**David Joyce (60)**
**Non-executive Director (A) (N) (R)**
Joined Pendragon on 1 March 2006. He is a civil engineer and chief operating officer of Vinci PLC (formerly Norwest Holst Group PLC).

**Malcolm Le May (50)**
**Non-executive Director (A) (N) (R) ***
Joined Pendragon on 1 March 2006. He is executive president of JER Partners Europe, an investment firm specialising in commercial property development in Europe and North America. Mr Le May is also a non-executive director of Royal & Sun Alliance Insurance Group Plc.

**Trevor Finn (50)**
**Chief Executive**
Joined the vehicle division of Williams PLC in 1982 and subsequently became divisional managing director. He was appointed chief executive of Pendragon prior to the demerger from Williams.

**Martin Casha (47)**
**Chief Operating Officer ***
Joined the vehicle division of Williams PLC in 1982 and subsequently became a group general manager. He was appointed operations director of Pendragon in September 1995 and chief operating officer in November 2001.

**David Forsyth (51)**
**Finance Director ***
Joined Pendragon in October 1997 from Lonrho PLC where, since 1986, he held a number of senior finance positions. He is a chartered accountant.

**Hilary Sykes (47)**
**Corporate Services Director**
Hilary Sykes is a solicitor and prior to joining Pendragon, advised the company as a corporate lawyer with Geldards LLP. She joined Pendragon in 1994 as company secretary and became a director in April 1999.

(A) Member of the Audit Committee
(N) Member of the Nomination Committee
(R) Member of the Remuneration Committee
† retired from the board on 31 December 2007
* retiring by rotation at the AGM, proposed for re-election

**Secretary**
Hilary Sykes

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Kent BR3 4TU

**Bankers**
Barclays Bank PLC
Lloyds TSB Bank plc
Royal Bank of Scotland plc

**Stockbrokers**
Arden Partners Limited
Citigroup Global Markets Limited

**Auditors**
KPMG Audit Plc

**Solicitors**
CMS Cameron McKenna LLP
Geldards LLP
Osborne Clarke LLP

# Report of the Directors



The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

**Results and dividends**

The results of the Group for the year are set out in the financial statements on pages 39 to 83. The directors recommend a final dividend for the year ended 31 December 2007 of 2.0 pence per ordinary share. Together with the interim dividend of 2.0 pence per share paid to shareholders on 5 October 2007, this brings the total dividend for the year to 4.0 pence per share. Subject to approval at the Annual General Meeting, the final dividend will be paid on 7 May 2008 to shareholders appearing on the register at the close of business on 4 April 2008. Total dividends amount to £25.4 million, leaving retained profit for the year of £15.7 million. Movements in reserves are set out in note 21 to the financial statements.

**Review of Operations**

A detailed review of the Group's activities and future developments is presented in the Operational and Business Review on pages 2 to 13. In addition to the acquisition of 19 franchised motor car dealerships from Dixon Motor Holdings Limited (in administration) in August 2007, the following businesses were disposed of during the year ended 31 December 2007:

| Business | Location | Franchise | Date 2007 | Status |
|---|---|---|---|---|
| Evans Halshaw | Hartlepool | Vauxhall | January | Disposal |
| Evans Halshaw | Paisley | Fiat | February | Disposal |
| Evans Halshaw | Glasgow | Fiat | February | Disposal |
| Evans Halshaw | Llantrisant | Ford | February | Disposal |
| Evans Halshaw | Motherwell | Vauxhall | March | Disposal |
| Evans Halshaw | Castleford | Vauxhall | April | Disposal |
| Chatfields | Leeds | MAN ERF | May | Disposal |
| Chatfields | Hull | MAN ERF | June | Disposal |
| Evans Halshaw | Dundee | Ford | August | Disposal |

**Business Review**

Certain information required by the Companies Act 2006 to be included in the Directors' Report is contained in the Operational and Business Review Report on pages 2 to 13. The Operational and Business Review principally covers the development and performance of the business and the external environment. Other requisite disclosures are contained within the Directors' Report, which includes the principal risks and uncertainties affecting the business and corporate social responsibility issues. The company has not disclosed certain specific non financial Key Performance Indicators in the absence of relevant measures that have been monitored consistently over the past two years. This will be addressed going forward.

**Principal risks and uncertainties**

We have set out below certain risk factors that we believe could cause our actual future Group results to differ materially from expected results. However, other factors could also adversely affect the Group results. Accordingly, the factors set out below are not intended to represent an exhaustive list of all potential risks and uncertainties. The risk factors outlined should be considered in connection with the statement on internal control and risk management in the Corporate Governance Report on pages 21 to 26. Health and safety is addressed within the Corporate Social Responsibility Report on page 28.

**Business conditions and the general economy**

The profitability of Pendragon's businesses could be adversely affected by a worsening of general economic conditions in the United Kingdom. Factors such as unemployment, the level and volatility of equity markets, interest rates, inflation, action taken by the UK government relating to the taxation of engine emissions or fuel for cars and the availability and cost of credit could significantly affect the market for the sale of new and used vehicles. In the case of new car sales, during a period of economic downturn there is likely to be an oversupply of vehicles leading to reduced margins. Whilst a short term worsening in economic conditions in the United Kingdom should not significantly adversely impact profitability in our aftersales business, a sustained downturn over a number of years would be likely to lead to reduced profits in this area.

### Franchise agreements

We operate franchised motor vehicle dealerships. Franchises are awarded to us by the vehicle manufacturers. Failure to continue to hold franchises could result in a significant reduction in the profits of the Group as this would end its rights to source new vehicle stock directly to sell, to perform warranty repairs and display vehicle manufacturer trade marks.

### Vehicle manufacturer dependencies

We depend on the vehicle manufacturers' financial condition, marketing, vehicle design, production and distribution capabilities, reputation, management and industrial relations. Although we do not depend on any single vehicle manufacturer, a failure by a manufacturer in the areas noted could lead to significant losses especially in the case of the insolvency of a manufacturer. Vehicle manufacturers provide sales incentive, warranty and other programmes that are intended to promote new vehicle sales. A withdrawal or reduction in these programmes would have an adverse impact on our business.

### Liquidity and financing

Liquidity and financing risks relate to our ability to pay for goods and services required by the Group to trade on a day to day basis. We have two main sources of financing facilities: from banks by way of committed borrowing facilities; and from suppliers by way of trade credit. A withdrawal of financing facilities or a failure to renew them as they expire could lead to a significant reduction in the trading ability of the Group.

### Regulatory compliance risk

The Group is subject to regulatory compliance risk which can arise from a failure to comply fully with the applicable laws, regulations or codes. Non-compliance can lead to fines, cessation of certain business activities or public reprimand.

### Competition

We compete with other franchised vehicle dealerships, private buyers and sellers, internet based dealers, independent service and repair shops and vehicle manufacturers who have entered the retail market. We compete for the sale of new and used vehicles, the performance of warranty repairs, non warranty repairs, routine maintenance business and for the provision of spare parts. The principal competitive factors in service and parts sales are price, utilisation of customer databases, familiarity with a manufacturer's brands and models and the quality of customer service. We also compete with a range of financial institutions in arranging finance for vehicle purchases. Some of our competitors may have greater resources and lower overhead and sales costs. This could lead to our failure to be able to compete and result in a reduction in our profitability.

### Reliance on certain members of management and staff

The Group is dependent on members of its senior management team and skilled personnel and the future financial well being of the Group could depend in part on our ability to attract and retain highly skilled management and personnel. The loss of the service of a number of such individuals could have a material adverse effect on the business. Additionally, if we fail to recruit and retain skilled staff it may not be possible to continue to grow the Group's businesses.

### Failure of information systems

Our businesses are dependent on the efficient and uninterrupted operation of our information technology and computer systems, which are vulnerable to damage or interruption from power loss, telecommunications failure, sabotage, vandalism or similar misconduct. Whilst we have put in place contingency and recovery plans in order to mitigate the impact of such failures it can never be certain that these plans could cover every eventuality or situation.

### Reliance on the use of significant estimates

The company enters into leasing arrangements whereby it agrees to repurchase vehicles from their lessees or providers of lease finance at the end of the lease agreement which is typically two to four years in the future. The repurchase price is determined at the time the agreement is entered into based on the then estimate of a vehicle's future residual value. The actual value of the vehicle at the end of the lease contract and therefore the profits that the company can realise from the vehicle's eventual sale could vary materially from these estimates due to changes in either the popularity or the reliability of the brand.

### Directors

The directors of the company are listed on page 14. Details of the terms of appointment and notice period of each of the current directors, appear in the Remuneration Report on pages 29 to 36. The Combined Code and the Company's Articles of Association require directors to retire by rotation or, in the case of non-executive directors who have served more than nine years, annually. The circular to shareholders describes the business of the Annual General Meeting and includes details of the directors proposed for re-election. Following the performance evaluation of individual directors, the Chairman has confirmed that the non-executive directors standing for re-election at this year's AGM continue to perform effectively and demonstrate commitment to their roles. The directors in question are: Mr M S Casha, Mr D R Forsyth and Mr M J Le May each of whom, being eligible, will stand for re-election. Each of the non-executive directors, Sir Nigel Rudd, Mr J H Holt, Mr D A L Joyce, Mr M T Davies and Mr M J Le May considers that he has sufficient time to commit to the Company's affairs notwithstanding his other business commitments, and has no conflicting interests.

At no time during the year did any of the directors have an interest in any contract with the Group. The interests of the directors in the share capital of the company, other than with respect to options to acquire ordinary shares (which are detailed in the Directors' Remuneration Report) were as follows:-

| Ordinary Shares of 5 pence each | Nature of holding | 31 December 2007 Shares | 31 December 2006 Shares |
|---|---|---|---|
| T G Finn | Beneficial | 16,514,996 | 14,711,905 |
| Sir Nigel Rudd | Beneficial | 11,000,000 | 9,400,000 |
| M S Casha | Beneficial | 5,101,972 | 4,466,010 |
| W W Rhodes* | Beneficial | 3,283,360 | 3,283,810 |
| D R Forsyth | Beneficial | 1,865,439 | 1,582,400 |
| H C Sykes | Beneficial | 1,844,662 | 1,637,500 |
| M T Davies | Beneficial | 150,000 | 100,000 |
| J H Holt | Beneficial | 125,000 | 125,000 |
| D A L Joyce | Beneficial | 50,000 | 25,000 |
| M J Le May | Beneficial | 19,000 | 19,000 |

*Mr W W Rhodes retired from the board on 31 December 2007.

These shares include the investment shares the executive directors hold in the 2006 Long Term Incentive Plan ("LTIP"), 2007 award, purchased on the 15 March 2007 (further details of which appear in the Directors' Remuneration Report).

There were no changes to the directors' interests shown between 31 December 2007 and the date of this report.

### Appointment and replacement of the company's directors

The rules for the appointment and replacement of the company's directors are detailed in the company's Articles of Association. Directors are appointed by ordinary resolution at a general meeting of holders of ordinary shares or by the Board either to fill a vacancy or as an addition to the existing Board. The appointment of non-executive directors is on the recommendation of the Nomination Committee; the procedure is detailed in the Corporate Governance Report at page 23.

### Powers of the Company's directors

Subject to the Company's Memorandum and Articles of Association, relevant legislation and any directions given by special resolution, the Company and its group is managed by its Board of directors. The directors have been authorised to allot and issue ordinary shares, in lieu of some or all of the dividends and to make market purchases of the Company's ordinary shares. These powers are exercised under authority of resolutions of the Company passed at its Annual General Meeting. Further details of resolutions the company is seeking are set out in the explanatory notes to the notice of Annual General Meeting.

### Directors' indemnities

The Company's Articles of Association permit the Board to grant the directors indemnities in relation to their duties as directors in respect of liabilities incurred by them in connection with any negligence, default, breach of duty or breach of trust in relation to the company. In line with market practice, during 2007, a deed of indemnity was granted to each director, including provisions in relation to duties as directors of an associated company, qualifying third party indemnity provisions and protection against derivative actions.

### Compensation for loss of office

In the event of an executive director's employment with the Company being terminated as a result of a take-over offer or otherwise 50% or more of the Company's issued share capital being acquired, he is entitled to receive from the Company a sum equivalent to 0.75 times his salary which applied immediately before the take-over event, 0.75 times his available bonus and a sum equal to that proportion of the available bonus which the expired part of the measurement period for annual bonus bears to the whole of such measurement period.

In the event of a non-executive director's employment with the Company being terminated as a result of a take-over offer or otherwise 50% or more of the Company's issued share capital being acquired, he is entitled to one times his annual director's fees at the rate prevailing immediately before the take-over event. In addition, where a non-executive director has elected to receive part of his fee in the form of vehicle provision, he will be entitled to receive one times the annual cost of the provision and one times the annual cost of the insurance and road tax for such vehicle provision in the event of a take-over.

### Significant Direct or Indirect Shareholding

At 8 February 2008 the directors had been advised of the following interests in the shares of the company:-

| Shareholder | Shares | % |
|---|---|---|
| Pioneer Investment | 41,809,713 | 6.37% |
| Deutsche Bank AG London | 38,504,371 | 5.87% |
| AXA Framlington Group Limited | 36,335,170 | 5.54% |
| Jupiter Asset Management (UK) Limited | 34,972,189 | 5.33% |
| JP Morgan Chase Bank | 33,343,532 | 5.08% |
| AXA Investment Managers UK Limited | 31,156,097 | 4.75% |
| Legal & General Inv. Management Ltd | 30,609,048 | 4,67% |
| F&C Asset Management | 26,545,702 | 4.05% |
| Barclays PLC | 24,834,226 | 3.79% |
| James Capel Nominees | 22,343,129 | 3.41% |
| MF Global (formerly Man Financial Limited) | 21,715,499 | 3.31% |
| Schroder Investment Management | 21,049,905 | 3.21% |
| Barclays Global Investors | 19,877,588 | 3.03% |

### Share capital

As at 31 December 2007, the issued share capital of the company comprised a single class of share capital which is divided into ordinary shares of 5 pence each. Details of the share capital of the Company are set out in note 20 to the accounts on page 71. The Company issued no shares during the period under review. The rights and obligations attaching to the company's ordinary shares are set out below and in the company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary.

### Rights and obligations attaching to shares

Subject to applicable statutes and other shareholders rights, shares may be issued with such rights and restrictions as the company may by ordinary resolution decide, or, if no resolution has been passed or so far as the resolution does not make specific provision, as the Board (as defined in the Articles) may decide.

Holders of ordinary shares are entitled to attend and speak at general meetings of the company, to appoint one or more proxies (and, if they are corporations, corporate representatives) and to exercise voting rights. Holders of ordinary shares are entitled to receive a dividend. Ordinary shareholders are entitled to receive a copy of the company's annual report and accounts. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the company or the proposal of resolutions at Annual General Meetings.

**Voting rights, restrictions on voting rights and deadlines for voting rights**

Shareholders (other than any who, under the provisions of the Articles or the terms of the shares they hold, are not entitled to receive such notices from the company) and the Company's auditors have the right to receive notice of, and to attend and to vote at all general meetings of the company. A resolution put to the vote at any general meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is properly demanded.

Every member present in person at a general meeting has, upon a show of hands, one vote for every 5p nominal amount of share capital of which he is the holder. In the case of joint holders of a share, the vote of the member whose name stands first in the register of members is accepted to the exclusion of any vote tendered by any other joint holder. Unless the Board decides otherwise, a shareholder may not vote at any general or class meeting or exercise any rights in relation to meetings while any amount of money relating to his shares remains outstanding.

A member is entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at a general meeting. Further details regarding voting at the Annual General Meeting can be found in the notes to the Notice of the Annual General Meeting. Details of the exercise of voting rights attached to the ordinary shares held by the Employee Benefit Trust are set out in the section entitled 'Shares held by the Pendragon Employee Benefit Trust' below. None of the ordinary shares, including those held by the Employee Benefit Trust, carry any special voting rights with regard to control of the company.

To be effective, electronic and paper proxy appointments and voting instructions must be received by the company's registrars not later than 48 hours before a general meeting.

There are no restrictions on the transfer of ordinary shares in the company other than certain restrictions which may be imposed pursuant to the Articles of Association of the company, certain restrictions which may from time to time be imposed by laws and regulations (for example in relation to insider dealing), restrictions pursuant to the company's share dealing code whereby directors and certain employees of the company require prior approval to deal in company's shares, and where a person has been served with a disclosure notice and has failed to provide the company with information concerning the interests in those shares.

The Company is not aware of any arrangements or agreements between shareholders that may result in restrictions on the transfer of ordinary shares or on voting rights.

**Repurchase of shares**

Details of movements in the company's share capital are given in note to the financial statements. The company has not repurchased any of its own shares during the year. The authority to purchase the company's own shares is exercised only if the directors expect it to result in an increase in earnings per share.

**Team Member Sharesave Scheme**

The company has encouraged employee share ownership through the provision of a save as you earn (SAYE) scheme, administered by the Yorkshire Building Society (the "Pendragon 1998 Sharesave Scheme"). As at 31 December 2007, 1,728 team members participated in the scheme. Share options are exercisable by participant team members upon expiry of a 3, 5 or 7 year savings contract, at a pre-determined option price.

Full details of options remaining under this scheme can be found in note 28 to the financial statements on page 75.

**Shares held by the Pendragon Employee Benefit Trust**

The company established an Employee Benefit Trust in June 1999 with Investec Trust (Guernsey) Limited (formerly Guinness Flight Trustees S.a.r.l). As at 31 December 2007, the trustee held 20,372,236 shares, representing 3.11% of the total issued share capital at that date, which are used to satisfy options under the Pendragon 1999 Approved Executive Share Option Scheme, the Pendragon 1999 Unapproved Executive Share Option Scheme and the Pendragon 1998 Sharesave Scheme. The voting rights in relation to these shares are ordinarily exercisable by the trustee; however these rights are waived and the trustee does not vote the shares held.

During the year, 1,746,159 shares with a nominal value of £87,307.05 were transferred to beneficiaries of the Sharesave Scheme, the 1999 Approved Executive Share Option Scheme and the 1999 Unapproved Share Option Scheme by the trustees of the Employee Benefit Trust.

**Articles of Association**

The company's existing Articles of Association (adopted by special resolution passed on 3 June 1991, as amended by special resolutions passed on 24 April 1998, 2 May 2000, 15 April 2004 and 28 April 2006) may only be amended by special resolution at a general meeting of the shareholders. At the Annual General Meeting to be held on 25 April 2008, a special resolution will be put to shareholders proposing the adoption of new Articles of Association. A summary of the key proposed changes is enclosed with the explanatory notes to the Notice of Annual General Meeting.

## Significant Agreements

The Company has entered into a number of significant agreements which ordinarily would be terminable upon a change of control of the company.

- Franchise Agreements - our dealerships operate under franchised new vehicle dealer agreements and authorised repairer agreements with various vehicle manufacturers and importers. Without a franchise agreement, it is not generally possible to obtain new vehicles from a manufacturer or display vehicle manufacturer trade marks. Whilst some of the franchise agreements contain provisions entitling the vehicle manufacturers to terminate in the event of a change of control, this entitlement is circumscribed by the applicable EC Regulation 1400/2002 (commonly known as the motor vehicle Block Exemption). In the event of a change of control, a vehicle manufacturer is unable to terminate either the franchise agreements or authorised repairer agreements held by the Group if the new controlling entity already holds that manufacturers' brand of franchise.

- A Facilities Agreement dated 3 December 2005 (as subsequently amended and supplemented by amendment letters dated 3 February 2006, 8 February 2006, 14 February 2006 and 17 February 2006 and an amendment and restatement agreement dated 8 March 2006) between the company and its subsidiaries and the Royal Bank of Scotland plc and others under which the Royal Bank of Scotland agreed to make available term and revolving facilities to the company up to an aggregate sum of £850 million - in the event of a change of control, the lenders under this facility are able to cancel the facility and declare all outstanding amounts together with all accrued interest, commission and other amounts immediately due and payable.

- A joint venture agreement relating to PPHO Limited made between Pendragon Group Services Limited, the company and National Westminster Property Investments Limited dated 31 October 2005. PPHO Limited is a joint venture company ("JV") established to purchase and hold properties as an investment. The JV is owned 51% by Pendragon Group Services Limited and 49% by aAim Turbo LLP (who acquired the entire interest of National Westminster Property Investments Limited in the JV on 26 June 2007). A wholly-owned subsidiary of the JV has acquired a portfolio of dealership sites, together with the Group's head office. If a change of control of the company occurs, the other shareholders in the JV have the right to require the JV to sell all of its assets and/or wind up the JV.

- A Loan Note Purchase Agreement dated 25 February 2004 in relation to US $110,000,000 5.65% Guaranteed Senior Loan Notes Series A due on 25 February 2011 and US $67,000,000 5.95% Guaranteed Senior Loan Notes Series B due on 25 February 2014. In the event of a change of control, the company must offer to prepay all outstanding loan notes no more than 90 days and not less than 50 days from the date of the change of control event.

## Corporate Social Responsibility

The Company's approach to corporate social responsibility is set out on pages 27 to 28. No political donations were made (2006: £ nil) and the Company nor any member of its Group does not intend to make any such donations.

## Payments to suppliers

The Group's policy is to settle the terms of payment to its suppliers when agreeing the terms of the transaction and to abide by those terms, provided it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group has not adopted any specific code or standard on payment practice. The number of days' purchases outstanding for payment by the Group at 31 December 2007 was 59 days (2006: 66 days). The Company had no trade creditors.

## Auditors

KPMG Audit Plc has indicated its willingness to continue as independent auditor and a resolution concerning its reappointment will be proposed at the Annual General Meeting.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

**By order of the Board**
**H C Sykes**
**Secretary**
**20 February 2008**

# Corporate Governance Report

### Compliance

Pendragon PLC is committed to maintaining high standards of corporate governance in line with the UK Listing Authority listing rules and its Board supports the principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council ("the Code"). This statement, together with the Directors' Remuneration Report, on pages 29 to 36, explains how the Company has applied the principles and complied with the provisions of the Code. The Board regularly reviews corporate governance matters, taking into account both guidance issued by bodies representing institutional shareholders and individual institutional shareholders' policies and feedback. Other than where expressly stated, the company has complied with the Code throughout the year.

### Directors

The Company and its Group is managed by its board of directors. The Board is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. Through the Company's divisional structure, the Board reviews the strategic direction of individual trading businesses, their annual budgets and their progress towards achievement of those budgets. The Board also takes charge of the Company's standards in matters of corporate governance and policy matters affecting the company's stakeholders. The Board has overall responsibility for the Group's systems of internal control, including financial control and risk management and the Group's record on matters of health and safety and environmental compliance. It is also responsible for approving appointments to the Board and of the company secretary and approving policies relating to directors' remuneration and severance. All matters of an operational nature and within the executive directors' capital expenditure authority are dealt with by the executive directors. Certain of the Board's duties are delegated to committees of the Board, whose responsibilities and composition are set out on pages 23 to 24 of this Report.

There is a clear separation of the functions of chairman and chief executive, recorded in a written statement reviewed annually by the Board and published on the Pendragon PLC website. This statement is also available for shareholders' inspection at the Annual General Meeting and at any time from the company secretary upon request.

The Board operates to a standing agenda which ensures that all matters reserved for its decision are dealt with in an appropriate manner, and all matters requiring regular or annual review receive adequate scrutiny and debate. Between meetings, information packs containing key performance data are circulated to directors. The chairman holds meetings with the non-executive directors without the executives present when he deems it appropriate. In addition to formal meetings of the Board, informal meetings to familiarise with particular operations or address strategic matters are held as dictated by the requirements of the company's business and any new developments. The attendance of directors at meetings of the Board and (where applicable) its committees during the year is set out in the table below.

### Board and committee attendance*

| Director | Board | Audit | Remuneration | Total |
|---|---|---|---|---|
| **Sir Nigel Rudd** (N,R) | 8/9 | n/a | 2/2** | 10/11 |
| **W W Rhodes** ( N)† | 9/9 | n/a | n/a | 9/9 |
| **J H Holt** (A, N, R) | 9/9 | 4/4 | 3/3 | 16/16 |
| **M T Davies** (A, N, R) | 9/9 | 4/4 | 3/3 | 16/16 |
| **D A L Joyce** (A, N, R) | 9/9 | 4/4 | 3/3 | 16/16 |
| **M J Le May** (A, N, R) | 8/9 | 3/4 | 3/3 | 14/16 |
| **T G Finn** | 9/9 | n/a | n/a | 9/9 |
| **M S Casha** | 7/9 | n/a | n/a | 7/9 |
| **D R Forsyth** | 9/9 | n/a | n/a | 9/9 |
| **H C Sykes** | 8/9 | n/a | n/a | 8/9 |

(A) Audit Committee member (N) Nomination Committee member (R) Remuneration Committee member

The Nomination Committee did not meet during the year.

* Attendance is displayed showing the number of meetings attended out of the total directors were eligible to attend e.g. 16/16 means 16 out of the 16 meetings held were attended.

** Sir Nigel is excluded from the meeting of the Remuneration Committee during which the Chairman's fee is discussed.

† Mr W W Rhodes retired from the Board on 31 December 2007.

# Corporate Governance Report continued

The names, brief biographical details and Committee appointments of each of the directors appear on page 14. The Company has not identified any individual as deputy chairman. The senior non-executive director has met with the other non-executive directors, without the chairman present, to conduct the annual appraisal of the chairman's performance during the year. Directors have the opportunity at each meeting of the Board, and informally between meetings, to raise any concerns they may have regarding the way the company is being run or any proposed course of action. Any such concerns, if voiced at a meeting of the Board or any of its Committees, would be recorded in the minutes. No such concerns have been raised during the year.

The company supports the principles of the Code regarding board balance and the ability of Board members to bring to bear an independent judgement on the matters put before them. For 2007, the Board comprised four executive directors and five non-executive directors, of whom four are considered by the Code to be independent, and the chairman. Each of the Audit and Remuneration Committees is composed entirely of non-executive directors treated by the Code as independent. Mr. W W Rhodes retired from the Board on 31 December 2007.

**Independence**

In the view of the Board, every non-executive director serving during the year has demonstrated the required degree of independence, both in character and judgement, taking into account all the relevant circumstances. At least half the board, excluding the chairman, consists of non-executive directors determined by the board to be independent. Due to the rebuttable presumption in the Code that a director who has served on the board for more than nine years is not independent, Mr W W Rhodes would not, due to his long service, be treated by the Code as independent, unless the Company was able to rebut such presumption. Throughout the year, the Company continued to regard Mr W W Rhodes as independent. The only matter relevant for consideration in relation to Mr W W Rhodes is the duration of his appointment as a director, which commenced in 1989. The Board considers that, notwithstanding his length of service, throughout the year, Mr Rhodes remained independent in character and judgement and continued to be committed to his role. There are no relationships or circumstances in relation to any director which are regarded by the company as having the potential to affect his exercising independent judgement.

**Board composition and effectiveness**

The Board reviews annually the composition of the Board and its Committees and the respective contributions of each director. The effectiveness of the Board and Committee structure is considered, together with the adequacy and appropriateness of the skill set of the Board, taking into account any new developments in the company's business or strategy, and the range of expertise, knowledge and experience represented. The latest of these reviews concluded that the Board and its Committees were operating effectively and that in particular, the clear demarcation of the respective responsibilities of the individual directors, the Committees and the Board contributed strongly to their effective operation. The Board also concluded that the skills and experience present are appropriate to the company's business activities and provide adequate oversight of the assessment and management of risk.

All directors seek election to the Board at the Annual General Meeting following their appointment. In accordance with the company's Articles of Association, all directors seek re-election by rotation at least once every three years.

For the year under review, the Board has evaluated the performance of each director. The non-executive directors, led by the senior non-executive director and assisted by the chief executive, have reviewed the performance of the other executive directors, the non-executives have reviewed the performance of the chief executive, and the Board has reviewed the performance of the non-executive directors.

Each non-executive director's performance in furthering the company's objectives was assessed, together with his contribution in his areas of expertise, reflected in his Committee work, participation in Board discussion and, where applicable, familiarisation visits. Attendance at meetings was also considered.

The evaluation of the non-executive directors also addressed their capability, time commitment and, where applicable, effectiveness in the role of Committee chairman. The assessment of executive directors covered two aspects of performance: the director's individual contribution towards achievement of the Company's goals; and the achievement of individual objectives appropriate to his or her role.

The performance review of the chairman was conducted by the non-executive directors led by the senior non-executive director. They considered the responsibilities of the role as set out in the Code, including capability, time commitment, effectiveness and shareholder communication.

The chairman's principal commitments outside the company as at February 2008 were as non-executive chairman of BAA Limited, deputy chairman of Barclays PLC, non-executive director of BAE Systems PLC, and chairman of the Boardroom Issues Group of the Confederation of British Industry. The Board is satisfied that the chairman and each non-executive director is able to devote the amount of time required to attend to the Company's affairs and his duties as a Board member.

### Information and advice

The directors regularly receive financial and other information concerning the Group's activities, plans and performance. Each director is entitled on request to receive from the company information to enable him to make informed judgements and adequately to discharge his duties and has access to the advice and services of the company secretary on all matters of Board procedures and corporate governance. The company secretary also provides advice and support to each of the Board's Committees and, in particular, to the chairman on all corporate governance matters. The directors' terms of appointment also permit them, at the company's expense, to take independent professional advice in connection with their duties.

In line with common practice, the company maintains insurance cover in respect of the liability of its directors and officers to third parties.

### Professional development

The Board includes individuals from various backgrounds with many years' experience of senior positions either in listed companies or professional life. In carrying out their duties, the directors are expected to bring to bear an independent judgement on issues of strategy, performance, resource and standards of conduct. New Board members receive an induction tailored to their needs. An induction information pack, comprising constitutional documents, terms of reference and historical and accounting information is provided and operational site visits are undertaken to enable familiarisation with the Group's business. Where appropriate, both upon appointment and subsequently, formal training by external providers in matters such as the duties of directors, pension trusteeship and corporate governance is arranged. All directors are encouraged to maintain an awareness of new developments in the areas of the Group's principal activities and attend appropriate briefings on individual aspects of the Group's business or new developments. Where necessary, directors have access to professional training relating to their Board or committee functions. During the year, the chairmen of the Audit and Remuneration Committees have attended specialist briefings on issues relevant to their professional development and the business of their committees.

### Board Committees

The Board delegates certain matters to committees of the Board, each of which operates under written terms of reference. These, together with the Committees' membership, can be found on the Pendragon PLC website.

### Nomination Committee

The Committee is composed of the non-executive directors, and its chairman is Sir Nigel Rudd. The Committee did not meet in 2007. The Committee is responsible for leading the process for appointments to the Board. The Committee and the Board operate to a protocol for the selection and appointment of executive and non-executive directors. This includes a six stage process, from the identification of the vacancy to the making of a recommendation to the Board for an appointment. Having identified a vacancy, the Committee assesses the current skills profile of the Board and produces a skills profile for the vacant position, with the aim of strengthening and enhancing the skills, knowledge base and experience of the Board. The need to advertise the vacancy or engage executive search advisers is considered. Interviews with short-listed candidates follow, conducted by an appropriately constituted panel of directors, comprising a majority of non-executive directors and excluding directors with any personal or business connection to the candidates. All Board members are given the opportunity to meet a recommended candidate before a nomination is put to the Board.

### Remuneration Committee

The Chairman of the Remuneration Committee, Mr M T Davies, is an independent non-executive director. The Committee is composed of the non-executive directors, including the chairman, and meets at least once a year. The Committee is comprised entirely of non-executive directors considered by the Code to be independent. In 2007, it met three times. The Committee has responsibility for determining the remuneration packages of the executive directors in the context of the policy adopted by the Board. It also liaises with the Nomination Committee to ensure the remuneration packages set for new executive directors are consistent with the company's overall remuneration policy. It sets the targets for any performance related pay schemes applicable to executive directors and determines the policy for and scope of pension agreements, termination packages and compensation commitments for the executive directors. It is also responsible for ensuring that due regard is given to best practice in matters of executive remuneration and that the company complies with all applicable regulations relating to executive remuneration.

The Directors' Remuneration Report is considered by the Remuneration Committee, but adopted by the Board as a whole. That Report is set out on pages 29 to 36.

## Audit Committee

The Committee is chaired by Mr J H Holt who is also the senior non-executive director. It is composed of the non-executive directors of the company (except the chairman). The Committee is comprised entirely of non-executive directors considered by the Code to be independent.

Mr J H Holt is regarded by the Board as having recent and relevant financial experience, due to his lengthy career in accountancy, with PricewaterhouseCoopers, and as a result of his regular attendance at appropriate continuing professional development seminars. Meetings of the Audit Committee are held at least four times a year and are attended, by invitation, by the finance director, the head of the internal audit function and representatives of the company's external auditors, at the chairman's discretion. The Committee met four times in 2007.

## Audit Committee Activities

The meetings in February and August take place in advance of the preliminary and interim results announcements. At these meetings, the Committee considers the draft financial statements and the preliminary and interim results announcements. It also considers the report of the external auditors on the full-year audit, concentrating on issues of judgement and audit focus identified in the audit plan. Additional meetings, held in June and November, are concerned primarily with the review of the business risk management process, the outcomes from risk control visits, and the effectiveness of the visit plan for the current year, as well the external audit plan for the year, the audit fee and other significant corporate governance issues, such as those with Financial Services regulation implications.

At each meeting attended by the external auditors, the members of the Committee have the opportunity for discussion with the auditors without the finance director or head of internal audit being present. This permits any issues to be reviewed with, and assurances to be sought from, the external auditors independent of executive management involvement. The chairman of the Committee also makes himself available for meetings with the head of the Company's internal audit function to allow issues concerning controls and, in particular, the working and resourcing of the internal audit function, to be reviewed. The Committee's terms of reference are published on the Pendragon PLC website and, in summary, include responsibility for: monitoring the integrity of the Company's financial statements and any formal announcement relating to the Company's financial performance; making recommendations to the Board in relation to the appointment and removal of the external auditors, reviewing the external auditors independence and objectivity and the effectiveness of the audit process, and developing and implementing the Company's policy on the engagement of the external auditor to provide non-audit services. The Committee is also responsible for reviewing the Company's internal financial controls and systems of internal control and risk management, monitoring and reviewing the effectiveness of the Company's internal audit department and ensuring adequate levels of staffing and ensuring that the company's systems of control as they relate to activities regulated by the Financial Services Authority are adequate and functioning properly and are adequately resourced.

The review of the arrangements for employees to raise, in confidence, concerns about possible improprieties in relation to financial reporting or other matters also falls within the Audit Committee's responsibilities. The Committee reviews at least twice annually the Company's whistleblowing policy together any follow up action taken, and its procedures for the reporting and recording of suspected fraud and dishonest acts. These items also form part of the committee's standing agenda. As part of its regular monitoring activities during the year, the Committee reviewed and approved amendments to the company's procedures, in particular regulated activities in the areas of general insurance mediation regulated by the FSA, Anti-Fraud, Theft and Corruption, whistleblowing and Anti-Money Laundering. The Company's Anti-Fraud, Theft and Corruption Policy and Anti-Money Laundering Policy are available on the Company's website.

During the year the Committee chairman has carried out an evaluation of the independence of the company's external auditor KPMG Audit Plc and reviewed the effectiveness of the external audit process. Matters addressed in the evaluation included an assessment of the quality of communication between the external auditor and the Audit Committee, the manner in which the relationship between the auditor and the Company is managed and the ability of the auditor to challenge practices and procedures and to communicate appropriately with the company on any significant control weakness discovered in the course of their audit work. Also considered were the level of non-audit services provided by the external auditor and the potential this may have to impair the independence of the audit. The effectiveness of the internal audit function has also been formally assessed. The views of management and of the external auditor have been taken into account in the review of the internal audit function and the views of management have been taken into account in the review of the external auditor. Each review concluded that the functions were performing effectively.

The Committee has considered the policy in relation to the supply of non-audit services by the company's auditor during the year. The Company's policy is not to exclude its auditor from undertaking non-audit work, but to permit the supply of such services in areas where, in the opinion of the Committee, it is appropriate to do so. The objective of the policy is to ensure that non-audit work is carried out in a way that affords full value for money, whilst obtaining a service that best serves the interests of the Company. Contracts for non-audit work are not therefore awarded to the Company's auditor where there is a perceived conflict of interest. Where appropriate, the provision of non-audit services is formally market tested through a tender process. The Committee has during the year reviewed the independence and objectivity of the external auditor, taking into consideration relevant professional and regulatory requirements with the aim of establishing that these are not impaired by the provision to the Company of non-audit services.

During 2007, KPMG LLP also continued as advisers to and actuary for the company's various occupational pension schemes, details of which appear in the Directors' Remuneration Report on page 35, having been selected by competitive tender. From 1 January 2008, Aegon Actuarial Services (part of the Scottish Equitable Plc group of companies) replaced KPMG as advisors to, and actuary for the company's occupational pension schemes.

A full statement of the fees paid to KPMG Audit Plc and KPMG LLP for audit and non-audit services is provided in note 3 to the financial statements on page 55. The Committee has concluded that the provision of these services has not impaired audit independence.

**Systems of internal control**

The Board is ultimately responsible for maintaining sound systems of internal control and for reviewing its effectiveness. The Board has adopted a risk-based approach to establishing sound systems of internal control. The systems of control have been in place throughout the year. High level risk assessment occurs at one meeting of the Board during the year in the context of the Company's annual strategic review. Operational management is charged with responsibility for identifying and evaluating risks facing the Group's businesses on a day-to-day basis. In establishing and maintaining the Company's systems of internal control, the Board has paid due regard to the Turnbull Guidance on risk management and internal controls.

The Board's process for satisfying itself of the effectiveness of the systems of internal control relies on: assurance from executive management with regard to the design, communication and implementation of controls and provision of monitoring information; and assurance from the Audit Committee on the regular monitoring of the system and correction of any material control failures. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board has during the year reviewed all relevant risk areas and the systems of internal control and received reports on new risks and changes to the existing risks, based on the following broad areas:-

- financial
- socio-economic
- physical
- political and regulatory
- transactional
- reputational
- technological

Operational management is supported in its role by a multi-disciplinary team, known as the Risk Control Group. This group is formed from senior representatives of the central finance, internal audit, information technology, legal and insurance functions, is chaired by the finance director and meets at least twice a year. The Risk Control Group met twice during 2007. It is attended by invitation by the chairman of the Audit Committee and representatives of the external auditor, at the discretion of the chairman. Its responsibilities include the regular review of risks, the identification of the need for corresponding controls and the monitoring of the design, communication and implementation of new controls and adaptation of existing controls to improve their effectiveness. The Risk Control Group has a reporting line direct to the main board. The internal audit function reports on matters of financial control each month directly to the Board.

Major commercial, technological and financial risks are assessed at the Board's annual planning meeting, which reviews the Company's principal areas of business and considers any adaptation to the Company's business strategy required to meet specific commercial and other risks or threats. The conclusions are incorporated in the Company's business strategy and formally adopted by the Board.

The Board has established a strong control framework within which the group operates. This contains the following elements:

**Management structure**

Pendragon is a large franchised retailer of motor vehicles and ancillary services, which operates through a divisional structure. The Group consists of two principal operating divisions, Evans Halshaw for volume franchises and Stratstone for luxury franchises and three support divisions (Technology, Parts and Contract Hire) each headed by a Divisional Managing Director. Each Divisional Managing Director participates in a monthly operational board meeting, chaired by the Chief Operating Officer. Best practice meetings for each division, at which key operating controls and improvements to their implementation are discussed, are generally held monthly, chaired by each Divisional Managing Director.

**Communication**

There is an embedded culture of openness of communication between management and the Board on matters relating to risk and control. Face-to-face and video-conferencing meetings of all operational teams occur regularly. Processes are reinforced at operational meetings and via the Company's intranet and video communications.

**Financial reporting**

The Group operates to comprehensive management reporting disciplines which involve the preparation of financial plans by all operating units. The plans are reviewed by executive management and are subsequently passed to the Board for approval. Monthly actual results are reported against the approved plans.

# Corporate Governance Report continued

### Investment appraisal

The Group has a clearly defined framework for capital expenditure including appropriate authorisation levels, beyond which such expenditure requires the approval of the executive directors and, for larger capital projects, acquisitions and disposals, the Board. There is a prescribed format for capital expenditure applications which places heavy emphasis on the commercial strategic logic for the investment and demands a detailed financial presentation of the business case.

### Functional reporting

The Group has identified a number of key areas which are subject to periodic reporting to the Board. These areas are given particular emphasis through the operation of appropriately constituted teams which meet regularly, and report to the Board via a designated executive director. These include the following central functions: group finance, treasury, tax, health and safety, human resources, information systems, internal audit, insurance, legal, payroll, property and training.

### Risk control

The work of the Risk Control Group is described on page 25. Its remit includes the identification and assessment of new risks facing the Group's businesses, business continuity planning and the establishment of policies and procedures for risk control for implementation in the Group's businesses. It has the power to co-opt representatives from the Group's operating business to assist in the design of new controls and the improvement of existing ones. A twice-yearly review of the Risk Control Group's work is included in the Board's agenda.

The frequency of monitoring, processes and responsibilities are defined and communicated to the directors and executives concerned and a regular pattern of meetings and reporting requirements established to ensure that the Board is sufficiently informed of risk management measures to enable them to review the effectiveness of the Group's systems of internal control.

### Going concern

The directors are satisfied that the Group is in a sound financial position with adequate resources to continue in operation for the foreseeable future. In forming this view, the directors have reviewed budgets and other financial information. The financial statements of the Group have therefore been prepared on the basis that the group is a going concern.

### Shareholder relations

The Board as a whole takes responsibility for ensuring that the Company is engaged in dialogue with shareholders which is constructive and fosters mutual understanding of the Company's and shareholders' objectives. The Board's statement concerning the respective roles of chairman and chief executive also deals with the Company's approach to shareholder communication and is available on the Pendragon PLC website. The chief executive is responsible for implementation of the strategy set by the Board. Among his duties is the conduct of communications with shareholders on the Company's performance. He must ensure that major shareholders have the opportunity for regular dialogue with the Company on issues of concern to them, and, in particular, that any changes in policy or strategy are effectively articulated to shareholders. In the main, shareholder communication is based around meetings with shareholders at key points in the financial reporting year. These are conducted by the chief executive and the finance director, rather than the non-executive chairman. In this respect the Company's approach is not compliant with the Code. The directors believe this to be the most practical and efficient way of communicating on matters such as strategic direction, financial performance, underlying market conditions and operational issues. Issues raised by shareholders on these occasions are carefully noted and fed back to the Board, and, where appropriate, access to the chairman for further discussion is arranged. Each of the chairman and the senior non-executive director also holds himself available at all times for contact with shareholders. Unless specifically requested to participate in discussions or to provide information and explanations, each of them will, however, refer enquiries he receives to the chief executive. If the matter concerns the chairman's remuneration or performance or any other matter with which it is inappropriate for him to deal, it is referred to the senior non-executive director. During 2007, both private and institutional shareholders have undertaken tours of the Company's Loxley House facility to view the technological advances now incorporated into the Company's business model for its car retail operations. The Board is always willing, where practicable, to enter into dialogue with shareholders based on mutual understandings of their respective objectives and being mindful of the Company's obligations under the listing rules. The respective chairmen of the Audit Committee, the Nomination Committee and the Remuneration Committee are available to answer shareholders' questions at the Annual General Meeting ("AGM").

### Business at the Annual General Meeting

As well as dealing with formal business, the company takes the opportunity afforded at the AGM to provide up-to-date information about the Company's trading position and to invite and answer questions from shareholders on its policies and business. At the AGM a separate resolution is being proposed for each substantive matter. The Company's annual report and financial statements are despatched to shareholders, together with the Notice of AGM, giving the requisite period of notice. The business being proposed at the AGM is summarised in the Notice of AGM.

# Corporate Social Responsibility Report



### Philisophy

Our culture is about the way we behave as an organisation. As a large employer and provider of goods and services to many thousands of customers, Pendragon PLC and its group touch the lives of many. As the occupier of hundreds of business premises and a customer of a wide range of businesses the group benefits from and contributes to relationships with many suppliers and communities. Pendragon believes that long term success in business is greatly enhanced by valuing and developing relationships with key stakeholders.

As a company, we operate within a framework of five core values, which recognise the broad needs and aspirations within each relationship. These values are the foundation of our culture and by ensuring that these values are known and understood, we can ensure that they can be applied by team members across all divisions and at all levels of the organisation.

### Values

The Company has adopted value statements which reflect the stakeholder groups. For each, Pendragon's vision is to be "the Number One Choice". Employees are encouraged to see themselves as part of a team, hence the expression "team member" is used for all those working within the Group's businesses. Team members are introduced to the Pendragon vision and values on joining and through regular communication, which reinforces the Company's philosophy and approach.

**The Pendragon vision**

to be "the Number One Choice"

**Our Customers**

we provide a good value, personalised service to existing and potential customers

**Our Manufacturers**

we provide quality, brand focused representation, meeting mutual aspirations of customer retention and sales volume

**Our Suppliers**

we provide long term, profitable partnerships in return for quality service and competitive pricing

**Our Team Members**

we provide secure, satisfying employment, recognising the contribution of each individual to the success of our business

**Our Shareholders**

we provide the best earnings per share performance over a rolling five year view against defined sector competition

### Involvement and development

The Group recognises the importance of good communications and relations with its team members, as its ability to meet the needs of its customers in a profitable and competitive manner depends on the contribution of team members throughout the Group. Team members are encouraged to develop their contribution to the business wherever they work. In many areas ongoing programmes, focused on quality and customer service, provide an opportunity for everyone to be involved in making improvements and in developing their own skills. The Company has been awarded Investors in People accreditation, first achieved in 1999, and renewed in 2006. The Company's well-established practices to encourage team member development and involvement provide substantial support for the renewal of this award.

### Pension trusteeship

Team member involvement also extends to the boards of trustees of the Company's various occupational pension schemes, details of which appear on page 35 within the Directors' Remuneration Report. A total of eight employee representatives, who broadly reflect the businesses from which scheme beneficiaries originate, served either directly as trustees or as directors of the schemes' corporate trustees during the year.

### Share schemes and incentives

Team members' financial participation is encouraged through the Company's Sharesave scheme, which attracts membership from all levels within the Group's business. A variety of bonus schemes provide team members with rewards linked to the growth and prosperity of the business. At 31 December 2007 a total of 1,796 team members participated in ownership of shares and/or schemes linked to the company's share performance.

### Communication

The challenges presented by the size of the Group and the importance of consistency drive the Company to devise and implement ever more innovative and timely means of communication. Video, internal web-site messaging and face to face presentations are used to keep team members up-to-date with the Company's strategy and performance. The leadership of the Group's businesses are a particular focus for channelling communications and regular briefings for all team members at each location provide a forum for sharing both corporate and local information. The Company promotes a number of internal publications based on its divisional structure which aim particularly to recognise the achievements of individual team members and celebrate outstanding business performance.

### Community

As a multi-site, predominantly retail operator, the Group's community involvement is generated by its local businesses, which contribute to their local areas in a variety of ways. During the year dealerships have also responded to charity appeals by holding fund-raising events. Local schools, hospitals and medical charities as well as Comic Relief and the BBC's Children in Need Appeal have all been beneficiaries of charity events organised by team members. The Company supports and encourages these activities and welcomes the opportunities they present for team-building within the businesses and relationship building with the communities they serve.

### Environment

Although not generally regarded as a high environmental impact sector, motor retailing and its associated after sales service activities carries with it a range of responsibilities relating to protection of the environment. The Company's policy is to promote and operate processes and procedures which, so far as is reasonably practicable, avoid or minimise the contamination of water, air or the ground; and to manage responsibly the by-products of our activities, such as noise, waste packaging and substances and vehicle movements. The Company's statement of environment policy is available on the Pendragon PLC website.

### Health and safety

The Company recognises its responsibility to all team members and others working in or visiting its facilities to provide, so far as is reasonably practicable, an environment which is safe and without risk to their health. The Company's policy is to identify all potential hazards and assess the risks presented by its activities and to provide systems and procedures which allow team members at all levels to take responsible decisions in their day to day work in relation to their own and others' health and safety. The Company's health and safety policy is available on the Pendragon PLC website.

In matters of health and safety, the Company promotes awareness of potential risks and hazards and implementation of corresponding preventative or remedial actions through its on-line health and safety systems, operations manuals and regular communication on topical issues. A clear hierarchy of responsibility is published to team members and reinforced through regular on-site monitoring. Team members are supported in discharging their responsibilities by specialist guidance from the Company's health and safety function and a recently introduced on-line training tool.

### Disabled people

The Group recognises its responsibilities in employing and training people who are disabled, not all of whom are formally registered disabled persons in UK terms. If any team member becomes disabled it is standard practice, in all but the most extreme circumstances, to offer an alternative job or adapt the existing job and provide retraining where necessary.

### Equal opportunities

The quality of the Company's relationships with its stakeholders will, in large measure, determine its success. Critical to those relationships is its ability to attract, motivate and retain the best team members. The Company's policy is to ensure that team members achieve their full potential within the business and that all employment decisions, from the advertisement of a vacancy through to the offer of development opportunities and further advancement, are taken without reference to any form of discriminatory criteria. The Company's equal opportunities policy is available on the Pendragon PLC website. Vacancies are first advertised internally on the Pendragon intranet to maximise the opportunity for career progression within the Group. The Company's bonus and incentive programmes are carefully researched and designed to ensure they are tailored to match reward to performance and recognise outstanding contributions to the Group's business.

# Directors' Remuneration Report

## Remuneration Committee

The remuneration policy is determined by the Board and is described below. At 31 December 2007, the Remuneration Committee of the Board was composed of the non-executive directors Mr M T Davies (chairman), Mr J H Holt, Mr M J Le May, Mr D A L Joyce and Sir Nigel Rudd, who rejoined the Committee in February 2007 (the "Committee").

The Committee recommends to the Board the specific remuneration packages for executive directors, and the chairman, although he is not party to any discussions in relation to his own remuneration. All of its recommendations made to the Board during the year were accepted. The Committee meets as often as necessary to discharge its duties, which during 2007 was three times. Details of members' attendance are set out in the Corporate Governance report on page 21. The terms of reference of the Committee are available on the Pendragon PLC website.

## Advisers

New Bridge Street Consultants LLP, who are independent remuneration consultants, continue to provide specialist advice to the Committee. They provided no other type of services to the Pendragon Group. During 2007, Sir Nigel Rudd and Mr T G Finn provided internal advice to the Committee but not in respect of their own pay. The secretary to the Committee is Richard Maloney, the group solicitor.

## 2007 Remuneration policy

A summary of the Committee's conclusions and policies implemented during the year were:

- Bonus targets, set at the start of 2007, included three elements: (i) adjusted PBT (ii) gearing and (iii) fulfilment of personal objectives.
- Long Term Incentive Plan awards made in 2007 used the same performance measures adopted in 2006.
- 2007 executive salaries increased only in line with inflation (using the consumer price index ("CPI") measure).

## Non-Executive directors remuneration policy

The Company's policy on non-executive directors' remuneration is reviewed annually by the Board. Remuneration for non-executive directors is confined to fees alone, without a performance related element. Non-executive directors may elect to receive all or part of their fees in the form of benefits in kind, typically the provision of a motor vehicle for their use. During the year, the remuneration of the non-executive directors was reviewed in relation to the time commitments associated with individual positions, and wider market practice among companies of a comparable size. As a result of this review, the Company introduced remuneration for the chairmanship of Board committees and reviewed the fees payable to the Chairman; these are considered to be consistent with the size of the Company and the time commitment required.

## Executive directors remuneration policy

The Company's policy in respect of executive directors' remuneration recognises the need to attract and retain directors with levels of remuneration that are arrived at responsibly and reflect their individual contribution and value to the Company.

The remuneration policy places great emphasis on ensuring that the executive directors' incentive arrangements have the potential to provide a greater reward than base salary. Combined with an approach that requires all incentive arrangements to be linked directly to business specific measures, this ensures that rewards will be based on the continued creation of shareholder value.

The committee concluded in early 2008 that its remuneration policy, first introduced in February 2007, remains appropriate and supports the corporate strategy. Therefore, for 2008, the remuneration policy will remain as follows:-

- Annual bonus will be linked with corporate performance targets, and capped at 100% of salary for exceptional performance;
- Awards under the Long Term Incentive Plan, first introduced in 2006, with a matching element of share based incentives will continue.

### Importance of share ownership

The Company recognises the importance and value of having executive directors who are significant shareholders in the Company.

To promote this goal, particularly for the next generation of executive directors, in 2005, the Company adopted share ownership guidelines. These guidelines encourage executive directors to hold shares worth 100% of salary (200% of salary for the chief executive) within three years of being appointed to the Board.

Details of the current directors' beneficial interest in shares is displayed in the table at page 17 of the Report of the Directors.

### Base salary

Base salaries are reviewed annually and are set by reference to the individual's skill, experience and contribution. For 2007, it was felt appropriate to award CPI increases to executive directors'salaries. New Bridge Street Consultants were then asked to review the revised salaries against companies of a comparable size. Based on the results of this review, the Committee was satisfied with both the salary level and the resulting balance between fixed and variable pay.

### Benefits

Life assurance, private health cover, professional subscriptions, contribution to home telephone costs and the provision of two cars, one of which is fully expensed, are provided to the executive directors.

### Pensions

The executive directors did not receive any pension benefits during the year under review. Historically, they participated in the Pendragon Pension Plan, a defined benefit pension scheme providing a pension of up to two thirds of final salary on retirement, and remain entitled to a deferred pension, calculated up to the date of leaving the Plan. Details of their entitlement are set out on page 35. The chief executive elected to receive payment of pension early, which is permitted for serving members under the rules of the plan, with effect from 8 February 2008, representing a pro-rata reduced payment calculated on early retirement principles.

The executive directors continue to receive a payment in lieu of pension contribution, which is circa 26% of salary for executive directors.This payment is not consolidated into the base salary for the purpose of future annual bonus payments, or the LTIP, but will be monitored as a percentage of base salary.

### Annual bonus

The executive directors can earn up to 100% of salary in any one year on a sliding scale with 50% being awarded for achieving expected results and a further 50% for outstanding performance.

At the start of 2007, the Committee concluded that the executive directors' annual bonus potential of 100% of salary would be based on three separate measures of performance. The measures were as follows: adjusted profit before tax (weighted at 40%) gearing (weighted at 30%) and a personal objective for each executive, set by the chief executive or in the case of the chief executive, the chairman (weighted at 30%). Bonus awards at the highest available percentage of salary are made only upon achievement of outstanding performance. Bonuses are not pensionable.The bonus policy set in 2007 will remain for the 2008 bonus awards.

### Long Term Incentive Plan ("LTIP")

The 2006 Pendragon Long-Term Incentive Plan ("LTIP") operated during 2007 as the sole discretionary long term incentive plan for executive directors. The key features of the LTIP are:-

- executive directors may choose to re-invest their annual bonus in purchasing Pendragon shares or buy shares from their own personal resources of an amount up to 100% of salary (referred to as "Investment Shares") which will then be matched with an award over shares with the same pre-tax value as the monies used to buy the shares;
- Matching Share Awards are an award over a fixed number of shares that "matches" the gross number of Investment Shares that the directors have chosen to purchase using their annual bonus. The executive directors each invested their total net bonus for 2006 in Pendragon shares, in each case at a purchase price of £1.107 per share;
- Matching Share Awards will vest on the third anniversary of their grant date (a) provided the executive is still employed by Pendragon; (b) to the extent that a performance condition has been satisfied; and (c) to the extent that the Investment Shares purchased by the executive have been retained for the three years.
- Awards are subject to adjusted earnings per share ("EPS") growth targets:-

| EPS growth per annum | Vesting percentage |
|---|---|
| less than RPI + 4% | 0% |
| RPI + 4% | 30% |
| RPI + 10% or more | 100% |
| between RPI + 4% and RPI + 10% | straight-line vesting between 30% and 100% |

adjusted EPS has been used because it is a key internal measure of long term company performance.

- additionally, under the LTIP, the executive may be granted performance share awards worth up to 100% of base salary per annum;
- the vesting of Performance Share Awards will occur on the third anniversary of the grant date, provided that the executive is still employed by the company and the same performance conditions as described above have been satisfied; and.
- the adjusted EPS growth targets for 2007 are underpinned by a requirement that the company's total shareholder return ("TSR") outperforms the FTSE 350 total return index over the performance period, with TSR calculations being averaged over a three monthly period prior to both the beginning and end of the performance period.

Details of awards made to the incumbent executive directors are set out on page 32.

# Directors' Remuneration Report continued



## Director's LTIP Awards

Details of the conditional awards made to the executive directors under the LTIP are set out below:

| | Interests under LTIP at 01.01.07 | Awarded on 15.03.07 | Exercised | Lapsed | Total Interests under LTIP at 31.12.07 | Date of Award | Total of all Investment Shares Purchased as at 31.12.07 | Vesting Date (subject to conditions being satisfied) |
|---|---|---|---|---|---|---|---|---|
| **T G Finn** | | | | | | | | |
| Matching Shares 2007 | - | 176,222 | - | - | 176,222 | 15.03.07 | 297,001 | 15.03.10 |
| Performance Shares 2007 | - | 419,580 | - | - | 419,580 | 15.03.07 | n/a | 15.03.10 |
| Matching Shares 2006 | 329,100 | - | - | - | 329,100 | 09.05.06 | 196,270 | 09.05.09 |
| Performance Shares 2006 | 359,020 | - | - | - | 359,020 | 09.05.06 | n/a | 09.05.09 |
| **M S Casha** | | | | | | | | |
| Matching Shares 2007 | - | 97,901 | - | - | 97,901 | 15.03.07 | 152,787 | 15.03.10 |
| Performance Shares 2007 | - | 233,100 | - | - | 233,100 | 15.03.07 | n/a | 15.03.10 |
| Matching Shares 2006 | 162,355 | - | - | - | 162,355 | 09.05.06 | 96,825 | 09.05.09 |
| Performance Shares 2006 | 199,455 | - | - | - | 199,455 | 09.05.06 | n/a | 09.05.09 |
| **D R Forsyth** | | | | | | | | |
| Matching Shares 2007 | - | 68,530 | - | - | 68,530 | 15.03.07 | 115,063 | 15.03.10 |
| Performance Shares 2007 | - | 163,170 | - | - | 163,170 | 15.03.07 | n/a | 15.03.10 |
| Matching Shares 2006 | 127,250 | - | - | - | 127,250 | 09.05.06 | 75,890 | 09.05.09 |
| Performance Shares 2006 | 139,620 | - | - | - | 139,620 | 09.05.06 | n/a | 09.05.09 |
| **H C Sykes** | | | | | | | | |
| Matching Shares 2007 | - | 48,950 | - | - | 48,950 | 15.03.07 | 79,271 | 15.03.10 |
| Performance Shares 2007 | - | 116,550 | - | - | 116,550 | 15.03.07 | n/a | 15.03.10 |
| Matching Shares 2006 | 86,000 | - | - | - | 86,000 | 09.05.06 | 51,290 | 09.05.09 |
| Performance Shares 2006 | 99,725 | - | - | - | 99,725 | 09.05.06 | n/a | 09.05.09 |

The details of the performance targets applying to all Matching Share and Performance Share awards under the LTIP are set out on page 31.

## Share options

Executive directors have historically participated in the Pendragon 1999 Approved Executive Share Option Scheme, which is an HM Revenue and Customs approved scheme, and the Pendragon 1999 Unapproved Executive Share Option Scheme (the "Executive Schemes"), each of which was approved at the Company's 1999 Annual General Meeting. Options become exercisable between three and ten years after grant subject to fulfilment of the performance conditions which require the Company's adjusted earnings per share over the three consecutive financial years beginning with the financial year in which the option is granted exceeding by at best 3 percent per annum compound the increase in the Retail Price Index over the same period. No variation has been made during the financial year in the terms and conditions of the share options or the Executive Schemes. No awards were made to executive directors under the Executive Schemes during the year under review and, going forward, grants will only be made under the Executive Schemes in exceptional circumstances. The executive directors will continue to be eligible to participate in the Company's all-employee sharesave scheme on the same terms as all other team members.

# Directors' Remuneration Report continued

**Directors' share options** (audited information)

| | At 01.01.07 | Number of options lapsed during year | Number of options exercised during year | Number of options granted during year | At 31.12.07 | Exercise price (pence) | Exercise period |
|---|---|---|---|---|---|---|---|
| T G Finn | *202,360 | - | *202,360 | - | | 9.08 | 01.07.07 to 31.12.07 |
| M S Casha | *27,355 | - | - | - | *27,355 | 60.40 | 01.07.10 to 31.12.10 |
| D R Forsyth | *27,355 | - | - | - | *27,355 | 60.40 | 01.07.10 to 31.12.10 |
| H C Sykes | *161,855 | - | *161,855 | - | | 9.08 | 01.07.07 to 31.12.07 |
| | *14,450 | - | - | - | *14,450 | 24.56 | 01.07.10 to 31.12.10 |
| | *21,880 | - | - | - | *21,880 | 60.40 | 01.07.10 to 31.12.10 |
| Total | 455,255 | - | 364,215 | - | 91,040 | | |

There have been no changes in director's share options outstanding or exercised since 31 December 2007.

* Sharesave options granted under the Pendragon 1998 Sharesave Scheme that have no performance conditions.

Details of share options exercised during the year are shown below:-

| | Number exercised | Exercise date | Price at exercise date* (pence) | Exercise price (pence) | Exercise period |
|---|---|---|---|---|---|
| T G Finn | 202,360 | 16.08.07 | 74.50 | 9.08 | 01.07.07 to 31.12.07 |
| H C Sykes | 161,855 | 16.08.07 | 74.50 | 9.08 | 01.07.07 to 31.12.07 |

*Daily Official List closing price on the exercise date.

The aggregate gain made by the directors on share options exercised during 2007 was £238,237.

The aggregate gain made by the directors on share options exercised during 2006 was £7,214,775.

The directors' beneficial interest in shares are displayed in the table at page 17 of the Report of Directors.

**Share price information and performance** (not subject to audit)

There are no other share option or long term incentive schemes for which the directors are eligible outside of those detailed above. The middle market price of Pendragon PLC ordinary shares at 31 December 2007 was 35.25 pence and the range during the year was 30.0 pence to 125.25 pence.

**Directors' service contracts**

All four of the executive directors have service contracts that commenced on 20 December 1999 and do not have an expiry date but can be terminated on giving one year's notice. The appointment to the Board of any further executive directors would be expected to be on similar terms. Compensation payable to directors in the event of loss of office is detailed in the Report of Directors at page 18.

Each of the executive directors' contracts includes protection for the director in the event of a termination arising from a change of control. These are more particularly detailed in the Report of Directors at page 18. Bearing in mind the consolidation being witnessed in the motor retailing sector at present, the Company continues to believe that these provisions are appropriate. Copies of the individual contracts of appointment are available for inspection by shareholders at the AGM.

## Non-Executive Directors

Each non-executive director has a fixed two year contract, renewable upon expiry at the company's discretion. Copies of the individual contracts of appointment are available for inspection by shareholders at the AGM. When making a decision on reappointment, the Board reviews the non-executive director's attendance and performance at meetings and the composition and skills of the Board as a whole. Individual details of contracts are:

| Name | Commencement | Expiry | Unexpired Term (months) |
|---|---|---|---|
| Sir Nigel Rudd | 01.01.06 | 31.12.08 | 9 |
| W W Rhodes† | 01.01.06 | 31.12.07 | expired |
| J H Holt | 01.01.08 | 31.12.09 | 21 |
| M T Davies | 01.01.07 | 31.12.08 | 9 |
| D A L Joyce | 01.01.08 | 31.12.09 | 21 |
| M J Le May | 01.01.08 | 31.12.09 | 21 |

† Retired on 31 December 2007

Consistent with the policy for executive directors, the contracts include a provision that the non-executive director will be entitled to a year's total fees and benefits if the contract is terminated by either party following a change of control. Copies of the individual contracts of appointment are available for inspection by shareholders at the AGM.

## Fees from External Directorships

None of the executive directors holds non-executive directorships at other companies other than voluntary or honorary (that is, unpaid) offices. Accordingly, no formal policy has been adopted to deal with whether or not the executive director would be entitled to retain the fees from any such position.

## Directors' Remuneration for the year to 31 December 2007 (audited information)

| | Salary/Fees £000 | Committee/ Chair Fees £000 | Bonus £000 | Benefits‡ £000 | Salary supplement in lieu of Pension Contribution £000 | Total remuneration 2007 £000 | Total remuneration 2006 £000 |
|---|---|---|---|---|---|---|---|
| Executive directors | | | | | | | |
| T G Finn | 459 | - | 108 | 44 | 119 | 730 | 761 |
| M S Casha | 255 | - | 60 | 24 | 66 | 405 | 415 |
| D R Forsyth | 179 | - | 42 | 26 | 46 | 293 | 295 |
| H C Sykes | 128 | - | 30 | 16 | 33 | 207 | 204 |
| Non-executive directors | | | | | | | |
| Sir Nigel Rudd | 136 | - | - | 24 | - | 160 | 125 |
| W W Rhodes | 26 | 5* | - | 9 | - | 40 | 35 |
| J H Holt | 35 | 10** | - | - | - | 45 | 35 |
| M T Davies | 35 | 5*** | - | - | - | 40 | 35 |
| D A L Joyce | 35 | - | - | - | - | 35 | 29† |
| M J Le May | 35 | - | - | - | - | 35 | 29† |
| Total | 1,323 | 20 | 240 | 143 | 264 | 1,990 | 1,963 |

Notes

‡ Benefits include life assurance, private health cover, professional subscriptions, contribution to home telephone costs and the provision of two cars, one of which is fully expensed.

*in relation to chairmanship of various Pension Trustee Boards.

**in relation to chairmanship of Audit Committee (£7,500) and senior non-executive director (£2,500).

***in relation to chairmanship of the Remuneration Committee.

† Mr D A L Joyce and Mr M J Le May were appointed on 1 March 2006 and accordingly these figures represent fees for a 10 month period only.

Pension contributions paid in 2007 were £nil (2006: £1,078,254). Each executive director withdrew from the Pendragon Pension Plan during 2006.

### Directors' pension entitlements (audited information)

#### Pensions

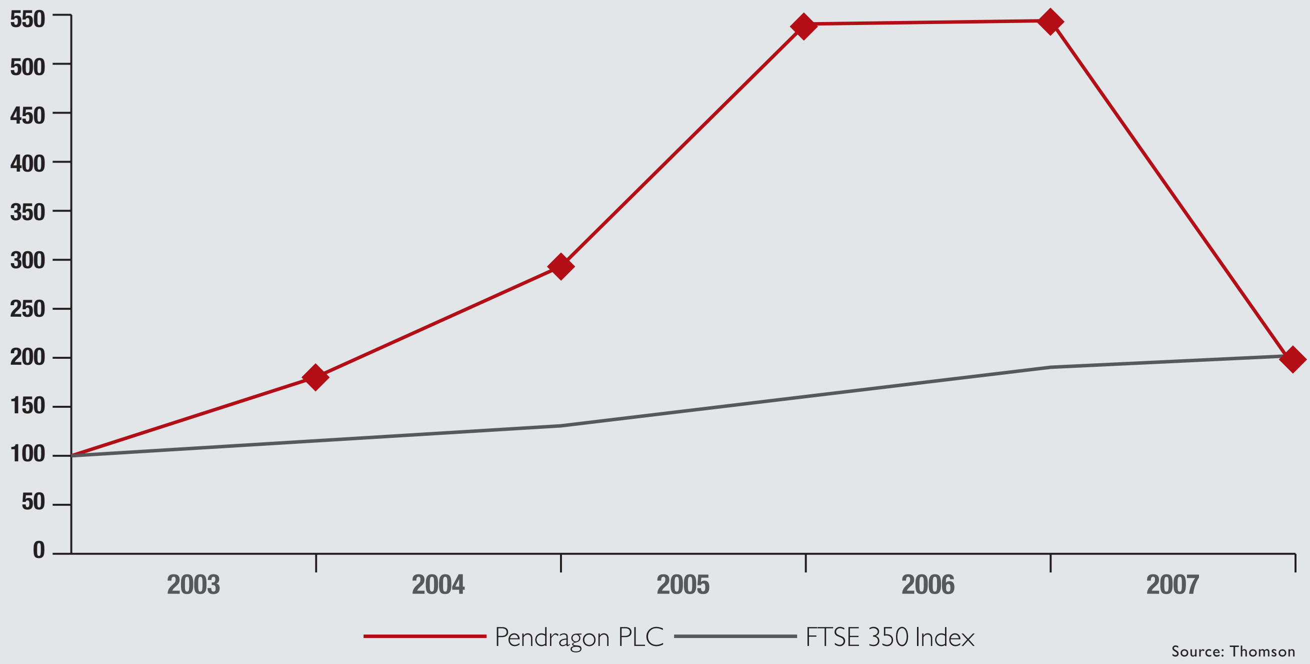
The assets of the Pendragon Pension Plan, established for the benefit of the Group's eligible employees, are held by trustees separately from those of the Group. The Plan operates through a trustee company of which Mr W W Rhodes is the chairman. The management of the Plan's assets is delegated to specialist independent investment managers and there is no direct investment in Pendragon PLC. During 2006, the executive directors withdrew from the Plan. They remain entitled to a deferred pension, calculated up to the date of leaving the Plan. The non-executive directors are not eligible to participate in the Pendragon Pension Plan.

| £000 | T G Finn | M S Casha | D R Forsyth | H C Sykes |
|---|---|---|---|---|
| Total annual accrued pension entitlement at 31.12.06 (p.a) | 379 | 131 | 67 | 42 |
| Total annual accrued pension entitlement at 31.12.07(p.a) | 392 | 136 | 69 | 44 |
| Increased in accrued pension during the year excluding inflation (p.a) | 0 | 0 | 0 | 0 |
| Increased in accrued pension during the year including inflation (p.a) | 13 | 5 | 2 | 2 |
| Transfer value of increase excluding inflation | 0 | 0 | 0 | 0 |
| Transfer value of accrued benefit at 31.12.06 | 7,216 | 2,111 | 651 | 355 |
| Transfer value of accrued benefit at 31.12.07 | 7,130 | 2,059 | 629 | 338 |
| Increase in transfer value over the year | (86) | (52) | (22) | (17) |

The pension benefits shown are those which would be paid annually on retirement, based on service up until the date the director withdrew from the Plan. The benefits allow for any retained benefits which the directors may have relating to previous employment. The transfer values have been calculated on the basis of actuarial advice in accordance with actuarial advice and exclude directors' contributions. All the above pension benefits exclude any additional pension purchased by additional voluntary contributions.

### Total shareholder return (not subject to audit)

The graph on page 36 shows the growth in total shareholder return on the Company's shares in comparison to the FTSE 350 Index (excluding investment companies. For the purposes of the graph, total shareholder return has been calculated as the percentage change during the relevant period in the market price of the shares, assuming that any dividends paid are reinvested. The relevant period is the five years ending 31 December 2007. A more detailed description of the total shareholder return calculation is set out in the notes.




1. This report is required, pursuant to the Regulations, to contain this graph as a visual interpretation of the share price performance against a comparator stock market index.

2. Total Shareholder Return ("TSR") is calculated over the period of five years ended on 31 December 2007 and reflects the theoretical growth in the value of a shareholding over that period, assuming dividends are reinvested in shares in the Company. The price at which the dividends are reinvested is assumed to be the amount equal to the closing price of the shares on the ex-dividend date plus the gross amount of annual dividend. The calculation ignores tax and reinvestment charges. For each company in the index the TSR statistics are normalised to a common start point, which gives the equivalent to investing the same amount of money in each company at that time. The percentage growth in TSR is measured over the chosen period. To obtain the TSR growth of the relevant index over the chosen period, the weighted average TSR growth for all the companies in the index is calculated. In this case, it is the FTSE350 Index (excluding investment companies) as explained in Note 3. The weighting is by reference to the market capitalisation of each company in the index in proportion to the total market capitalisation of all the companies in the index at the end of the chosen measurement period.

3. The FTSE 350 Index has been selected because at the commencement of measurement period, the Company fell within the criterion reported on by that index, namely, market capitalisation not less than circa £340 million.

Whilst reporting on remuneration issues, I am pleased to advise that below Board level, 23% of the company's costs of employing its team members related to team incentives, reflecting the performance culture that exists throughout the Company.

**Mike Davies**
**Chairman of the Remuneration Committee**
**March 2008**

# Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group; the Companies Act 1985 provide in relation to such financial statements that references in the relevant period of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:-

- select suitable accounting polices and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditors' Report to the Members of Pendragon PLC

We have audited the Group and parent company financial statements (the "financial statements") of Pendragon PLC for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with s235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body,for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 37.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operational and Business Review that is cross referred from the Business Review section of the Directors' Report.

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

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

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

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**KPMG Audit Plc,** Chartered Accountants, 2 Cornwall Street, Birmingham, B3 2DL, Registered Auditor. 20th February 2008.

# Consolidated Income Statement Year Ended 31 December 2007

| | Notes | 2007 £m | Restated 2006 £m |
|---|---|---|---|
| **Revenue** | 1 | **5,060.2** | 5,058.5 |
| Cost of sales | | **(4,387.5)** | (4,357.2) |
| **Gross profit** | | **672.7** | 701.3 |
| Operating expenses | 3 | **(585.4)** | (561.6) |
| **Operating profit before other income** | | **87.3** | 139.7 |
| **Operating profit before other income, analysed as:** | | | |
| Before exceptional items | | **94.1** | 135.7 |
| Goodwill impairment | 3 | **(6.8)** | (0.9) |
| Closure and integration costs | 3 | **-** | (4.0) |
| Abortive acquisition costs | 3 | **-** | (1.0) |
| Gain on curtailment of defined benefit pension schemes | 3 | **-** | 9.9 |
| **Operating profit before other income** | | **87.3** | 139.7 |
| Other income - gains on the sale of businesses and property | 3 | **18.5** | 24.3 |
| **Operating profit** | | **105.8** | 164.0 |
| Finance expense | 7 | **(83.5)** | (84.4) |
| Finance income | 8 | **23.4** | 17.7 |
| Net finance costs | | **(60.1)** | (66.7) |
| Share of profit before tax from joint venture | 13 | **1.2** | 0.5 |
| Share of income tax expense from joint venture | 13 | **(0.4)** | (0.1) |
| Share of post tax profit from joint venture | | **0.8** | 0.4 |
| **Profit before taxation** | | **46.5** | 97.7 |
| Income tax expense | 9 | **(3.3)** | (28.9) |
| **Profit from continuing operations** | | **43.2** | 68.8 |
| **Discontinued operation** | | | |
| Loss from discontinued operation (net of income tax) | 6 | **(2.1)** | (1.3) |
| **Profit for the year attributable to equity shareholders of the Company** | | **41.1** | 67.5 |
| **Earnings per share** | 10 | | |
| Basic | | **6.5 p** | 10.7 p |
| Diluted | | **6.4 p** | 10.6 p |
| **Earnings per share continuing operations** | 10 | | |
| Basic | | **6.8 p** | 10.9 p |
| Diluted | | **6.7 p** | 10.8 p |

The notes on pages 43 to 83 form part of these financial statements.

# Consolidated Balance Sheet at 31 December 2007



| | Notes | **2007 £m** | 2006 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **385.1** | 420.4 |
| Goodwill | 11 | **427.2** | 433.8 |
| Other intangible assets | 11 | **2.1** | 1.4 |
| Investment in joint venture | 13 | **4.0** | 3.0 |
| **Total non-current assets** | | **818.4** | 858.6 |
| **Current assets** | | | |
| Inventories | 14 | **786.5** | 850.2 |
| Trade and other receivables | 15 | **205.9** | 260.9 |
| Cash and cash equivalents | 25 | **52.6** | 19.7 |
| Non-current assets classified as held for sale | 31 | **59.7** | 38.4 |
| **Total current assets** | | **1,104.7** | 1,169.2 |
| **Total assets** | | **1,923.1** | 2,027.8 |
| **Current liabilities** | | | |
| Interest bearing loans and borrowings | 17 | **(81.8)** | (10.4) |
| Trade and other payables | 16 | **(1,081.2)** | (1,171.8) |
| Deferred income | 30 | **(0.9)** | (0.9) |
| Current tax payable | | **(13.5)** | (19.5) |
| Provisions | 19 | **(3.5)** | (4.3) |
| **Total current liabilities** | | **(1,180.9)** | (1,206.9) |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | 17 | **(297.2)** | (371.0) |
| Derivative financial instruments | 18 | **(5.6)** | (8.0) |
| Deferred income | 30 | **(20.2)** | (21.1) |
| Deferred tax liabilities | 9 | **(56.6)** | (42.0) |
| Retirement benefit obligations | 28 | **(13.8)** | (65.2) |
| Provisions | 19 | **(9.2)** | (7.6) |
| **Total non-current liabilities** | | **(402.6)** | (514.9) |
| **Total liabilities** | | **(1,583.5)** | (1,721.8) |
| **Net assets** | | **339.6** | 306.0 |
| **Capital and reserves** | | | |
| Called up share capital | 20 | **32.8** | 32.8 |
| Share premium account | 21 | **56.8** | 56.8 |
| Capital redemption reserve | 21 | **2.5** | 2.5 |
| Other reserves | 21 | **12.6** | 12.6 |
| Translation reserve | 21 | **(0.4)** | (0.3) |
| Retained earnings | 21 | **235.3** | 201.6 |
| **Total equity attributable to equity shareholders of the company** | | **339.6** | 306.0 |

Approved by the Board of Directors on 20 February 2008 and signed on its behalf by:

**T G Finn**
Chief Executive

**D R Forsyth**
Finance Director

The notes on pages 43 to 83 form part of these financial statements.

# Consolidated Cash Flow Statement Year Ended 31 December 2007

| | Notes | 2007 £m | 2006 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | **41.1** | 67.5 |
| Adjustment for income from joint venture | | **(0.8)** | (0.4) |
| Adjustment for taxation | | **3.3** | 28.9 |
| Adjustment for net financing expense | | **60.9** | 67.6 |
| | | **104.5** | 163.6 |
| Depreciation and amortisation | | **59.3** | 65.1 |
| Share based payments | | **-** | 0.9 |
| Profit on sale of businesses and property | | **(18.0)** | (24.3) |
| Goodwill impairment | | **6.8** | 0.9 |
| Changes in inventories | | **80.1** | 74.9 |
| Changes in trade and other receivables | | **55.0** | (31.8) |
| Changes in trade and other payables | | **(109.6)** | (9.6) |
| Changes in retirement benefit obligations | | **(18.9)** | (23.1) |
| Changes in provisions | | **0.8** | 2.8 |
| Cash generated from operations | | **160.0** | 219.4 |
| Taxation paid | | **(4.8)** | (24.2) |
| Interest received | | **1.3** | 0.8 |
| Interest paid | | **(64.5)** | (68.0) |
| **Net cash from operating activities** | | **92.0** | 128.0 |
| | | | |
| **Cash flows from investing activities** | | | |
| Business acquisitions, net of cash acquired | 23 | **(16.3)** | (466.0) |
| Proceeds from sale of businesses, net of cash disposed | 24 | **20.6** | 23.1 |
| Purchase of investment in joint venture | 13 | **(0.2)** | (15.1) |
| Purchase of property, plant and equipment | | **(163.8)** | (171.2) |
| Proceeds from sale of property, plant and equipment | | **134.6** | 388.9 |
| Payments for investments | | **(1.2)** | - |
| Receipts from sales of investments | | **1.0** | 1.7 |
| **Net cash used in investing activities** | | **(25.3)** | (238.6) |
| | | | |
| **Cash flows from financing activities** | | | |
| Payment of capital element of finance lease rentals | | **(5.4)** | (5.6) |
| Repayment of unsecured bank loans | | **(20.0)** | (413.3) |
| Repayment of loan notes | | **(7.8)** | (12.5) |
| Proceeds from issue of unsecured loans | | **25.0** | 502.8 |
| Dividends paid to shareholders | 22 | **(25.4)** | (17.4) |
| **Net cash (outflow) / inflow from financing activities** | | **(33.6)** | 54.0 |
| Effects of exchange rate changes on cash held | | **(0.2)** | (1.1) |
| Net increase / (decrease) in cash and cash equivalents | | **32.9** | (57.7) |
| Cash and cash equivalents at 1 January | | **19.7** | 77.4 |
| Cash and cash equivalents at 31 December | 25 | **52.6** | 19.7 |

The notes on pages 43 to 83 form part of these financial statements.

# Consolidated Statement of Recognised Income and Expense Year Ended 31 December 2007

| | **2007** **£m** | 2006 £m |
|---|---|---|
| Foreign exchange translation differences | **(0.1)** | (0.2) |
| Defined benefit plan actuarial gains and losses | **28.3** | 18.1 |
| Tax on income and expense recognised directly in equity | **(8.5)** | (5.4) |
| Income and expense recognised directly in equity | **19.7** | 12.5 |
| Profit for the year | **41.1** | 67.5 |
| **Total recognised income and expense for the period attributable to equity holders of the Company** | **60.8** | 80.0 |

The notes on pages 43 to 83 form part of these financial statements.

# Notes to the Financial Statements

**1. Accounting policies**

Pendragon PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 31 December 2007 comprise the Company and its subsidiaries and the Group's interest in jointly controlled entities.

**(a) Statement of compliance** The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs").

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 84 to 90.

**(b) Basis of preparation** The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1million. They have been prepared under the historical cost convention except for certain financial instruments which are stated at their fair value. In addition non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by the directors in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

**(c) Basis of consolidation** The consolidated financial statements include the financial statements of Pendragon PLC, all its subsidiary undertakings and the Group's share of its joint venture under the equity accounting method. Consistent accounting policies have been applied in the preparation of all such financial statements including those of the joint venture.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. The consolidated financial statements include the Group's proportionate share of the entities net assets and profit after tax, on an equity accounted basis, from the date joint control commences until the date that joint control ceases.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with joint ventures are eliminated against the investment to the extent of the Group's interest in the entity.

**(d) Accounting for business combinations and disposals** The results of companies and businesses acquired or disposed of during the year are included from the effective date of acquisition or up to the effective date of disposal using the acquisition method of accounting. The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition.

**1. Accounting policies (continued)**

**(e) Revenue** Revenue from the sale of goods is recognised in the income statement, net of discounts, when the significant risks and rewards of ownership have been transferred to the buyer. In general this occurs when vehicles or parts have been supplied or when service has been completed. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by surveys of work performed or by reference to time expended on services that are charged on labour rate basis.

Where vehicles are supplied to a leasing company for contract hire purposes and the Group undertakes to repurchase the vehicle at a predetermined date and value the significant risks and rewards of ownership are deemed not to have transferred outside the Group and consequently no sale is recognised. As a result the accounting for the arrangement reflects the Group's retention of the asset to generate future rentals and, in accordance with IAS 17 'Leases', with the Group being considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing company are held as deferred income allocated between the present value of the repurchase commitment and a residual amount of deferred revenue, both amounts being held within trade and other payables. A finance charge is accrued against the present value of the repurchase commitment and recorded as a finance expense in the income statement. The remaining deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight line basis over the related lease term. No additional disclosures are made under IAS 17 as there are no future rentals receivable. These vehicles are held as plant and equipment at their cost to the Group and are depreciated to their residual values over the terms of the leases.

**(f) Intangible assets and goodwill**

(i) All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary undertakings at the effective date of acquisition and is included in the balance sheet under the heading of intangible assets. The goodwill is allocated to cash generating units and an impairment test is performed annually. Goodwill is then held in the balance sheet at cost less any accumulated impairment losses.

If the cost on acquisition is less than the net fair value of the identifiable assets, liabilities and contingent liabilities acquired the difference is recognised directly in the consolidated income statement.

Adjustments are applied to bring the accounting policies of the acquired businesses into alignment with those of the Group. The costs associated with reorganising or restructuring are charged to the post acquisition income statement. For those acquisitions made prior to 1 January 2004, goodwill is recorded on the basis of its deemed cost which represented its carrying value as at 1 January 2004 under UK GAAP. Fair value adjustments are made in respect of acquisitions. If at the balance sheet date the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities can only be established provisionally then these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

(ii) Internally generated intangible assets relate to development activities that involve the development of dealer management software by the Group's Pinewood division. Development expenditure is capitalised only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the costs of labour and overhead costs that are directly attributable to preparing the asset for its intended use.

Capitalised development expenditure is measured at cost less accumulated amortisation.

(iii) Intangible assets other than goodwill are stated at cost less accumulated amortisation and any impairment losses. This category of asset includes purchased computer software and internally generated intangible assets which are amortised by equal instalments over four years and the fair value of the benefit of forward sales orders assumed on acquisition, which is amortised by reference to when those orders are delivered.

(iv) Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangible assets arising on an acquisition are recognised separately from goodwill if the fair value of the asset can be identified separately and measured reliably. Amortisation is calculated on a straight line basis over the estimated useful life of the intangible asset. Amortisation methods and useful lives are reviewed annually and adjusted if appropriate.

**1. Accounting policies (continued)**

**(g) Property, plant and equipment** Freehold land is not depreciated. Depreciation is provided to write off the cost less the estimated residual value of other assets by equal instalments over their estimated useful economic lives. On transition to IFRS as at 1 January 2004, all land and buildings were restated to fair value as permitted by IFRS1, which is then treated as the deemed cost. All other assets are initially measured and recorded at cost.

Depreciation rates are as follows:
Freehold buildings – 2% per annum
Leasehold property improvements – 2% per annum or over the period of the lease if less than 50 years
Fixtures, fittings and office equipment – 10 - 20% per annum
Plant and machinery – 10 - 33% per annum
Motor vehicles – 20 - 25% per annum
Motor vehicles held for contract hire are depreciated to their residual value over the period of their lease.

The residual value of all assets, depreciation methods and useful economic lives, if significant, are reassessed annually.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is possible that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

**(h) Non-current assets held for sale** Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumualtive impairment loss. Non-current assets classified as held for sale are available for immediate sale and a resultant disposal is highly probable within one year.

**(i) Impairment** The carrying amounts of the Group's assets, other than inventories (see accounting policy j) and deferred tax assets (see accounting policy o), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill the recoverable amount is estimated at each balance sheet date. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

**1. Accounting policies (continued)**

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(j) Inventories**

(i) Consignment vehicles are regarded as being effectively under the control of the Group and are included within inventories on the balance sheet as the Group has the significant risks and rewards of ownership even though legal title has not yet passed. The corresponding liability is included in trade and other payables.

(ii) Motor vehicles (including consignment and demonstrator vehicles) and parts inventories are stated at the lower of cost and fair value less costs to sell. Parts inventories are based on an average purchase cost principle and are written down to net realisable value by providing for obsolescense on a time in stock based formula approach.

**(k) Trade and other receivables** Trade and other receivables are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any impairment losses.

**(l) Trade and other payables** Trade and other payables are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any impairment losses.

**(m) Cash and cash equivalents** For the purposes of the cash flow statement, cash and cash equivalents comprise deposits with banks and financial institutions, bank and cash balances, and liquid investments, net of bank overdrafts. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. In the balance sheet, bank overdrafts are included in current borrowings.

**(n) Provisions** A provision is recognised if as a result of a past event the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Warranty service provision: A provision for warranties is recognised when the warranty service is sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Vacant property provision: A provision for vacant properties is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

**1. Accounting policies (continued)**

**(o) Income tax** Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, recognising temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

**(p) Discontinued operations** A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

**(q) Earnings per share** The Group presents basic and diluted earnings per share (eps) data for its ordinary shares. Basic eps is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted eps is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees.

**(r) Foreign currencies**

(i) Foreign currency transactions. Transactions in foreign currencies are translated to the respective functional currency of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates ruling at the dates the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Financial statements of foreign operations. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

(iii) Net investment in foreign operations. Foreign currency differences arising on the retranslation of a financial liablity designated as a hedge of a net investment in a foreign operation are recognised directly in equity, in the foreign currency translation reserve, to the extent the hedge is effective. To the extent the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to profit and loss on disposal.

In respect of all foreign operations, any differences that have arisen after 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity.

**1. Accounting policies (continued)**

**(s) Financial instruments** The Group holds derivative financial instruments to hedge currency and interest risks arising from its activities. Derivative financial instruments are recognised at fair value. Any gain or loss on remeasurement is recognised in the income statement. However, the treatment of gains or losses arising from derivatives which qualify for hedge accounting depends on the type of hedge arrangement. The fair value of derivatives is the estimated amount receivable or payable to terminate the contract determined by reference to the market prices prevailing at the balance sheet date.

Hedging

(i) Fair value hedges

Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised within finance costs or finance income, as appropriate, in the income statement. The hedged item is also stated, separately from the derivative, at fair value in respect of the risk being hedged with any gain or loss also recognised within finance costs or finance income, as appropriate, in the income statement. This will result in variations in the balance sheet values of the gross debt and the offsetting derivatives as the market value fluctuates.

(ii) Hedges of net investments in overseas operations

A gain or loss in respect of an effective hedge of a net investment in an overseas operation is recognised directly in equity. Any ineffective portion of the hedge is recognised in the income statement.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged and cancelled.

**(t) Interest-bearing borrowings** Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

**(u) Employee benefits – Pension obligations** The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in independent trustee administered funds. Pension accounting costs for defined benefit plans are assessed by determining the pension obligation using the projected unit credit method after including a credit for the expected return on plan assets. Under this method, in accordance with the advice of qualified actuaries, the amounts charged in respect of employee benefits reflect the cost of benefits accruing in the year and the cost of financing historical accrued benefits. The Group recognises all actuarial gains and losses arising from defined benefit plans directly in equity immediately.

The present value of pension obligations is measured by reference to market yields on high quality corporate bonds which have terms to maturity approximating to the terms of the related pension liability. Plan assets are measured at fair value. The Group's total contributions relating to the defined contribution plans are charged to the income statement in the year to which they relate.

**(v) Employee benefits – Share based payments** The Group operates a number of employee share option schemes. The fair value at the date at which the share options are granted is recognised in the income statement on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised. In accordance with the transitional provisions of IFRS2, no income statement expenses are recorded in respect of grants of share options made prior to 7 November 2002.

**1. Accounting policies (continued)**

**(w) Leases** Leases are classified as finance leases wherever the lease transfers substantially all the risks and rewards of ownership to the Group. All other leases are treated as operating leases.

Assets held under finance leases are recorded at inception at the lower of the fair value of the asset and the present value of the minimum payments required to be made under the lease. The corresponding liability is recorded as a finance lease obligation. The finance charge element of rentals paid under these leases is expensed so as to give a constant rate of finance charge on the remainder of the obligation. Finance charges are expensed in the income statement and the capitalised leased asset is depreciated over the shorter of the lease term and the asset's useful economic life.

Rentals paid under operating leases are charged directly to the income statement on a straight line basis over the period of the lease. Leases subject to predetermined fixed rental uplifts have their rentals accounted for on a straight line basis recognised over the life of the lease. Lease incentives received and paid are recognised in the income statement as an integral part of the total lease expense over the term of the lease.

**(x) Dividends** Final dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements until they have been approved by the shareholders at the AGM. Interim dividends are recognised when they are paid.

**(y) Capitalisation of finance costs** Gross finance costs directly attributable to the construction of property, plant and equipment are capitalised as part of the cost of those assets until such a time as the assets are substantially ready for their intended use or sale.

**(z) Segment reporting** A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographic segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

**(aa) Own shares held by ESOP trust** Transactions of the Group-sponsored ESOP trust are included in the Group financial statements. In particular, the trust's purchases / sales of shares in the company are debited / credited directly to equity.

**(ab) Adoption of new and revised standards and new standards and interpretations not yet adopted** In the current year, the Group has adopted IFRS 7 'Financial instruments : Disclosures' which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendments to IAS 1 'Presentation of Financial Statements'. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 18). Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are : IFRIC 7 'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies' ; IFRIC 8 'Scope of IFRS 2'; IFRIC9 'Reassessment of Embedded Derivatives'; and IFRIC 10 'Interim Financial Reporting and Impairment'. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

The following Standards and Interpretations have been published, endorsed by the EU, and are available for early adoption but have not yet been applied by the Group in these financial statements:

IFRS 8 'Operating segments' introduces the 'management approach' to segment reporting. This will require the disclosure of segmental information based on the internal reports regularly reviewed by the Board in order to assess each segment's performance and allocate resources to them. IFRS 8 becomes effective for the Group's 2009 financial statements and no fundamental changes are anticipated to current disclosures.

The following have been published but have not yet been endorsed by the EU:

IAS 23 Revised 'Borrowing costs' removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements. The Group already capitalise borrowing costs as described above in (y).

**1. Accounting policies (continued)**

IFRIC 11 'IFRS 2 Group and Treasury Share Transactions' requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction. IFRIC 11 will become effective for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

IFRIC 12 'Service Concession Arrangements' provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements is not expected to have any impact on the consolidated financial statements.

IFRIC 13 'Customer Loyalty Programmes' addresses the accounting by entities who operate customer loyalty programmes with their customers which offer free or discounted goods on redemption of credits. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements is not expected to have any impact on the consolidated financial statements.

IFRIC 14 'IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

**2. Segmental analysis**

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central items comprise of mainly corporate assets and expenses, loans and borrowings.

Inter-segment transfers and transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

**Primary reporting format - Business segments**

The Group comprises the following main business segments:

Stratstone. This segment comprises the Group's luxury car brand encompassing the sale of new and used motor cars and motorbikes, together with associated aftersales activities of service, body repair and parts sales. The operation in the United States of America and the discontinued operation in Germany are both reported within the Stratstone segment.

Evans Halshaw. This segment comprises the Group's volume car brand encompassing the sale of new and used motor cars, together with associated aftersales activities of service, body repair and parts sales.

Chatfields. This segment comprises the Group's truck and commercial vans brand encompassing the sale of new and used trucks and commercial vehicles, together with associated aftersales activities of service, body repair and parts sales.

Contracts. This segment comprises the Group's contract hire activities.

Parts. This segment comprises the Group's parts distribution businesses which trade under the Quickco name.

Technology. This segment comprises the Group's activities as a dealer management system provider and shared service centre.

### 2. Segmental analysis (continued)

| **Year ended 31 December 2006** | Stratstone £m | Evans Halshaw £m | Chatfields £m | Contracts £m | Parts £m | Technology £m | Central £m | **Consolidated £m** | Less Germany (Discontinued) £m | **Continuing Operations £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| New vehicle revenue | 1,082.8 | 1,539.6 | 135.4 | - | - | - | - | **2,757.8** | (24.5) | **2,733.3** |
| Used vehicle revenue | 878.1 | 831.7 | 14.7 | - | - | - | - | **1,724.5** | (11.3) | **1,713.2** |
| Aftersales revenue | 224.5 | 265.4 | 50.3 | - | - | - | - | **540.2** | (6.7) | **533.5** |
| Contract hire and support revenue | - | - | - | 44.3 | 79.2 | 25.4 | - | **148.9** | - | **148.9** |
| Total gross segment revenue | 2,185.4 | 2,636.7 | 200.4 | 44.3 | 79.2 | 25.4 | - | **5,171.4** | (42.5) | **5,128.9** |
| Inter-segment revenue | - | (12.2) | - | (18.0) | (21.4) | (18.8) | - | **(70.4)** | - | **(70.4)** |
| Revenue from external customers | 2,185.4 | 2,624.5 | 200.4 | 26.3 | 57.8 | 6.6 | - | **5,101.0** | (42.5) | **5,058.5** |
| Operating profit before other income and exceptional items | 55.7 | 53.6 | 6.1 | 9.6 | 5.0 | 5.3 | - | **135.3** | 1.3 | **136.6** |
| Other income and exceptional items | - | (0.9) | - | - | - | - | 29.2 | **28.3** | - | **28.3** |
| Operating profit | 55.7 | 52.7 | 6.1 | 9.6 | 5.0 | 5.3 | 29.2 | **163.6** | 1.3 | **164.9** |
| Finance costs - net | | | | | | | | **(67.6)** | - | **(67.6)** |
| Share of profit of joint venture | | | | | | | | **0.4** | - | **0.4** |
| Profit before income tax | | | | | | | | **96.4** | 1.3 | **97.7** |
| Income tax expense | | | | | | | | **(28.9)** | - | **(28.9)** |
| Profit for year | | | | | | | | **67.5** | 1.3 | **68.8** |

| | Stratstone £m | Evans Halshaw £m | Chatfields £m | Contracts £m | Parts £m | Technology £m | Central £m | **Consolidated £m** | Less Germany (Discontinued) £m | **Continuing Operations £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Other items included in the income statement are as follows: | | | | | | | | | | |
| Depreciation | 9.2 | 21.5 | 0.8 | 30.0 | 0.2 | 0.3 | - | **62.0** | (0.3) | **61.7** |
| Amortisation | 1.4 | 1.6 | 0.1 | - | - | - | - | **3.1** | - | **3.1** |
| Share based payments | 0.4 | 0.5 | - | - | - | - | - | **0.9** | - | **0.9** |
| Impairment of goodwill | - | 0.9 | - | - | - | - | - | **0.9** | - | **0.9** |

**2. Segmental analysis (continued)**

| **Year ended 31 December 2007** | Stratstone £m | Evans Halshaw £m | Chatfields £m | Contracts £m | Parts £m | Technology £m | Central £m | **Consolidated £m** | Less Germany (Discontinued) £m | **Continuing Operations £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| New vehicle revenue | 1,013.8 | 1,656.7 | 133.2 | - | - | - | - | **2,803.7** | (9.9) | **2,793.8** |
| Used vehicle revenue | 868.6 | 786.0 | 15.3 | - | - | - | - | **1,669.9** | (7.4) | **1,662.5** |
| Aftersales revenue | 217.0 | 248.2 | 49.4 | - | - | - | - | **514.6** | (3.0) | **511.6** |
| Contract hire and support revenue | - | - | - | 47.2 | 81.1 | 32.5 | - | **160.8** | - | **160.8** |
| Total gross segment revenue | 2,099.4 | 2,690.9 | 197.9 | 47.2 | 81.1 | 32.5 | - | **5,149.0** | (20.3) | **5,128.7** |
| Inter-segment revenue | - | - | - | (18.2) | (26.3) | (24.0) | - | **(68.5)** | - | **(68.5)** |
| Revenue from external customers | 2,099.4 | 2,690.9 | 197.9 | 29.0 | 54.8 | 8.5 | - | **5,080.5** | (20.3) | **5,060.2** |
| | | | | | | | | | | |
| Operating profit before other income and exceptional items | 33.3 | 30.6 | 4.8 | 10.3 | 5.4 | 8.1 | - | **92.5** | 1.6 | **94.1** |
| Other income and exceptional items | - | - | - | - | - | - | 11.2 | **11.2** | 0.5 | **11.7** |
| Operating profit | 33.3 | 30.6 | 4.8 | 10.3 | 5.4 | 8.1 | 11.2 | **103.7** | 2.1 | **105.8** |
| Finance costs - net | | | | | | | | **(60.1)** | - | **(60.1)** |
| Share of profit of joint venture | | | | | | | | **0.8** | - | **0.8** |
| Profit before income tax | | | | | | | | **44.4** | 2.1 | **46.5** |
| Income tax expense | | | | | | | | **(3.3)** | - | **(3.3)** |
| Profit for year | | | | | | | | **41.1** | 2.1 | **43.2** |

| | Stratstone £m | Evans Halshaw £m | Chatfields £m | Contracts £m | Parts £m | Technology £m | Central £m | **Consolidated £m** | Less Germany (Discontinued) £m | **Continuing Operations £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Other items included in the income statement are as follows: | | | | | | | | | | |
| Depreciation | 9.1 | 17.2 | 0.8 | 29.0 | 0.2 | 2.2 | - | **58.5** | (0.2) | **58.3** |
| Amortisation | 0.4 | 0.4 | - | - | - | - | - | **0.8** | - | **0.8** |
| Share based payments | - | - | - | - | - | - | - | **-** | - | **-** |
| Impairment of goodwill | 1.8 | 5.0 | - | - | - | - | - | **6.8** | - | **6.8** |

**2. Segmental analysis (continued)**

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

| | Stratstone £m | Evans Halshaw £m | Chatfields £m | Contracts £m | Parts £m | Technology £m | Central £m | **Consolidated £m** | Less Germany (Discontinued) £m | **Continuing Operations £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Assets | 815.2 | 896.8 | 65.3 | 167.8 | 20.8 | 4.1 | 35.1 | **2,005.1** | (17.1) | **1,988.0** |
| Joint venture | - | - | - | - | - | - | 3.0 | **3.0** | - | **3.0** |
| Gross assets | 815.2 | 896.8 | 65.3 | 167.8 | 20.8 | 4.1 | 38.1 | **2,008.1** | (17.1) | **1,991.0** |
| Gross liabilities | (401.3) | (368.8) | (37.6) | (150.2) | (8.5) | (2.3) | (302.2) | **(1,270.9)** | 12.7 | **(1,258.2)** |
| Operating assets | 413.9 | 528.0 | 27.7 | 17.6 | 12.3 | 1.8 | (264.1) | **737.2** | (4.4) | **732.8** |
| Current taxation | | | | | | | | **(19.5)** | - | **(19.5)** |
| Deferred taxation | | | | | | | | **(42.0)** | - | **(42.0)** |
| Net borrowings | | | | | | | | **(369.7)** | - | **(369.7)** |
| Net assets | | | | | | | | **306.0** | (4.4) | **301.6** |
| Capital expenditure | 59.3 | 51.7 | 1.5 | 60.9 | 0.2 | 0.3 | - | **173.9** | (0.2) | **173.7** |

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

| | Stratstone £m | Evans Halshaw £m | Chatfields £m | Contracts £m | Parts £m | Technology £m | Central £m | **Consolidated £m** | Less Germany (Discontinued) £m | **Continuing Operations £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Assets | 657.8 | 873.6 | 69.2 | 166.9 | 21.3 | 3.2 | 74.5 | **1,866.5** | (2.9) | **1,863.6** |
| Joint venture | - | - | - | - | - | - | 4.0 | **4.0** | - | **4.0** |
| Gross assets | 657.8 | 873.6 | 69.2 | 166.9 | 21.3 | 3.2 | 78.5 | **1,870.5** | (2.9) | **1,867.6** |
| Gross liabilities | (272.6) | (344.0) | (47.8) | (150.3) | (8.1) | (1.9) | (304.1) | **(1,128.8)** | 4.3 | **(1,124.5)** |
| Operating assets | 385.2 | 529.6 | 21.4 | 16.6 | 13.2 | 1.3 | (225.6) | **741.7** | 1.4 | **743.1** |
| Current taxation | | | | | | | | **(13.5)** | - | **(13.5)** |
| Deferred taxation | | | | | | | | **(56.6)** | - | **(56.6)** |
| Net borrowings | | | | | | | | **(332.0)** | - | **(332.0)** |
| Net assets | | | | | | | | **339.6** | 1.4 | **341.0** |
| Capital expenditure | 49.0 | 35.6 | 1.2 | 75.7 | 0.2 | 3.7 | - | **165.4** | (0.6) | **164.8** |

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

**2. Segmental analysis (continued)**

**Secondary reporting format - Geographic segments**

The Group's business segments operate in two main geographical areas and are managed on a worldwide basis. These segments are the UK and Overseas. The Overseas segment includes US and German operations which are combined on the basis of materiality. Of the Overseas segment, the German operation was discontinued during the year.

Activities in the UK comprise all operating segments. Overseas operations comprise motor activities only.

**Revenue**

| | 2007 Consolidated £m | 2007 Less Germany (Discontinued) £m | 2007 Continuing Operations £m | 2006 Consolidated £m | 2006 Less Germany (Discontinued) £m | 2006 Continuing Operations £m |
|---|---|---|---|---|---|---|
| UK | 4,879.9 | - | 4,879.9 | 4,843.7 | - | 4,843.7 |
| Overseas | 200.6 | (20.3) | 180.3 | 257.3 | (42.5) | 214.8 |
| Revenue from external customers | 5,080.5 | (20.3) | 5,060.2 | 5,101.0 | (42.5) | 5,058.5 |

Revenue is allocated based on the country in which the customer is located.

**Gross assets**

| | 2007 Consolidated £m | 2007 Less Germany (Discontinued) £m | 2007 Continuing Operations £m | 2006 Consolidated £m | 2006 Less Germany (Discontinued) £m | 2006 Continuing Operations £m |
|---|---|---|---|---|---|---|
| UK | 1,803.2 | - | 1,803.2 | 1,900.1 | - | 1,900.1 |
| Overseas | 63.3 | (2.9) | 60.4 | 105.0 | (17.1) | 87.9 |
| | 1,866.5 | (2.9) | 1,863.6 | 2,005.1 | (17.1) | 1,988.0 |
| Joint venture | 4.0 | - | 4.0 | 3.0 | - | 3.0 |
| | 1,870.5 | (2.9) | 1,867.6 | 2,008.1 | (17.1) | 1,991.0 |

Total assets are based on where the asset is located.

**Capital expenditure**

| | 2007 Consolidated £m | 2007 Less Germany (Discontinued) £m | 2007 Continuing Operations £m | 2006 Consolidated £m | 2006 Less Germany (Discontinued) £m | 2006 Continuing Operations £m |
|---|---|---|---|---|---|---|
| UK | 159.8 | - | 159.8 | 168.1 | - | 168.1 |
| Overseas | 5.6 | (0.6) | 5.0 | 5.8 | (0.2) | 5.6 |
| | 165.4 | (0.6) | 164.8 | 173.9 | (0.2) | 173.7 |

Capital expenditure is based on where the asset is located.

### 3. Net operating expenses and exceptional items

| | 2007 £m | 2006 £m |
|---|---|---|
| Net operating expenses: | | |
| Distribution costs | **(363.9)** | (364.3) |
| Administrative expenses | **(222.0)** | (197.8) |
| Rents received | **0.5** | 0.5 |
| | **(585.4)** | (561.6) |

Expenses and income incurred or received during the year, which due to their size and nature of being items that are typically non-recurring, are drawn out for separate disclosure as exceptional items. During the year exceptional costs were £6.8m in respect of impairment of goodwill (see note 11). Exceptional costs incurred in the previous period were £5.9m which comprised £4.0m in respect of closure and integration costs arising following the acquisition of Reg Vardy plc, £1.0m in respect of the abortive acquisition costs incurred in the unsuccessful bid for Lookers plc and £0.9m impairment of goodwill. An exceptional net gain of £9.9m was made during the prior year on curtailment of the defined benefit pension schemes. In all respects these costs are included in operating expenses.

Other income, being the profit on disposal of businesses and property comprises £1.1m profit on the disposal of motor vehicle dealerships (2006 : £0.1m) and £17.4m profit on sale of properties (2006 : £24.2m after deducting £4.0m impairment losses on non-current assets held for sale).

| The following items have been charged to the income statement as operating expenses during the year: | | Continuing operations 2007 £m | Continuing operations 2006 £m | Discontinued operations 2007 £m | Discontinued operations 2006 £m | Total 2007 £m | Total 2006 £m |
|---|---|---|---|---|---|---|---|
| Depreciation of property, plant and equipment | owned | **55.8** | 59.6 | **0.2** | 0.3 | **56.0** | 59.9 |
| | held under finance leases | **2.5** | 2.1 | **-** | - | **2.5** | 2.1 |
| Amortisation of internally generated intangible assets | | **0.1** | - | **-** | - | **0.1** | - |
| Amortisation of other intangible assets | | **0.7** | 3.1 | **-** | - | **0.7** | 3.1 |
| Impairment of goodwill | | **6.8** | 0.9 | **-** | - | **6.8** | 0.9 |
| Operating lease rentals payable | hire of plant and machinery | **3.3** | 4.4 | **-** | - | **3.3** | 4.4 |
| | property rentals | **44.6** | 27.4 | **0.5** | 1.0 | **45.1** | 28.4 |

| Auditors' remuneration : | 2007 £000 | 2006 £000 |
|---|---|---|
| Audit of these financial statements | **194.3** | 185.0 |
| Amounts receivable by the auditors and their associates in respect of: | | |
| Audit of financial statements of subsidiaries pursuant to legislation | **225.4** | 349.5 |
| Other services relating to taxation | **106.9** | 85.5 |
| Pension valuation and actuarial services | **575.2** | 712.0 |
| Services relating to corporate finance transactions entered into | **-** | 838.3 |
| All other services | **87.8** | 74.5 |
| | **1,189.6** | 2,244.8 |

Of the above, £nil (2006 : £552,000) in relation to the corporate finance transactions entered into has been capitalised as part of the costs relating to these transactions.

### 4. Employees

The average number of people employed by the Group in the following areas was:

| | 2007 Number | 2006 Number |
|---|---|---|
| Sales | **5,062** | 5,327 |
| Aftersales | **8,359** | 8,864 |
| Administration | **2,326** | 2,408 |
| | **15,747** | 16,599 |

Costs incurred in respect of these employees were :

| | 2007 £m | 2006 £m |
|---|---|---|
| Wages and salaries | **346.1** | 352.0 |
| Social security costs | **33.0** | 33.1 |
| Contributions to defined contribution plans | **5.3** | 4.0 |
| Decrease in liability for defined benefit plans | **(4.2)** | (6.7) |
| Share based payments | **-** | 0.9 |
| | **380.2** | 383.3 |

### 5. Directors

Total emoluments of directors (including pension contributions) amounted to £2.0m (2006 : £2.0m).

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 29 to 36.

### 6. Results of discontinued operation

On 30 June 2007 the Group sold the trading assets of all its German based motor vehicle dealerships. The German division was not a discontinued operation or classified as held for sale as at 31 December 2006 and therefore the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations (see note 1p).

| Results of discontinued operation | 2007 £m | 2006 £m |
|---|---|---|
| Revenue | **20.3** | 42.5 |
| Expenses | **(21.9)** | (43.8) |
| Results from operating activities | **(1.6)** | (1.3) |
| Income tax expense | **-** | - |
| Results from operating activities net of income tax | **(1.6)** | (1.3) |
| Loss on sale of discontinued operation | **(0.5)** | - |
| Loss for the period | **(2.1)** | (1.3) |

During the year the German operation contributed a cash outflow of £2.9m to the Group's net operating cash flows (2006 inflow : £0.2m) and contributed £5.2m (2006 : paid £0.1m) in respect of investing activities. There were no financing cash flows in the current or prior years.

### 7. Finance expense

| Recognised in profit and loss | 2007 £m | 2006 £m |
|---|---|---|
| Interest payable on bank borrowings | **19.1** | 28.3 |
| Interest payable on loan notes | **9.4** | 9.5 |
| Debt issuance costs | **1.1** | 1.0 |
| Vehicle stocking plan interest | **32.9** | 25.3 |
| Interest payable on finance leases | **0.6** | 0.4 |
| Interest on pension scheme obligations | **17.9** | 16.5 |
| Less : interest capitalised | **(0.1)** | (0.3) |
| Total interest expense | **80.9** | 80.7 |
| Fair value losses - interest rate swaps | **0.1** | 1.0 |
| Unwinding of discounts in contract hire residual values | **2.5** | 2.7 |
| Total finance expense | **83.5** | 84.4 |

| | | |
|---|---|---|
| Interest expense in respect of financial liabilities held at amortised cost | **71.5** | 71.2 |
| Interest expense in respect of financial liabilities held at fair value | **9.4** | 9.5 |
| Fair value losses - interest rate swaps | **0.1** | 1.0 |
| Unwinding of discounts in contract hire residual values | **2.5** | 2.7 |
| Total finance expense | **83.5** | 84.4 |

Interest of £0.1m (2006 : £0.3m) has been capitalised during the year at an average rate of 6.52% (2006 : 5.75%) on assets under construction.

### 8. Finance income

| Recognised in profit and loss | 2007 £m | 2006 £m |
|---|---|---|
| Interest receivable on bank deposits | **1.3** | 0.8 |
| Interest on pension scheme assets | **22.1** | 16.9 |
| Total finance income | **23.4** | 17.7 |

### 9. Taxation

| | 2007 £m | 2006 £m |
|---|---|---|
| UK corporation tax: | | |
| Current tax on income for the year | **9.5** | 20.1 |
| Adjustments in respect of prior periods | **(10.7)** | (3.6) |
| | **(1.2)** | 16.5 |
| Overseas taxation: | | |
| Current tax on income for the year | **0.4** | 1.4 |
| Adjustments in respect of prior periods | **-** | 0.4 |
| | **0.4** | 1.8 |
| Total current tax expense | **(0.8)** | 18.3 |
| Deferred tax expense: | | |
| Origination and reversal of temporary differences | **4.1** | 10.6 |
| | **3.3** | 28.9 |

| The total aggregate tax charges recognised in the income statement are analysed as: | 2007 £m | 2006 £m |
|---|---|---|
| Current tax | **(0.8)** | 18.3 |
| Deferred tax | **4.1** | 10.6 |
| Total income tax expense in the income statement | **3.3** | 28.9 |

### 9. Taxation (continued)

**Factors affecting the tax charge for the period:**

| The tax assessed is different than the standard rate of corporation tax in the UK (30%)<br>The differences are explained below: | **2007**<br>**£m** | 2006<br>£m |
|---|---|---|
| Profit / (loss) before taxation: | | |
| Continuing operations | **46.5** | 97.7 |
| Discontinued operations | **(2.1)** | (1.3) |
| | **44.4** | 96.4 |
| Tax on profit at UK rate of 30% (2006 : 30%) | **13.3** | 28.9 |
| Differences : | | |
| Tax effect of share of results from joint venture | **(0.2)** | - |
| Accounting depreciation for which no tax relief is due | **0.1** | 0.3 |
| Difference between accounts profits and taxable profits on capital asset disposals | **(1.4)** | (1.0) |
| Other disallowables | **0.4** | 1.0 |
| Unrecognised losses | **0.7** | 0.7 |
| Tax rate differential on overseas income | **0.1** | 0.3 |
| Movement in rolled over and held over chargeable gains | **-** | (0.4) |
| Asset impairment charge | **2.1** | 0.3 |
| Impact of Finance Act 2007 changes | **(7.7)** | - |
| Adjustments to tax charge in respect of previous periods | **(4.1)** | (1.2) |
| Total tax charge | **3.3** | 28.9 |

| The impact of the Finance Act 2007 changes are: | **2007**<br>**£m** | 2006<br>£m |
|---|---|---|
| Removal of balancing adjustments on disposal of industrial buildings | **3.7** | - |
| Reduction in the tax rate from April 2008 onwards from 30% to 28% (see factors affecting future tax charge below) | **4.0** | - |
| | **7.7** | - |

| **Deferred tax (expense) / credit recognised directly in equity** | **2007**<br>**£m** | 2006<br>£m |
|---|---|---|
| Relating to share based payments | **(2.0)** | 1.5 |
| Actuarial gains and losses | **(8.5)** | (5.4) |
| | **(10.5)** | (3.9) |

**Factors affecting the future tax charge**

It has been announced that the corporation tax rate applicable to the Company is to change from 30% to 28% with effect from 1 April 2008. The deferred tax liability has been calculated at 28% as it is expected that timing differences will reverse after 1 April 2008. The benefit of this decrease in rate is estimated to be £4.0m and is reflected as a reduction in the deferred tax expense for the period. Although the UK tax rate in future will be lower, the effective rate of tax on the Group's trading profits is expected to be higher than the standard rate as the Group operates in the USA where the tax rates are higher compared to the UK and, as is common in the motor retail industry, the Group also incurs a significant level of other expenses which are not tax deductible (mainly depreciation on showrooms and other non deductible expenditure).

**9. Taxation (continued)**

**Unrecognised deferred tax assets**

There are unutilised tax losses within the Group of £17.9m (2006 : £15.5m) relating to overseas businesses for which no deferred tax asset has been recognised pending clarity of the availability of intra-EU losses.

**Deferred tax assets / (liabilities)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

| | **2007 £m** | 2006 £m |
|---|---|---|
| Deferred tax assets | **6.0** | 26.5 |
| Deferred tax liabilities | **(62.6)** | (68.5) |
| | **(56.6)** | (42.0) |

The movements in temporary differences for the year are as follows:

| | At 1 January 2006 £m | On acquisition £m | Charged / (credited) to consolidated income statement £m | Credited to equity £m | Charged to investment £m | Exchange differences £m | **At 31 December 2006 £m** |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 31.3 | 19.7 | 1.8 | - | 5.9 | (0.1) | **58.6** |
| Rolled over and held over gains | 5.9 | 4.4 | (0.4) | - | - | - | **9.9** |
| Intangible assets | - | 0.6 | (0.6) | - | - | - | **-** |
| Retirement benefit obligations | (29.0) | (4.6) | 5.7 | 5.4 | - | - | **(22.5)** |
| Share based payments | (4.9) | - | 4.4 | (1.5) | - | - | **(2.0)** |
| Financial instruments | 0.1 | - | (0.3) | - | - | - | **(0.2)** |
| Provisions | (1.4) | (0.4) | - | - | - | - | **(1.8)** |
| Tax liabilities / (assets) | 2.0 | 19.7 | 10.6 | 3.9 | 5.9 | (0.1) | **42.0** |

| | At 1 January 2007 £m | On acquisition £m | Charged / (credited) to consolidated income statement £m | Credited to equity £m | Charged to investment £m | Exchange differences £m | **At 31 December 2007 £m** |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 58.6 | - | (8.8) | - | - | - | **49.8** |
| Rolled over and held over gains | 9.9 | - | 2.9 | - | - | - | **12.8** |
| Retirement benefit obligations | (22.5) | - | 9.6 | 8.5 | - | - | **(4.4)** |
| Share based payments | (2.0) | - | - | 2.0 | - | - | **-** |
| Financial instruments | (0.2) | - | - | - | - | - | **(0.2)** |
| Provisions | (1.8) | - | 0.4 | - | - | - | **(1.4)** |
| Tax liabilities | 42.0 | - | 4.1 | 10.5 | - | - | **56.6** |

**10. Earnings per share**

| | **2007 Earnings per share pence** | **2007 Earnings Total £m** | 2006 Earnings per share pence | 2006 Earnings Total £m |
|---|---|---|---|---|
| Basic earnings per share - continuing operations | **6.8** | **43.2** | 10.9 | 68.8 |
| Basic earnings per share - discontinued operations | **(0.3)** | **(2.1)** | (0.2) | (1.3) |
| Basic earnings per share | **6.5** | **41.1** | 10.7 | 67.5 |
| Adjusting items: | | | | |
| Profit on business and property disposals | **(2.8)** | **(18.0)** | (3.9) | (24.3) |
| Goodwill impairment | **1.1** | **6.8** | 0.1 | 0.9 |
| Abortive acquisition costs | **-** | **-** | 0.2 | 1.0 |
| Gain on curtailment of defined benefit pension schemes | **-** | **-** | (1.6) | (9.9) |
| Operating exceptional costs | **-** | **-** | 0.6 | 4.0 |
| Exceptional deferred tax credit (see note 9) | **(1.2)** | **(7.7)** | - | - |
| Tax effect of adjusting items | **0.5** | **4.0** | 1.4 | 8.1 |
| Adjusted earnings per share | **4.1** | **26.2** | 7.5 | 47.3 |
| | | | | |
| Diluted earnings per share - continuing operations | **6.7** | **43.2** | 10.8 | 68.8 |
| Diluted earnings per share - total | **6.4** | **41.1** | 10.6 | 67.5 |
| Diluted earnings per share - adjusted | **4.1** | **26.2** | 7.4 | 47.3 |

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

| | **2007 Number** | 2006 Number |
|---|---|---|
| Weighted average number of ordinary shares in issue | **635.2** | 629.0 |
| Weighted average number of dilutive shares under option | **6.6** | 10.7 |
| Weighted average number of shares in issue taking account of applicable outstanding share options | **641.8** | 639.7 |

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

The weighted average number of shares used in the calculation of the diluted earnings per share for the year to 31 December 2007 excludes 3.0m potential shares (2006 : 6.1m) as these were non dilutive in accordance with IAS 33 'Earnings Per Share'.

### 11. Intangible assets

| | Goodwill £m | Other intangibles £m | **Total £m** |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2006 | 169.3 | 9.5 | **178.8** |
| Additions through business combinations | 272.5 | 3.2 | **275.7** |
| Other additions | - | 0.5 | **0.5** |
| Exchange adjustments | (1.5) | - | **(1.5)** |
| Disposals | (0.9) | (0.5) | **(1.4)** |
| Classified as non-current assets held for sale | (1.7) | - | **(1.7)** |
| At 31 December 2006 | 437.7 | 12.7 | **450.4** |
| At 1 January 2007 | 437.7 | 12.7 | **450.4** |
| Additions through business combinations | 1.3 | - | **1.3** |
| Other additions | - | 1.9 | **1.9** |
| Exchange adjustments | (0.2) | - | **(0.2)** |
| Disposals | (0.9) | (0.4) | **(1.3)** |
| At 31 December 2007 | 437.9 | 14.2 | **452.1** |
| **Amortisation** | | | |
| At 1 January 2006 | 3.0 | 8.3 | **11.3** |
| Amortised during the year | - | 3.1 | **3.1** |
| Impairment | 0.9 | - | **0.9** |
| Disposals | - | (0.1) | **(0.1)** |
| At 31 December 2006 | 3.9 | 11.3 | **15.2** |
| At 1 January 2007 | 3.9 | 11.3 | **15.2** |
| Amortised during the year | - | 0.8 | **0.8** |
| Impairment | 6.8 | - | **6.8** |
| At 31 December 2007 | 10.7 | 12.1 | **22.8** |
| **Carrying amounts** | | | |
| At 1 January 2006 | 166.3 | 1.2 | **167.5** |
| At 31 December 2006 | 433.8 | 1.4 | **435.2** |
| At 1 January 2007 | 433.8 | 1.4 | **435.2** |
| At 31 December 2007 | 427.2 | 2.1 | **429.3** |

The amortisation charge in respect of other intangibles is recognised within operating expenses in the income statement. Development costs are amortised over a period of 5 years. Software is amortised over a period of 4 years.

Impairment losses of £6.8m of goodwill attaching to business units pending closure where the future cash flows from these are not expected to recover the goodwill carrying value are recognised within operating expenses in the income statement (2006 : £0.9m).

Goodwill is allocated across multiple cash-generating units and consequently a consistent approach in assessing the carrying value of this amount is taken. This value was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

Cash flows were projected based on actual operating results and the current business plan as approved by management, with regard to the long term strategy of the Group in terms of business representation. These were extrapolated over a 20 year period. Management believes that this forecast period was justified due to the long term outlook for the industry and the Group's dominant position in the market place.

Whilst it is anticipated that the units will grow revenues in the future, for the purpose of the impairment testing, no growth has been assumed.

A pre-tax discount rate of 8.5% was applied in determining the recoverable amount of the units which the Group have estimated to be the approximate weighted average cost of capital of the Group.

### 11. Intangible assets (continued)

| Goodwill by segment | 2007 £m | 2006 £m |
|---|---|---|
| Stratstone | **156.5** | 158.8 |
| Evans Halshaw | **233.3** | 236.7 |
| Chatfields | **12.0** | 12.9 |
| Support | **0.9** | 0.9 |
| Contract Hire | **24.5** | 24.5 |
| | **427.2** | 433.8 |

### 12. Property, plant and equipment

| | Land & buildings £m | Plant & equipment £m | Motor vehicles £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2006 | 253.5 | 51.1 | 182.1 | **486.7** |
| Additions through business combinations | 198.8 | 11.0 | 46.2 | **256.0** |
| Other additions | 28.6 | 13.8 | 131.5 | **173.9** |
| Exchange adjustments | (1.6) | (0.4) | (0.1) | **(2.1)** |
| Disposal of businesses | (0.4) | (0.4) | - | **(0.8)** |
| Other disposals | (212.4) | (9.8) | (143.6) | **(365.8)** |
| Classified as non-current assets held for sale | (31.4) | (0.2) | - | **(31.6)** |
| At 31 December 2006 | 235.1 | 65.1 | 216.1 | **516.3** |
| At 1 January 2007 | 235.1 | 65.1 | 216.1 | **516.3** |
| Additions through business combinations | 6.8 | 1.0 | - | **7.8** |
| Other additions | 17.8 | 16.5 | 131.2 | **165.5** |
| Exchange adjustments | 0.2 | 0.1 | - | **0.3** |
| Disposal of businesses | (3.7) | (1.4) | - | **(5.1)** |
| Other disposals | (21.1) | (3.7) | (113.5) | **(138.3)** |
| Classified as non-current assets held for sale | (42.0) | - | - | **(42.0)** |
| At 31 December 2007 | 193.1 | 77.6 | 233.8 | **504.5** |
| | | | | |
| **Depreciation** | | | | |
| At 1 January 2006 | 7.3 | 26.7 | 58.7 | **92.7** |
| Exchange adjustments | (0.2) | (0.3) | - | **(0.5)** |
| Charge for the year | 4.4 | 11.3 | 46.3 | **62.0** |
| Disposal of businesses | - | (0.3) | - | **(0.3)** |
| Other disposals | (2.4) | (7.4) | (47.3) | **(57.1)** |
| Classified as non-current assets held for sale | (0.9) | - | - | **(0.9)** |
| At 31 December 2006 | 8.2 | 30.0 | 57.7 | **95.9** |
| At 1 January 2007 | 8.2 | 30.0 | 57.7 | **95.9** |
| Exchange adjustments | 0.1 | 0.1 | - | **0.2** |
| Charge for the year | 3.6 | 12.7 | 42.2 | **58.5** |
| Disposal of businesses | (0.7) | (1.3) | - | **(2.0)** |
| Other disposals | 0.3 | (1.5) | (29.9) | **(31.1)** |
| Classified as non-current assets held for sale | (2.1) | - | - | **(2.1)** |
| At 31 December 2007 | 9.4 | 40.0 | 70.0 | **119.4** |
| | | | | |
| **Carrying amounts** | | | | |
| At 1 January 2006 | 246.2 | 24.4 | 123.4 | **394.0** |
| At 31 December 2006 | 226.9 | 35.1 | 158.4 | **420.4** |
| At 1 January 2007 | 226.9 | 35.1 | 158.4 | **420.4** |
| At 31 December 2007 | 183.7 | 37.6 | 163.8 | **385.1** |

**12. Property, plant and equipment (continued)**

Included in the amounts for plant, equipment and motor vehicles above are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

| | Land & buildings £m | Plant & equipment £m | Motor vehicles £m | **Total £m** |
|---|---|---|---|---|
| **Depreciation** | | | | |
| Charge for the year | - | - | 2.5 | **2.5** |
| | | | | |
| **Carrying amounts** | | | | |
| At 31 December 2006 | 0.6 | - | 8.2 | **8.8** |
| At 31 December 2007 | 0.6 | - | 7.0 | **7.6** |

Interest of £0.1m has been capitalised during the year at an average rate of 6.52% on assets under construction.
Cumulative interest charges of £0.5m (2006 : £0.4m) have been capitalised as construction costs and included in land and buildings.

Land and buildings include £2.6m (2006 : £4.5m) in respect of building projects currently under construction for which no depreciation has been charged during the year.

Future capital expenditure which has been contracted for but not yet provided in the financial statements amounted to £4.7m (2006 : £2.9m).

**13. Interest in joint venture**

The Group has a 51% ordinary share capital interest in a joint venture PPH0 Limited, a company that is incorporated and trading in the United Kingdom, whose principal activity is that of a property company. The joint venture is accounted for under the equity accounting method and included in the consolidated financial statements as a non-current asset of £4.0m (2006 : £3.0m) that represents the Group's interests in the assets and liabilities of the joint venture which is analysed below. The Group's share of revenues and expenses of the joint venture included in the income statement is also presented.

The Group, whilst holding a 51% holding in the ordinary share capital of PPH0 Limited, holds by way of a contractual agreement 50% of the voting rights attaching to that company, thereby giving the Group joint control.

| | **2007 £m** | 2006 £m |
|---|---|---|
| Non-current assets | **189.0** | 162.2 |
| Current assets | **5.7** | 23.9 |
| Non-current liabilities | **(166.2)** | (166.0) |
| Current liabilities | **(24.5)** | (17.1) |
| | **4.0** | 3.0 |
| | | |
| Income | **11.8** | 3.7 |
| Expenses | **(10.6)** | (3.2) |
| Income tax expense | **(0.4)** | (0.1) |
| | **0.8** | 0.4 |

| **Reconciliation of movement in interest in joint venture** | **£m** |
|---|---|
| Interest in joint venture at 31 December 2006 | **3.0** |
| Share of profit after income tax expense | **0.8** |
| Subscription in shares in joint venture company | **0.2** |
| Interest in joint venture at 31 December 2007 | **4.0** |

PPH0 Limited has borrowings secured on its land and buildings. At 31 December 2007 PPH0 Limited has no contractual capital commitments.

### 14. Inventories

| | 2007 £m | 2006 £m |
|---|---|---|
| New and used vehicles | **592.3** | 671.9 |
| Consignment vehicles | **141.7** | 124.7 |
| Vehicle parts and other inventories | **52.5** | 53.6 |
| | **786.5** | 850.2 |

| | | |
|---|---|---|
| Inventories recognised as an expense during the year | **4,314.1** | 4,321.0 |
| Inventories stated at fair value less costs to sell | **0.7** | 3.2 |
| Carrying value of inventories subject to retention of title clauses | **600.8** | 637.1 |

During the year £0.4m was recognised as a net credit to expenses in respect of the write down of vehicle parts inventories due to the reduction in allowance for impairment (2006 : £0.1m credit).

### 15. Trade and other receivables

| | 2007 £m | 2006 £m |
|---|---|---|
| Trade receivables | **115.8** | 140.9 |
| Other receivables | **77.8** | 110.2 |
| Prepayments | **12.3** | 9.8 |
| | **205.9** | 260.9 |

All amounts are due within one year.

Of the trade receivables, 69% is not past due payment date (2006 : 72%). The majority of trade receivable beyond due date is aged between 0 and 120 days. The Group makes an impairment provision for all debts that are considered unlikely to be collected plus a proportion of all debts over 120 days past their due date. At 31 December 2007 trade receivables are shown net of an allowance for impairment of £0.5m (2006 : £1.4m). The expense recognised for impairment losses during the year was £0.2m (2006 : £0.5m).

Before granting any new customer credit terms the Group uses external credit scoring systems to assess the potential new customer's credit quality and defines credit limits by customer. These limits and credit worthiness are regularly reviewed and use is made of monitoring alerts provided by the providers of the credit scoring systems. The Group has no customer that represents more that 5% of the total balance of trade receivables.

### 16. Trade and other payables

| | 2007 £m | 2006 £m |
|---|---|---|
| Trade payables | **723.3** | 810.8 |
| Consignment vehicle liabilities | **141.7** | 124.7 |
| Payments received on account | **15.0** | 15.9 |
| Other taxation and social security | **11.5** | 26.3 |
| Accruals | **189.7** | 194.1 |
| | **1,081.2** | 1,171.8 |

As at 31 December 2007, the outstanding commitment to purchase ex-contract vehicles that were not supplied by the company amounted to £7.6m (2006 : £15.5m). Expected losses in respect of these commitments of £2.6m (2006 : £3.0m) are included in accruals.

**17. Interest bearing loans and borrowings**

| | 2007 £m | 2006 £m |
|---|---|---|
| **Non-current liabilities** | | |
| Unsecured bank loans | **185.2** | 262.0 |
| Unsecured loan notes | **105.0** | 102.5 |
| Finance lease liabilities (see note 26) | **7.0** | 6.5 |
| | **297.2** | 371.0 |
| **Current liabilities** | | |
| Unsecured bank loans | **75.1** | - |
| Unsecured other loans | **4.0** | 4.0 |
| Unsecured loan notes | **-** | 1.3 |
| Finance lease liabilities (see note 26) | **2.7** | 5.1 |
| | **81.8** | 10.4 |

Note 18 sets out the maturity profile of non-current liabilities.

**18. Financial instruments and derivatives**

**Financial risk management**

The Group is exposed to the following risks from its use of financial instruments:

Funding and liquidity risk - the risk that the Group will not be able to meet its financial obligations as they fall due
Credit risk - the risk of financial loss to the Group on the failure of a customer or counterparty to meet its obligations to the Group as they fall due
Market risk - the risk that changes in market prices, such as interest rates and foreign exchange rates, have on the Group's financial performance

The Group's quantitative exposure to these risks is explained throughout these financial statements whilst the Group's objectives and management of these risks is set out below.

**Treasury policy and procedures**

Group treasury matters are managed within policy guidelines set by the Board with prime areas of focus being liquidity, interest rate and foreign exchange exposure. Management of these areas is the responsibility of the Group's central treasury function. Derivative financial instruments are utilised to reduce exposure to movements in foreign exchange rates and interest rates. The Board does not permit the speculative use of derivatives.

**Funding and liquidity management**

The Group is financed primarily by loan notes, bank loans, vehicle stocking credit lines and operating cash flow. Committed facilities have a range of maturities, are maintained at levels in excess of planned requirements and are in addition to short term uncommitted facilities that are also available to the Group.

Each business within the Group is responsible for its own day to day cash management and the overall cash position is monitored on a daily basis by the Group treasury department. Where our overseas subsidiaries borrow to fund their businesses they do so independently of and without recourse to the UK parent company.

**18. Financial instruments and derivatives (continued)**

**Interest rate risk management**

The objective of the Group's interest rate policy is to minimise interest costs whilst protecting the Group from adverse movements in interest rates. Borrowings issued at variable rates expose the Group to cash-flow interest rate risk whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Board believes that the retail sector in which the Group operates provides a natural hedge against interest rate movements. Consequently, it is Group policy to borrow on a floating rate basis and all fair value interest rate risk arising from fixed rate borrowings entered into by the Group are managed by swaps into floating rate.

**Interest rate risk sensitivity analysis**

As all of the Group's borrowings and vehicle stocking credit lines, after taking into account the effect of swaps, are floating rate instruments they therefore have a sensitivity to changes in market rates of interest. The table below shows the effect of a 100 basis points change in interest rates for floating rate instruments outstanding at the period end, showing how profit or loss would have varied in the period on the assumption that the instruments at the period end were outstanding for the entire period.

| | **Profit / (loss) 2007 £m** | Profit / (loss) 2006 £m |
|---|---|---|
| 100 bps increase | **(10.2)** | (8.0) |
| Tax effect | **3.1** | 2.4 |
| Effect on net assets | **(7.1)** | (5.6) |
| | | |
| 100 bps decrease | **10.2** | 8.0 |
| Tax effect | **(3.1)** | (2.4) |
| Effect on net assets | **7.1** | 5.6 |

**Foreign exchange risk management**

The Group faces currency risk in respect of its net assets denominated in currencies other than sterling. On translation into sterling movements in currency will affect the value of these assets. The Group's policy is therefore to match, where possible, net assets in overseas subsidiaries which are denominated in a foreign currency with borrowings in the same currency. Similarly, where the Group borrows in a foreign currency to finance assets denominated in sterling the borrowings are swapped into sterling. In line with these policies the Group has swapped all of its fixed rate loan notes denominated in US dollars into floating rate sterling and has borrowed USD 50.0m (2006 : USD 49.0m) against its net assets held in overseas subsidiaries. The Group's German operations were disposed of during the year and all cash arising from the disposal denominated in euro was immediately converted to sterling. Consequently there was no requirement to borrow in Euro at 31 December 2007 to hedge exposure to risk in movement of euro exchange rates (2006 : euro 10.0m).

**Credit risk management**

The Group is exposed to credit risk primarily in respect of its trade receivables and financial assets. Trade receivables are stated net of provision for estimated impairment losses. Exposure to credit risk in respect of trade receivables is mitigated by the Group's policy of only granting credit to certain customers after an appropiate evaluation of credit risk. Credit risk arises in respect of amounts due from manufacturers in relation to bonuses and warranty receivables. This risk is mitigated by the range of manufacturers dealt with, the Group's procedures in effecting timely collection of amounts due and management's belief that it does not expect any manufacturer to fail to meet its obligations. Financial assets comprise cash balances and assets arising from transactions involving derivative financial instruments. The counterparties are banks with sound credit ratings and management does not expect any counterparty to fail to meet its obligations. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

**18. Financial instruments and derivatives (continued)**

**Capital management**

The Board's policy is to maintain a strong capital base to maintain market confidence and to sustain the development of the business, whilst maximising the return on capital to the Group's shareholders. The Group seeks to achieve an increase in earnings per share growth of RPI + 10% per annum and increase dividends each year. The Group attempts to maintain an optimal balance between borrowings and equity and seeks a debt / equity ratio of between 70% and 100% under normal trading conditions. After tax return on equity for 2007 was 12.7%.

The Group has from time to time repurchased its own shares in the market and cancelled them. There is no predetermined plan for doing this although the Group has permission from shareholders to buy back up to 10% of its equity at any one time. The Group may use profits made on surplus property sales to purchase its own shares and cancel them in order to promote growth in earnings per share, or to satisfy share incentives issued to employees of the Group. The Group encourages its employees to be shareholders of the Group with the group wide provision of a sharesave scheme being one example.

Certain of the company's subsidiaries are required to maintain issued share capital at levels to support capital adequacy under Financial Services Authority (FSA) requirements. The Group ensures these requirements are met by injections of equity to the subsidiaries in question, when required.

There were no changes in the approach to the Group's capital management in the year.

**Accounting for derivative financial instruments and hedging activities**

The Group holds derivative financial instruments to hedge currency and interest risks arising from its activities. Derivative financial instruments are measured at fair value at each balance sheet date. Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised in the income statement. The hedged item is also stated, separately from the derivative, at fair value in respect of the risk being hedged with any gain or loss also recognised in the income statement. This will result in variations in the balance sheet values of the hedged item and the offsetting derivatives as the market value fluctuates. The fair value of derivatives and hedged items is the estimated amount receivable or payable to terminate the contract determined by reference to calculations provided by financial institutions utilising market prices prevailing at the balance sheet date.

**Hedges**

**Fair value hedges of interest rate and currency risk**

The Group classifies its interest rate and currency swaps as fair value hedges and states them at fair value. The net fair value of swaps used as hedges of the Group's USD and GBP loan notes is set out below:

| Fair value hedge | **Assets carrying value & fair value 2007 £m** | **Liabilities carrying value & fair value 2007 £m** | Assets carrying value & fair value 2006 £m | Liabilities carrying value & fair value 2006 £m |
|---|---|---|---|---|
| Currency and interest swap (USD 110m / GBP : fixed rate to floating rate) expiring 2011 | **-** | **(3.4)** | - | (4.8) |
| Currency and interest swap (USD 67m / GBP : fixed rate to floating rate) expiring 2014 | **-** | **(2.1)** | - | (2.9) |
| Interest swap (GBP 17m : fixed rate to floating rate) expiring 2014 | **-** | **(0.1)** | - | (0.3) |
| Total | **-** | **(5.6)** | - | (8.0) |

All derivative financial instrument assets and liabilities are non-current. The critical terms of the derivative financial instrument and the hedged item match (i.e. currency, notional amount, and timing of rate resets and payments) and therefore changes in the fair value attributable to the risk being hedged are expected to be offset by the hedging derivative financial instrument.

**18. Financial instruments and derivatives (continued)**

**Hedges of net investments in overseas operations**

Included within bank borrowings are balances denominated in US dollar and euro which are each designated as hedges of the net investment in the Group's US and German subsidiaries respectively. The aggregate fair value of these borrowings was £40.1m at 31 December 2007. Foreign exchange gains of £0.3m on translation of the borrowings to sterling at the balance sheet date are recognised within the translation differences reserve in equity, net of exchange losses of £0.4m in respect of the net investments being hedged.

**Cash and cash equivalents**

Bank balances and bank overdrafts set out below are stated net of legal rights of set-off resulting from pooling arrangements operated by individual banks.

| | **Carrying value & fair value 2007 £m** | Carrying value & fair value 2006 £m |
|---|---|---|
| Bank balances and cash equivalents | **52.6** | 19.7 |

| **Borrowings** | **Carrying value & fair value 2007 £m** | Carrying value & fair value 2006 £m |
|---|---|---|
| Non-current: | | |
| Bank borrowings | **185.2** | 262.0 |
| 5.65% USD 110 million loan notes 2011 | **54.6** | 53.2 |
| 5.95% USD 67 million loan notes 2014 | **33.3** | 32.4 |
| 5.95% GBP 17 million loan notes 2014 | **16.9** | 16.7 |
| Other loan notes | **0.2** | 0.2 |
| Finance leases | **7.0** | 6.5 |
| Total non-current | **297.2** | 371.0 |
| | | |
| Current: | | |
| Bank borrowings | **75.1** | - |
| Other loan notes | **-** | 1.3 |
| Finance leases | **2.7** | 5.1 |
| Other loans | **4.0** | 4.0 |
| Total borrowings | **379.0** | 381.4 |

The effective interest rates for all borrowings after taking into account derivative financial instruments are all based on LIBOR for the relevant currency. Finance leases are effectively held at fixed rates of interest with a weighted average rate of 6.09%. Information regarding classification of balances and interest, the range of interest rates applied in the year to 31 December 2007 and repricing periods, is set out in the table overleaf.

**18. Financial instruments and derivatives (continued)**

| | Carrying value & fair value £m | Classification | Interest classification | Interest rate range | Effect of interest rate and currency swaps | Swapped interest rate range | Repricing periods |
|---|---|---|---|---|---|---|---|
| Bank balances and cash equivalents | **52.6** | Amortised cost | Floating GBP | 5.00% - 5.75% | N/A | N/A | 6 months or less |
| Bank overdrafts | **-** | Amortised cost | Floating GBP | 6.00% - 6.75% | N/A | N/A | 6 months or less |
| | **52.6** | | | | | | |

**Borrowings**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Non-current | | | | | | | |
| Bank borrowings | **160.0** | Amortised cost | Floating GBP | 6.35% - 7.65% | N/A | N/A | 6 months or less |
| Bank borrowings | **25.2** | Amortised cost | Floating USD | 5.58% - 6.02% | N/A | N/A | 6 months or less |
| 5.65% USD 110 million loan notes 2011 | **54.6** | Fair value | Fixed USD | 5.65% | Floating GBP | 6.95% - 8.43% | 6 months or less |
| 5.95% USD 67 million loan notes 2014 | **33.3** | Fair value | Fixed USD | 5.95% | Floating GBP | 6.73% - 8.20% | 6 months or less |
| 5.95% GBP 17 million loan notes 2014 | **16.9** | Fair value | Fixed GBP | 5.95% | Floating GBP | 6.73% - 8.20% | 6 months or less |
| Other loan notes | **0.2** | Amortised cost | Floating GBP | 12.50% | N/A | N/A | N/A |
| Finance leases | **7.0** | Amortised cost | Fixed GBP | 5.29% - 7.15% | N/A | N/A | See note 26 |
| Total non-current | **297.2** | | | | | | |
| | | | | | | | |
| Current: | | | | | | | |
| Bank borrowings | **65.0** | Amortised cost | Floating GBP | 6.35% - 7.81% | N/A | N/A | 6 months or less |
| Bank borrowings | **10.1** | Amortised cost | Floating USD | 7.54% - 8.00% | N/A | N/A | 6 months or less |
| Finance leases | **2.7** | Amortised cost | Fixed GBP | 5.29% - 7.15% | N/A | N/A | See note 26 |
| Unsecured other loans | **4.0** | Amortised cost | Floating GBP | 5.32% - 7.81% | N/A | N/A | 6 months or less |
| Total borrowings | **379.0** | | | | | | |

In addition, included within trade payables is £39.1m (2006 : £45.7m) in respect of contract hire vehicle lease liabilities. These are stated at amortised cost with fixed interest rates that average 6.0%.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | 2007 £m | 2006 £m |
|---|---|---|
| Pound sterling | **353.8** | 339.5 |
| US dollar | **25.2** | 35.2 |
| Euro | **-** | 6.7 |
| | **379.0** | 381.4 |

The maturity of non-current borrowings is as follows:

| | 2007 £m | 2006 £m |
|---|---|---|
| Between 1 and 2 years | **40.0** | 56.7 |
| Between 2 and 5 years | **255.0** | 211.8 |
| Over 5 years | **2.2** | 102.5 |
| | **297.2** | 371.0 |

**18. Financial instruments and derivatives (continued)**

The group has the following undrawn borrowing facilities:

| | 2007 £m | 2006 £m |
|---|---|---|
| Expiring in one year or less | - | - |
| Expiring in more than one year but not more than two years | - | - |
| Expiring in more than two years | 294.8 | 268.2 |
| | 294.8 | 268.2 |

The group has a £550m credit facility, expiring as set out below and USD and GBP loan notes expiring 2011/2014. Both are subject to covenants with respect to debt / EBITDA and fixed charge coverage.

| Term loan | Expiry date | £m |
|---|---|---|
| | June 2008 | 20.0 |
| | December 2008 | 20.0 |
| | June 2009 | 20.0 |
| | December 2009 | 20.0 |
| | June 2010 | 20.0 |
| | December 2010 | 100.0 |
| Total term loan | | 200.0 |
| Revolving credit facility | December 2010 | 350.0 |
| | | 550.0 |

**19. Provisions**

| The movements in provisions for the year are as follows: | Warranty service provision £m | Vacant property £m | Total £m |
|---|---|---|---|
| At 31 December 2006 | 10.2 | 1.7 | 11.9 |
| Provisions made during the year | 6.1 | 1.9 | 8.0 |
| Provisions used during the year | (6.7) | (0.3) | (7.0) |
| Provisions reversed during the year | - | (0.2) | (0.2) |
| At 31 December 2007 | 9.6 | 3.1 | 12.7 |
| | | | |
| Non-current | 6.4 | 2.8 | 9.2 |
| Current | 3.2 | 0.3 | 3.5 |
| | 9.6 | 3.1 | 12.7 |

The provision on warranty service contracts relates to future repair costs expected against income received in advance, on products sold during the last three years. It is expected this expenditure will be incurred within three years of the balance sheet date.

The vacant property provision is comprised of the future costs of vacated properties, being predominantly future lease commitments. The present value of future lease commitments is calculated using an 8.5% discount rate and assumes that any sub-let properties will remain so until the end of the sub-lease.

### 20. Called up share capital

| | Number | £m |
|---|---|---|
| Authorised shares of 5p each at 31 December 2006 and 31 December 2007 | 800,000,000 | **40.0** |
| | | |
| Allotted, called up and fully paid shares of 5p each at 31 December 2006 and 31 December 2007 | 656,027,350 | **32.8** |

No ordinary shares were issued during the year. During the previous year 18,750 ordinary shares at an aggregate nominal value of £938 were issued for a total cash consideration of £1,905, pursuant to the 1989 Executive Share Option Scheme.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

### 21. Capital and reserves

Reconciliation of movement in capital and reserves

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Other reserves £m | Translation reserve £m | Retained earnings £m | **Total £m** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2006** | 32.8 | 56.8 | 2.5 | 12.6 | (0.1) | 134.7 | **239.3** |
| | | | | | | | |
| Total recognised income and expense for 2006 | - | - | - | - | (0.2) | 80.2 | **80.0** |
| Dividends | - | - | - | - | - | (17.4) | **(17.4)** |
| Share based payments | - | - | - | - | - | 2.4 | **2.4** |
| Disposal of own shares in share trust | - | - | - | - | - | 1.7 | **1.7** |
| **Balance at 31 December 2006** | 32.8 | 56.8 | 2.5 | 12.6 | (0.3) | 201.6 | **306.0** |
| | | | | | | | |
| **Balance at 1 January 2007** | 32.8 | 56.8 | 2.5 | 12.6 | (0.3) | 201.6 | **306.0** |
| | | | | | | | |
| Total recognised income and expense for 2007 | - | - | - | - | (0.1) | 60.9 | **60.8** |
| Dividends | - | - | - | - | - | (25.4) | **(25.4)** |
| Share based payments* | - | - | - | - | - | (1.6) | **(1.6)** |
| Disposal of own shares in share trust | - | - | - | - | - | 1.0 | **1.0** |
| Acquisition of own shares in share trusts | - | - | - | - | - | (1.2) | **(1.2)** |
| **Balance at 31 December 2007** | 32.8 | 56.8 | 2.5 | 12.6 | (0.4) | 235.3 | **339.6** |

* Share based payments includes a £2.0m deferred tax charge (see note 9).

**Capital redemption reserve**

The capital redemption reserve has arisen following the purchase by the Company of its own shares and comprises the amount by which distributable profits were reduced on these transactions in accordance with Chapter VII of Part V of the Companies Act 1985.

**Other reserves**

Other reserves comprise the amount of demerger reserve arising on the demerger of the Company from Williams Holdings PLC in 1989.

The market value of the investment in the Company's own shares at 31 December 2007 was £7.2m (2006 : £21.0m), being 20.4m (2006 : 21.0m) shares with a nominal value of 5p each, acquired at an average cost of £0.44 each (2006 : £0.39). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2007 was £8.1m (2006 : £7.9m). The investment in own shares represents shares in the Company held by Pendragon Quest Trustees Limited and Investec Trust Guernsey Limited (employee share ownership trusts) which may subsequently be awarded to Executive Directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme and the 1998 Pendragon Sharesave Scheme. Details of the plans are given in the Directors' Remuneration Report on pages 29 to 36.

**21. Capital and reserves (continued)**

Dividends on the shares owned by the trusts, the purchase of which were funded by interest free loans to the trusts from Pendragon PLC, are waived. All expenses incurred by the trusts are settled directly by Pendragon PLC and charged in the accounts as incurred.

The trusts are regarded as quasi subsidiaries and their assets and results are consolidated into the financial statements of the Group.

**Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the net investment in foreign operations as well as from the translation of liabilities held to hedge the respective net investment in foreign operations.

**22. Dividends**

| | **2007** **£m** | 2006 £m |
|---|---|---|
| Ordinary shares | | |
| Final dividend in respect of 2006 of 2.00p per share (2005 : 1.32p) | **12.7** | 8.2 |
| Interim dividend in respect of 2007 of 2.00p per share (2006 : 1.45p) | **12.7** | 9.2 |
| | **25.4** | 17.4 |

A final dividend in respect of 2007 of 2.00p (2006 : 2.00p) per share amounting to a total of £12.7m (2006 : £12.7m) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the Annual General Meeting.

Dividends on the 20.4m shares held by Pendragon Quest Trustees Limited and Investec Trust Guernsey Limited are waived.

**23. Business combinations**

Dixons

On 2 August 2007 the Group acquired the trade and certain assets and liabilites of 19 retail motor vehicle dealerships from the liquidators of Dixon Motor Group Limited.

In the period from acquisition to 31 December 2007 the businesses contributed a loss of £1.3m.

Net fair value of the identifiable assets, liabilites and contingent liabilities at date of acquisition:

| | Book value £m | Fair value adjustments £m | **Fair value £m** |
|---|---|---|---|
| Property, plant and equipment | 7.9 | (0.1) | **7.8** |
| Inventories | 7.9 | (0.4) | **7.5** |
| Trade and other payables | - | (0.3) | **(0.3)** |
| | 15.8 | (0.8) | **15.0** |
| Goodwill | | | **1.3** |
| Consideration (including costs) | | | **16.3** |
| | | | |
| Consideration satisfied by cash and cash equivalents | | | **15.8** |
| Costs of acquisition | | | **0.5** |
| Fair value of consideration paid | | | **16.3** |

Net cash outflow arising on acquisitions from the previous period was £466.0m.

If the acquisitions had occurred on 1 January 2007, Group revenues would have been £5,130.0m and the profit for the year attributable to equity holders of the parent would have been £40.1m.

### 23. Business combinations (continued)

Goodwill arising in the year through business combinations represents the value attributed to the future profitability of the acquired businesses together with the associated benefits from economies of scale facilitated by the business combination and franchise arrangements, which cannot be separately identified or measured.

No business combinations have been made between the balance sheet date and the date of this report.

### 24. Business disposals

Net assets at date of disposal

| | Net book value £m |
|---|---|
| Property, plant and equipment | **3.1** |
| Intangible assets - goodwill | **0.9** |
| Non-current assets classified as held for sale | **9.0** |
| Inventories | **8.1** |
| Trade and other payables | **(1.1)** |
| | **20.0** |
| Profit on sale of businesses | **1.1** |
| Loss on sale of discontinued operation | **(0.5)** |
| Proceeds on sale satisfied by cash and cash equivalents | **20.6** |

No cash was disposed as part of a business disposal during the year. Proceeds on sale satisfied by cash and cash equivalents for previous period was £23.1m.

### 25. Cash and cash equivalents

| | 2007 £m | 2006 £m |
|---|---|---|
| Bank balances and cash equivalents | **52.6** | 19.7 |
| Cash and cash equivalents in the statement of cash flows | **52.6** | 19.7 |

### 26. Obligations under finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| Amounts payable under finance leases: | | | | |
| Within one year | **3.4** | 5.4 | **2.7** | 5.1 |
| In the second to fifth years inclusive | **6.5** | 5.9 | **5.6** | 4.9 |
| After five years | **8.3** | 8.5 | **1.4** | 1.6 |
| | **18.2** | 19.8 | **9.7** | 11.6 |
| Less: future finance charges | **(8.5)** | (8.2) | **-** | - |
| Present value of lease obligations | **9.7** | 11.6 | **9.7** | 11.6 |
| | | | | |
| Amount due for settlement within one year | | | **2.7** | 5.1 |
| Amount due for settlement in over one year | | | **7.0** | 6.5 |
| | | | **9.7** | 11.6 |

The Group's obligations under finance leases comprise certain items of plant and equipment, the average lease term of which is 2 to 3 years and three properties on long term leases with a lease term of between 60 and 85 years. The effective interest rates were in the range of 4.71% to 6.36% (2006 : 4.71% to 6.36%). The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

**27. Operating lease arrangements**

**The group as lessee**

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2007 £m | 2006 £m |
|---|---|---|
| Within one year | **48.5** | 69.5 |
| In the second to fifth years inclusive | **171.7** | 177.0 |
| After five years | **567.1** | 510.7 |
| | **787.3** | 757.2 |

The group leases a number of properties, the majority of which are motor vehicle showrooms with workshop and parts retail facilities, with varying lease periods. None of these leases includes contingent rentals. In addition there are other leases in respect of items of plant and equipment which includes the rental of motor vehicles hired for short term usage typically as courtesy cars.

**The group as lessor**

Property rental income earned during the year was £0.5m (2006 : £0.5m). No contingent rents were recognised in income (2006 : £nil).

At the balance sheet date, the group had contracted with tenants for the following future minimum lease payments:

| | 2007 £m | 2006 £m |
|---|---|---|
| Within one year | **0.7** | 0.9 |
| In the second to fifth years inclusive | **2.0** | 3.1 |
| After five years | **2.1** | 5.6 |
| | **4.8** | 9.6 |

In addition, the group is a lessor in respect of vehicle sales with committed repurchase terms. There are no future minimum lease payments outstanding.

**28. Employee benefits**

**Share schemes**

The number and weighted average exercise prices of share options is as follows:

| | Weighted average exercise price 2007 | Number of options millions 2007 | Weighted average exercise price 2006 | Number of options millions 2006 |
|---|---|---|---|---|
| Outstanding at beginning of period | **66.87p** | **24.3** | 31.70p | 38.3 |
| Lapsed during the period | **99.92p** | **(5.3)** | 38.33p | (5.0) |
| Exercised during the period | **27.43p** | **(1.7)** | 24.70p | (16.0) |
| Granted during the period | **-** | **-** | 130.60p | 7.0 |
| Outstanding at the end of the period | **60.43p** | **17.3** | 66.87p | 24.3 |
| Exercisable at the end of the period | **25.84p** | **4.1** | 28.00p | 5.1 |

The options outstanding at 31 December 2007 have an exercise price in the range of 9.1 pence to 130.6 pence and a weighted contractual life of 2.7 years. All share options are settled in equity.

**28. Employee benefits (continued)**

Movements in the number of options to acquire ordinary shares under the Group's various share option schemes, together with exercise prices and the outstanding position at 31 December 2007 were as follows:

| Exercise period | Date of grant | Scheme Description | Exercise price per share | At 31 December 2006 Number | Granted Number | Exercised Number | Lapsed Number | At 31 December 2007 Number |
|---|---|---|---|---|---|---|---|---|
| 17 March 2001 to 16 March 2008 | 17 March 1998 | 1989 Executive Scheme | 24.6p | 106,250 | - | - | - | 106,250 |
| 9 October 2001 to 8 October 2008* | 9 October 1998 | 1989 Executive Scheme | 10.2p | 106,250 | - | - | - | 106,250 |
| 21 June 2002 to 20 June 2009 | 21 June 1999 | 1999 Executive Scheme | 13.0p | 12,500 | - | - | - | 12,500 |
| 1 July 2007 to 31 December 2007 | 1 July 2000 | 1998 Sharesave Scheme | 9.1p | 602,930 | - | (602,930) | - | - |
| 9 March 2004 to 8 March 2011 | 9 March 2001 | 1999 Executive Scheme | 18.7p | 151,545 | - | (39,050) | - | 112,495 |
| 1 July 2008 to 31 December 2008 | 1 July 2001 | 1998 Sharesave Scheme | 18.0p | 68,955 | - | - | - | 68,955 |
| 24 March 2006 to 23 March 2013 | 24 March 2003 | 1999 Executive Scheme | 23.4p | 3,149,450 | - | (128,055) | - | 3,021,395 |
| 1 July 2006 to 31 December 2006 | 1 July 2003 | 1998 Sharesave Scheme | 24.6p | 25,510 | - | (25,510) | - | - |
| 1 July 2008 to 31 December 2008 | 1 July 2003 | 1998 Sharesave Scheme | 24.6p | 1,508,600 | - | - | (125,720) | 1,382,880 |
| 1 July 2010 to 31 December 2010 | 1 July 2003 | 1998 Sharesave Scheme | 24.6p | 508,635 | - | - | (89,595) | 419,040 |
| 30 September 2006 to 29 September 2013 | 30 September 2003 | 1999 Executive Scheme | 40.2p | 1,499,555 | - | (803,420) | - | 696,135 |
| 20 September 2009 to 19 September 2014 | 20 September 2004 | 1999 Executive Scheme | 60.2p | 3,625,000 | - | - | (125,000) | 3,500,000 |
| 1 July 2008 to 31 December 2008 | 1 July 2005 | 1998 Sharesave Scheme | 60.4p | 3,984,715 | - | (32,891) | (993,449) | 2,958,375 |
| 1 July 2010 to 31 December 2010 | 1 July 2005 | 1998 Sharesave Scheme | 60.4p | 2,307,855 | - | (18,074) | (772,866) | 1,516,915 |
| 1 July 2012 to 31 December 2012 | 1 July 2005 | 1998 Sharesave Scheme | 60.4p | 591,320 | - | (805) | (121,895) | 468,620 |
| 1 July 2009 to 31 December 2009 | 1 July 2006 | 1998 Sharesave Scheme | 130.6p | 2,683,415 | - | (229) | (1,283,641) | 1,399,545 |
| 1 July 2011 to 31 December 2011 | 1 July 2006 | 1998 Sharesave Scheme | 130.6p | 2,621,585 | - | - | (1,350,525) | 1,271,060 |
| 1 July 2013 to 31 December 2013 | 1 July 2006 | 1998 Sharesave Scheme | 130.6p | 793,485 | - | - | (488,375) | 305,110 |
| | | | | 24,347,555 | - | (1,650,964) | (5,351,066) | 17,345,525 |

* Parallel grant

The share option arrangements scheduled above include a number of arrangements granted before 7 November 2002. The recognition and measurement principles in IFRS 2 have not been applied to those grants in accordance with the transitional provisions of IFRS 1 and IFRS 2.

The grants of share options under the 1989 and 1999 Schemes prescribed an earnings per share performance criterion. It is a pre-condition to the exercise of grants made under the 1989 and 1999 Schemes that the growth in the Company's earnings per share over the prescribed three year period must exceed by at least 3 percent per annum (for 1999 scheme) and 2 percent per annum (for the 1989 scheme) compound the annual rate of inflation as shown by the RPI Index.

The weighted average share price at the date of exercise for share options exercised in the year was 98.0 pence (2006 : 109.9 pence).

The vesting conditions attaching to the 1998 Pendragon Sharesave schemes are that the option holder must be employed by the Group on the date of exercise.

All options are settled by physical delivery of shares.

**28. Employee benefits (continued)**

The fair value of services received in return for share options is measured by reference to the fair value of the options granted. The estimate of the fair value of the services received in respect of share option and share save schemes is measured using the Black-Scholes option pricing model. The estimate of the fair value of services received in respect of the Long Term Incentive Plan (LTIP) (see Directors Remuneration Report) is measured using a stochastic model which incorporates the discount factor required for the total shareholder return performance condition. The weighted average fair value of the options at the date of grant for those that are outstanding at 31 December 2007 is 25.7 pence (2006 : 19.2 pence).

There were no sharesave share options granted during 2007 to any team members. The average assumptions input into the models for options granted under the share save schemes and LTIP in each year were as follows:

| | Share save scheme | | Long term incentive plan | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Number of share options granted in year | **-** | 6,973,750 | **1,330,109** | 1,502,525 |
| Weighted average share price (pence) | **-** | 130.6 | **110.3** | 121.0 |
| Weighted average exercise price (pence) | **-** | 130.6 | **-** | - |
| Expected volatility (%) | **-** | 32.8% | **32.8%** | 33.5% |
| Expected life (years) | **-** | 4.4 | **3.0** | 3.0 |
| Risk free rate (%) | **-** | 4.7% | **5.2%** | 4.7% |
| Expected dividend yield (%) | **-** | 2.6% | **-** | 2.2% |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the corresponding historical period. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and team member turnover.

The Group recognised a total net expense of £nil (2006 : £0.9m) related to equity-settled share based payment transactions, of which a credit of £0.3m (2006 : £0.3m) was in respect of the LTIP.

**Pension obligations**

The Group operates six defined benefit pension schemes (two of which have defined contribution sections) which closed to future benefits on 30 September 2006 and employees were offered membership of a stakeholder pension arrangement. The asset values shown do not include those of the defined contribution sections. Actuarial gains and losses are immediately recognised directly in equity. Actuarial gains and losses are the differences between actual and expected returns on scheme assets during the year, experience losses on scheme liabilities and the impact of any changes in assumptions. Details of the last independent statutory actuarial valuation and assumptions are set out below by scheme.

The Group increased it's level of contributions to all of the schemes. Four of the schemes have had formal actuarial valuations as at April 2006 and one at April 2007; Reg Vardy Retirement Scheme actuarial valuation as at 5 April 2007 is in the process of being finalised. All the actuarial valuations have been issued under the UK Government's new Scheme Specific Funding arrangements. The Group has agreed recovery plans with the six schemes which aim to eliminate the current deficits over a five year period.

**Pendragon Pension Plan**

The Pendragon Pension Plan is a funded defined benefit scheme with a defined contribution section; the defined contribution section is in the process of being wound up. The last actuarial valuation of the Plan was carried out as at 5 April 2006 using the defined accrued benefit method. At this date the market value of the Plan's assets relating to the defined benefit section was £100.4m; these assets represented 71.8% of the value of technical provisions (excluding defined contribution assets). The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5% and the annual rate of pension increases would be between 2.5% - 3%.

The Pendragon Pension Plan assumed all assets and obligations of the Stripestar Pension Scheme after it was merged on 6 April 2007.

The employer contributions paid to the defined benefit section of the Plan during the year were £5.5m, based upon actuarial advice.

**28. Employee benefits (continued)**

**Stripestar Pension Scheme (closed)**

The Stripestar Pension Scheme was merged into the Pendragon Pension Plan on 6 April 2007 by way of a bulk transfer of assets and benefits. All members of the Stripestar Pension Scheme are now members of the Pendragon Pension Plan and have identical benefits to those held under the Stripestar Pension Scheme.

The employer contributions paid to the defined benefit section of the Scheme during the year were £0.2m, prior to its transfer to the Pendragon Pension Plan, based upon actuarial advice.

**CD Bramall Pension Scheme**

The CD Bramall Pension Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2006 using the defined accrued benefit method. At the valuation date, the market value of assets was £22.6m; these assets represented 70.5% of the value of technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5% and the annual rate of pension increases would be between 2.5% - 3%.

The employer contributions paid to the Scheme during the year were £1.9m, based upon actuarial advice.

**CD Bramall Dealerships Limited Pension Scheme**

The CD Bramall Dealerships Limited Pension Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2006 using the defined accrued benefit method. At the valuation date, the market value of assets was £23.5m; these assets represented 65.5% of the value of technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5% and the annual rate of pension increases would be between 2.5% - 3%.

The employer contributions paid to the Scheme during the year were £1.9m, based upon actuarial advice.

**CD Bramall Retirement Benefits Scheme**

The CD Bramall Retirement Benefits Scheme is a funded defined benefit scheme with a defined contribution section; the defined contribution section is in the process of being wound up. The last actuarial valuation was carried out as at 31 March 2006 using the defined accrued benefit method. At the valuation date, the market value of assets relating to the defined benefit section was £5.2m; these assets represented 67.2% of the value of the technical provisions (excluding defined contribution assets). The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5% and the annual rate of pension increases would be between 2.5% - 3%.

The employer contributions paid to the Scheme during the year were £0.5m, based upon actuarial advice.

**Quicks Pension Scheme**

The Quicks Pension scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2007 using the defined accrued benefit method. At the valuation date, the market value of assets was £74.5m; these assets represented 79% of the value of the technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5.5% and the annual rate of pension increases would be between 3.2% - 3.6%.

The employer contributions paid to the Scheme during the year were £6.5m, based upon actuarial advice.

**Reg Vardy Retirement Scheme**

The Reg Vardy Retirement Scheme is a funded defined benefit scheme. An actuarial valuation was performed as at 30 April 2004 and used the projected unit method. The main actuarial assumptions were an investment return of 6.6% per annum, salary increases of 3% per annum, a yield of 5.5% underlying the capitalisation of pensions from and during retirement, and Limited Price Indexation pension increases of 2.5% per annum.

The employer contributions paid to the Scheme during the year were £2.4m, based upon actuarial advice.

**28. Employee benefits (continued)**

**Stakeholder arrangements**

With effect from April 2006, new contributions to the defined contribution sections of the schemes ceased. For the employees affected the group offered to pay contributions to a new stakeholder arrangement with Friends Provident. This arrangement was also made available to the employees affected by the closure of the defined benefit sections of the schemes on 30 September 2006. Total contributions paid by the group in 2007 to the Stakeholder arrangement were £5.1m.

**IAS19 assumptions**

The principal assumptions used by the independent qualified actuaries for the purposes of IAS19 for all schemes were:

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Inflation | **3.20%** | 2.90% | 2.80% |
| Rate of increase in salaries | **n/a** | n/a | 4.10% |
| Rate of increase to pensions in payment | **3.20%*** | 2.90% | 2.80% |
| Discount rate | **6.00%** | 5.20% | 4.80% |
| Mortality table assumption | **PA92YOB**** | PA92YOB** | PA92C2005** |

* a full breakdown of the assumptions for the rates of increase to pensions in payment for the 31 December 2007 valuation is as follows:

| | |
|---|---|
| RPI to max 5% | 3.20% |
| RPI to max 3% | 2.30% |
| RPI to min 3% to max 5% | 3.70% |

The expected long term rates of return on the main asset classes were:

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Equities | **8.30%** | 8.60% | 8.10% |
| Bonds | **4.80%** | 4.70% | 4.50% |
| Cash | **5.00%** | 4.60% | 4.10% |

| The weighted average expected long term rates of return were: | **2007** | 2006 | 2005 |
|---|---|---|---|
| | **7.35%** | 7.66% | 7.32% |

The overall expected return on assets reflects the Directors' long term view of future returns taking into account market conditions at the year end and asset allocation of the schemes.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The IAS assumptions have been updated at 31 December 2007 and differ from those used for the earlier independent statutory actuarial valuations explained above.

** The mortality table assumption implies the following expected future lifetime from age 65:

| | **2007 years** | 2006 years | 2005 years |
|---|---|---|---|
| Males aged 45 | **21.0** | 20.9 | 18.5 |
| Females aged 45 | **24.0** | 23.9 | 21.5 |
| Males aged 65 | **19.7** | 19.6 | 18.5 |
| Females aged 65 | **22.7** | 22.7 | 21.5 |

The fair value of the schemes' assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the schemes' liabilities, which is derived from cash flow projections over long periods and thus inherently uncertain, are:

**28. Employee benefits (continued)**

**Scheme assets and liabilities**

| | **2007 £m** | 2006 £m | 2005 £m |
|---|---|---|---|
| Equities | **223.0** | 215.9 | 165.8 |
| Bonds | **73.8** | 59.9 | 39.0 |
| Cash | **10.5** | 8.0 | 5.7 |
| Fair value of scheme assets | **307.3** | 283.8 | 210.5 |
| Present value of funded defined benefit obligations | **(321.1)** | (349.0) | (300.9) |
| Net liability on the balance sheet | **(13.8)** | (65.2) | (90.4) |

**Movements in the net liability for defined benefit obligations recognised in the balance sheet**

| | **2007 £m** | 2006 £m |
|---|---|---|
| Net liability for defined benefit obligations at 1 January | **(65.2)** | (90.4) |
| Contributions received | **18.9** | 16.3 |
| Expense recognised in the income statement | **4.2** | 6.7 |
| Actuarial gains and losses recognised in equity | **28.3** | 18.1 |
| Deficit assumed in a business combination | **-** | (15.9) |
| Net liability for defined benefit obligations at 31 December | **(13.8)** | (65.2) |

| | **2007 £m** | 2006 £m |
|---|---|---|
| Actual return on assets | **12.9** | 27.0 |
| Expected contributions in following year | **18.5** | 18.6 |

**Total expense recognised in the income statement**

| | **2007 £m** | 2006 £m |
|---|---|---|
| Current service cost | **-** | 3.6 |
| Interest on obligation | **17.9** | 16.5 |
| Expected return on assets | **(22.1)** | (16.9) |
| Gains on curtailments | **-** | (9.9) |
| | **(4.2)** | (6.7) |

The expense is recognised in the following line items in the income statement:

| | **2007 £m** | 2006 £m |
|---|---|---|
| Administrative expenses | **-** | (6.3) |
| Finance costs | **17.9** | 16.5 |
| Finance income | **(22.1)** | (16.9) |
| | **(4.2)** | (6.7) |

**28. Employee benefits (continued)**

**Actuarial gains and losses recognised directly in equity**

| | 2007 £m | 2006 £m |
|---|---|---|
| Cumulative amount at 1 January | **(0.9)** | (19.0) |
| Recognised during the period | **28.3** | 18.1 |
| Cumulative amount at 31 December | **27.4** | (0.9) |

**Amounts recognised in the statement of recognised income and expense**

| | 2007 £m | 2006 £m |
|---|---|---|
| Difference between actual and expected return on scheme assets | **(9.3)** | 10.1 |
| Experience loss on scheme liabilities | **(1.0)** | (12.3) |
| Changes in assumptions underlying the present value of scheme obligations | **38.6** | 20.3 |
| | **28.3** | 18.1 |

**Changes in the present value of the defined benefit obligation**

| | 2007 £m | 2006 £m |
|---|---|---|
| Opening present value of defined benefit obligation | **349.0** | 300.9 |
| Current service cost | **-** | 3.6 |
| Interest cost | **17.9** | 16.5 |
| Actuarial gains | **(37.6)** | (8.0) |
| Gains on curtailments | **-** | (9.9) |
| Liabilities assumed in a business combination | **-** | 53.3 |
| Employee element of service cost | **-** | 1.1 |
| Less benefits paid | **(8.2)** | (8.5) |
| Closing present value of defined benefit obligation | **321.1** | 349.0 |

**Movement in fair value of scheme assets during the period**

| | 2007 £m | 2006 £m |
|---|---|---|
| Opening fair value of assets | **283.8** | 210.5 |
| Expected return on assets | **22.1** | 16.9 |
| Actuarial (losses) / gains on assets | **(9.3)** | 10.1 |
| Contributions by employer | **18.9** | 16.3 |
| Assets acquired in a business combination | **-** | 37.4 |
| Employee contributions | **-** | 1.1 |
| Less benefits paid | **(8.2)** | (8.5) |
| End of period | **307.3** | 283.8 |

### 28. Employee benefits (continued)

**History of experience adjustments**

| | **2007 £m** | 2006 £m | 2005 £m | 2004 £m |
|---|---|---|---|---|
| Present value of defined benefit obligation | **321.1** | 349.0 | 300.9 | 249.6 |
| Fair value of scheme assets | **307.3** | 283.8 | 210.5 | 169.4 |
| Deficit in schemes | **13.8** | 65.2 | 90.4 | 80.2 |
| Experience adjustments on scheme liabilities | | | | |
| Amount | **(37.6)** | (8.0) | 38.5 | 10.1 |
| Percentage of scheme liabilities (%) | **(11.7%)** | (2.3%) | 12.8% | 4.0% |
| Experience adjustments on scheme assets | | | | |
| Amount | **(9.3)** | 10.1 | 21.4 | 8.3 |
| Percentage of scheme liabilities (%) | **(2.9%)** | 2.9% | 7.1% | 3.3% |

### 29. Related party transactions

**Subsidaries**

The Group's ultimate parent company is Pendragon PLC. A listing of all principal trading subsidaries is shown within the financial statements of the Company on pages 87 and 88.

**Joint venture**

The group has a 51% ordinary share capital interest in a joint venture PPH0 Limited, whose principal activity is that of a property company. The Group occupies properties owned by PPH0 Limited and it's group on short term leases.

During the year the Group entered into transactions with it's related party and has balances outstanding at 31 December as follows:

| | **2007 £m** | 2006 £m |
|---|---|---|
| Rent paid to related party | **23.1** | 7.2 |
| Proceeds of property sold to related party | **2.1** | 262.2 |
| Management fee received from related party | **0.2** | 0.1 |
| Amounts owed to related party | **-** | 1.0 |
| Amounts owed from related party | **-** | 27.0 |

**Transactions with key management personnel**

The key management personnel of the group comprise the executive and non-executive directors. The details of the remuneration, long term incentive plans, shareholdings, share option and pension entitlements of individual directors are included in the Directors' Remuneration Report on pages 29 to 36.

Directors of the company and their immediate relatives control 6.1% of the ordinary shares of the Company.

During the year the key management personnel compensation was as follows:

| | **2007 £m** | 2006 £m |
|---|---|---|
| Short term employee benefits | **1.7** | 1.8 |
| Post-employment benefits | **0.3** | 0.2 |
| Share based payments | **-** | 0.4 |
| | **2.0** | 2.4 |

**30. Deferred Income**

The Group entered into a sale and leaseback arrangement in December 2006 with its joint venture company PPH0 Limited, in which a number of properties were disposed of generating total proceeds of £250.1m. The arrangement entitles PPH0 Limited to lease back those properties to the Group over a period of 25 years, a factor resulting in the Group receiving a consideration in excess of the deemed fair value as at the date of disposal, when measured under an open market valuation in accordance with IFRS. The proceeds received were estimated to be greater than the fair value of the properties by £22.0m and as required by IAS 17 'Leases' this excess over fair value is deferred and will be amortised over the period of the leases. At 31 December the unamortised amount of the deferred income was £21.1m (2006 : £22.0m).

**31. Non-current assets classified as held for sale**

The Group holds a number of freehold properties that are currently being marketed for sale which are expected to be disposed of during 2008.

During the previous year impairment losses of £4.0m on the remeasurement of these assets to the lower of their carrying amount and their value less costs to sell were recognised in the income statement within 'Other income - gains on the sale of businesses and property'. There were no such impairments in the current year.

During the year non-current assets classified as held for sale disposed of realised a profit of £6.8m which is included on the income statement under 'Other income - gains on the sale of businesses and property'.

These properties form part of central segment assets.

**32. Accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Critical accounting judgements when applying the Group's accounting policies**

Certain critical accounting judgements in applying the Group's accounting policies are described below:

**Goodwill impairment**

The carrying value of goodwill is tested annually for impairment by using cash flow projections for each cash generating unit. These projections are based upon actual and short term planned results extrapolated over a 20 year period. A discount rate of 8.5% is used.

**Intangible assets**

Management undertook a review of intangible assets that are pertinent to the motor business. This included consideration of customer lists, franchise rights, brands and other intangible assets. The review concluded that for acquisitions undertaken since 1 January 2004 no intangible assets or rights had been acquired with the exception of the value attaining to the order book that existed at the point of acquisition.

**Repurchase commitments**

The Group enters into leasing arrangements whereby it agrees to repurchase vehicles from lessees or providers of lease finance at the end of the lease agreement, typically two to four years in the future. The repurchase price is determined at the time the agreement is entered into based on the then estimate of a vehicle's future residual value. The actual value of the vehicles at the end of the lease contract, and therefore the proceeds that can be realised from eventual sale, can vary materially from these estimates. Annual reviews are undertaken to reappraise residual values.

**Employee post retirement benefit obligations**

The Group has six defined benefit pension plans. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of assumptions used are provided in note 28.

**Deferred tax**

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

**32. Accounting estimates and judgements (continued)**

**Income tax**

The actual tax on the Group's profits is determined according to complex laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for the tax to be paid on past profits which are recognised in the financial statements. The Group considers the estimates, assumptions and judgements to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements.

**33. Contingent Liabilities**

**Value Added Tax**

The Group is in discussion with HM Revenue and Customs over a number of issues arising from recent developments in case law, the treatment of partial exemption within the companies supplying finance and insurance services and the VAT treatment of sales of vehicles to certain disabled customers.

Additional amounts of VAT receivable and payable may be recognised in future periods in relation to these outstanding matters, and although these amounts, if any, could potentially be significant it is not possible at present to quantify them. Accordingly, no gain or loss has been included in the 2007 financial statements.

# Company Balance Sheet at 31 December 2007

| | Notes | 2007 £m | 2006 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 5 | **930.9** | 930.5 |
| Loans to subsidiary undertakings | | **90.0** | 90.0 |
| | | **1,020.9** | 1,020.5 |
| **Current assets** | | | |
| Debtors | 6 | **23.4** | 8.1 |
| Cash at bank and in hand | | **32.8** | 94.0 |
| | | **56.2** | 102.1 |
| **Creditors:** amounts falling due within one year | 7 | **(639.4)** | (573.3) |
| **Net current liabilities** | | **(583.2)** | (471.2) |
| **Total assets less current liabilities** | | **437.7** | 549.3 |
| **Creditors:** amounts falling due after more than one year | 8 | **(295.6)** | (362.1) |
| **Net assets** | | **142.1** | 187.2 |
| **Capital and reserves** | | | |
| Called up share capital | 9 | **32.8** | 32.8 |
| Share premium account | 10 | **56.8** | 56.8 |
| Capital redemption reserve | 10 | **2.5** | 2.5 |
| Other reserves | 10 | **13.9** | 13.9 |
| Profit and loss account | 10 | **36.1** | 81.2 |
| **Equity shareholders' funds** | | **142.1** | 187.2 |

Approved by the Board of Directors on 20 February 2008 and signed on its behalf by:

**T G Finn**

Chief Executive

**D R Forsyth**

Finance Director

The notes on pages 85 to 90 form part of these financial statements.

# Reconciliation of Movements in Shareholders' Funds

Year ended 31 December 2007

| | Notes | 2007 £m | 2006 £m |
|---|---|---|---|
| (Loss) / profit for the financial year | 2 | **(19.5)** | 57.2 |
| Dividends | 4 | **(25.4)** | (17.4) |
| | | **(44.9)** | 39.8 |
| Share based payments | | **-** | 1.6 |
| Purchase of own shares in share trusts | | **1.0** | - |
| Disposal of own shares in share trusts | | **(1.2)** | 1.7 |
| Net (reduction) / addition to shareholders' funds | | **(45.1)** | 43.1 |
| Opening shareholders' funds | | **187.2** | 144.1 |
| **Closing shareholders' funds** | | **142.1** | 187.2 |

# Notes to the Financial Statements of the Company

**1. Accounting policies**

**(a) Accounting convention** The financial statements have been prepared in accordance with applicable UK accounting standards using the historical cost convention. The financial statements have been prepared on a going concern basis.

**(b) Deferred taxation** Full provision is made for deferred taxation on all timing differences which have arisen but have not reversed at the balance sheet date, except as follows:

(i) tax payable on the future remittance of the past earnings of subsidiaries is provided only to the extent that dividends have been accrued as receivable or a binding agreement to distribute all past earnings exists;

(ii) deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

**(c) Financial instruments** The Company holds derivative financial instruments to hedge currency and interest risks arising from its activities. Derivative financial instruments are recognised at fair value. Any gain or loss on remeasurement is recognised in the profit and loss account. However, the treatment of gains or losses arising from derivatives which qualify for hedge accounting depends on the nature of the hedged item itself. The fair value of derivatives is the estimated amount receivable or payable to terminate the contract determined by reference to the market prices prevailing at the balance sheet date.

In accordance with its treasury policy, the Company has swapped its fixed rate USD liabilities into floating rate GBP liabilities by utilising cross currency interest rate swaps.

As permitted by Financial Reporting Standard 26 'Financial Instruments: Measurement' these policies were adopted on 1 January 2005.

Fair value hedges

Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised in profit and loss. The hedged item is also stated, separately from the derivative, at fair value in respect of the risk being hedged with any gain or loss also recognised in profit and loss. This will result in variations in the balance sheet values of the gross debt and the offsetting derivatives as the market value fluctuates.

**(d) Investments** Investments held as fixed assets are stated at cost less any impairment losses.

**1. Accounting policies (continued)**

**(e) Employee benefits – Share based payments** The Company operates a number of employee share option schemes. The fair value at the date at which the share options are granted is recognised in profit and loss on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised. In accordance with the transitional provisions of FRS 20, no profit and loss expenses are recorded in respect of grants of share options made prior to 7 November 2002.

**(f) Cash flow statement** As the ultimate holding company of the Pendragon Group, the Company has relied upon the exemption in FRS 1 (revised) and has not included a cash flow statement as part of its own financial statements.

**(g) Pensions** The Company participates in a Group wide defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The Company participates in a Group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

**(h) Related parties** Under FRS 8 the company has relied upon the exemption not to disclose related party transactions with other Group undertakings as they are all included in the Pendragon PLC consolidated financial statements.

**(i) Dividends** Dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

**(j) Own shares held by ESOP trust** Transactions of the Group-sponsored ESOP trust are included in the Company financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

**(k) Contingent liabilities** Where Pendragon PLC, the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

**2. Profit and loss account of the Company**

In accordance with the exemption allowed by Section 230 (4) of the Companies Act 1985, the profit and loss account of the Company is not presented. The loss after taxation attributable to the Company dealt with in its own accounts for the year ended 31 December 2007 is £19.5m (2006 : profit £57.2m).

**3. Directors**

Total emoluments of directors (including pension contributions) amounted to £2.0m (2006 : £2.0m). Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 29 to 36. The directors are the only employees of the Company.

### 4. Dividends

| | 2007 £m | 2006 £m |
|---|---|---|
| Ordinary shares | | |
| Final dividend in respect of 2006 of 2.00p per share (2005 : 1.32p) | **12.7** | 8.2 |
| Interim dividend in respect of 2007 of 2.00p per share (2006 : 1.45p) | **12.7** | 9.2 |
| | **25.4** | 17.4 |

A final dividend in respect of 2007 of 2.00p (2006 : 2.00p) per share amounting to a total of £12.7m (2006 : £12.7m) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the Annual General Meeting.

### 5. Investments

| | Shares in joint venture £m | Shares in subsidiary undertakings £m | Total £m |
|---|---|---|---|
| At 31 December 2006 | 21.6 | 908.9 | **930.5** |
| Additions | 0.1 | 0.3 | **0.4** |
| At 31 December 2007 | 21.7 | 909.2 | **930.9** |

Shares in jointly controlled undertakings represent a 51 per cent holding of the issued ordinary share capital of PPH0 Limited, a property holding company incorporated and trading in the United Kingdom.

Shares in subsidiary undertakings are stated at cost. Pendragon PLC owns directly or indirectly 100 percent of the issued ordinary share capital of the following principal subsidaries.

| **Name** | **Activity** |
|---|---|
| **Incorporated in Great Britain:** | |
| Alloy Racing Equipment Limited | Motor vehicle dealer |
| Andre Baldet Limited | Motor vehicle dealer |
| Bramall Contracts Limited | Contract hire and fleet management |
| Bramall Quicks Dealerships Limited | Motor vehicle dealer |
| Bridgegate Limited | Motor vehicle dealer |
| Car Fleet Control Limited | Computer systems and services |
| CD Bramall (York) Limited | Motor vehicle dealer |
| CD Bramall Dealerships Limited | Motor vehicle dealer |
| CD Bramall Motors Limited | Motor vehicle dealer |
| Charles Sidney Holdings Limited | Motor vehicle dealer |
| Chatfield Martin Walters Limited | Motor vehicle dealer |
| Derwent Vehicles Limited | Motor vehicle dealer |
| Evans Halshaw (Chesham) Limited | Motor vehicle dealer |
| Evans Halshaw Motors Limited | Motor vehicle dealer |
| Executive Motors Limited | Motor vehicle dealer |
| Extra Leasing Limited | Plant leasing and rentals |
| Pendragon Contracts Limited | Contract hire and fleet management |
| Pendragon Finance and Insurance Limited | Motor vehicle finance and insurance services |
| Pendragon Javelin Limited | Motor vehicle dealer |
| Pendragon Management Services Limited | Management services |
| Pendragon Motor Group Limited | Motor vehicle dealer |
| Pendragon Motorcycles Limited | Motor vehicle dealer |
| Pendragon Orient Limited | Motor vehicle dealer |
| Pendragon Premier Limited | Motor vehicle dealer |

### 5. Investments (continued)

| Name | Activity |
|---|---|
| **Incorporated in Great Britain:** | |
| Pendragon Property Holdings Limited | Property holdings |
| Pendragon Sabre Limited | Motor vehicle dealer |
| Pendragon Viking Limited | Motor vehicle dealer |
| Petrogate Limited | Property holdings |
| Pinewood Technologies PLC * | Computer systems and services |
| Reg Vardy (AMC) Limited | Motor vehicle dealer |
| Reg Vardy (Fleet) Limited | Motor vehicle dealer |
| Reg Vardy (MML) Limited | Motor vehicle repairs |
| Reg Vardy (Property Management) Limited | Property holdings |
| Reg Vardy (TMC) Limited | Motor vehicle dealer |
| Reg Vardy (VMC) Limited | Motor vehicle dealer |
| Reg Vardy Limited * | Motor vehicle dealer |
| Stratstone Specialist Limited | Motor vehicle dealer |
| Stripestar Limited | Motor vehicle dealer |
| Trust Properties Limited | Property holdings |
| Vardy (Continental) Limited | Motor vehicle dealer |
| Vardy Marketing Limited | Marketing services |
| Vertcell Limited | Motor vehicle parts distribution |
| Victoria (Bavaria) Limited | Motor vehicle dealer |
| **Incorporated in the United States of America:** | |
| Bauer Motors Inc. | Motor vehicle dealer |
| Penegon West Inc. | Motor vehicle dealer |
| Penegon Mission Viejo Inc. | Motor vehicle dealer |
| Penegon Newport Beach Inc. | Motor vehicle dealer |

* Direct subsidiary of Pendragon PLC

### 6. Debtors

| | 2007 £m | 2006 £m |
|---|---|---|
| Amounts due within one year: | | |
| Corporation tax | **20.9** | 5.1 |
| Other debtors | **2.5** | 3.0 |
| | **23.4** | 8.1 |

### 7. Creditors : amounts falling due within one year

| | 2007 £m | 2006 £m |
|---|---|---|
| Unsecured loan notes | **-** | 1.3 |
| Unsecured bank loans | **40.0** | - |
| Amounts due to subsidiary undertakings | **599.4** | 569.9 |
| Other creditors and accruals | **-** | 2.1 |
| | **639.4** | 573.3 |

### 8. Creditors : amounts falling due after more than one year

| | 2007 £m | 2006 £m |
|---|---|---|
| Unsecured bank loans (repayable between one and two years) | **40.0** | 40.0 |
| Unsecured bank loans (repayable between two and five years) | **145.2** | 211.8 |
| Unsecured loan notes (repayable between two and five years) | **54.6** | - |
| Unsecured loan notes (repayable after five years) | **50.2** | 102.3 |
| Derivative financial instruments | **5.6** | 8.0 |
| | **295.6** | 362.1 |

| Unsecured loan notes (repayable after five years) comprise: | 2007 £m | 2006 £m |
|---|---|---|
| 5.65% USD 110 million loan notes 2011 | **-** | 53.2 |
| 5.95% USD 67 million loan notes 2014 | **33.3** | 32.4 |
| 5.95% GBP 17 million loan notes 2014 | **16.9** | 16.7 |
| | **50.2** | 102.3 |

### 9. Called up share capital

| | Number | £m |
|---|---|---|
| Authorised shares of 5p each at 31 December 2006 and at 31 December 2007 | 800,000,000 | **40.0** |
| Allotted, called up and fully paid shares of 5p each at 31 December 2006 and at 31 December 2007 | 656,027,350 | **32.8** |

Movements in the number of options to acquire ordinary shares under the Group's various share option schemes, together with exercise prices and the outstanding position at 31 December 2007 are fully disclosed above on page 75 of this report.

**10. Reserves**

| | Share premium account £m | Capital redemption reserve £m | Other reserves £m | Profit and loss account £m |
|---|---|---|---|---|
| At 31 December 2006 | 56.8 | 2.5 | 13.9 | 81.2 |
| Retained profit for the year | - | - | - | (44.9) |
| Disposal of own shares in share trusts | - | - | - | 1.0 |
| Acquisition of own shares in share trusts | - | - | - | (1.2) |
| At 31 December 2007 | 56.8 | 2.5 | 13.9 | 36.1 |

The market value of the investment in the Company's own shares at 31 December 2007 was £7.2m (2006 : £21.0m), being 20.4m (2006 : 21.0m) shares with a nominal value of 5p each, acquired at an average cost of £0.44 each (2006 : £0.39). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2007 was £8.1m (2006 : £7.9m). The investment in own shares represents shares in the Company held by Pendragon Quest Trustees Limited and Investec Trust Guernsey Limited (employee share ownership trusts) which may subsequently be awarded to Executive Directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme and the 1998 Pendragon Sharesave Scheme. Details of the plans are given in the Directors' Remuneration Report on pages 29 to 36.

Dividends on the shares owned by the trusts, the purchase of which were funded by interest free loans to the trusts from Pendragon PLC, are waived. All expenses incurred by the trusts are settled directly by Pendragon PLC and charged in the accounts as incurred.

**11. Financial instruments and derivatives**

| | **2007 £m** | 2006 £m |
|---|---|---|
| Changes in fair value charged to profit and loss | **(0.1)** | (1.0) |

Details of valuation techniques and fair values of each category of financial instruments are given above in note 18 to the consolidated financial statements on page 65 in the section headed 'Fair value hedges of interest rate and currency risk'.

**12. Pensions**

The Company is a member of a funded group wide pension scheme (Pendragon Pension Plan) providing benefits based on final pensionable pay. The Company is unable to identify its share of the scheme assets and liabilties on a consistent and reasonable basis and as permitted by FRS 17 'Retirement Benefits', the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme. At 31 December 2007 the scheme had a deficit on an FRS 17 basis of £3.8m (2006 : £19.8m).

The latest full actuarial valuation was carried out at 5 April 2006 and was updated for FRS 17 purposes to 31 December 2007 by a qualified independent actuary.

The Company has no outstanding pension contributions (2006: £nil).

**13. Contingent liabilities**

(a) The Company has entered into cross-guarantees with its bankers whereby it guarantees payment of bank borrowings in respect of UK subsidiary undertakings.

(b) The Company has given performance guarantees in the normal course of business in respect of subsidiary undertaking obligations.

# Shareholder Information



**Stock classification** The ordinary shares of the company are traded on the London Stock Exchange. Information concerning the day to day movement of the share price can be found on the London Stock Exchange's website under the code PDG. Users of GlobalTOPIC Trader and Reuters can identify the stock by the code PDG.L, and Bloomberg users by the code PDG LN.

**Financial calendar**

| | |
|---|---|
| Ex-dividend date for 2007 proposed final dividend | 2 April 2008 |
| Record Date for 2007 proposed final dividend | 4 April 2008 |
| Annual General Meeting | 25 April 2008 |
| Payment date for 2007 proposed final dividend | 7 May 2008 |
| Interim results for 2008 announced | August 2008 |
| Interim dividend for 2008 payable | October 2008 |
| Final results for 2008 announced | February 2009 |
| Final dividend for 2008 payable | May 2009 |

**Share dealing service** The following companies offer private investors a quick and easy telephone share dealing service for dealings in the company's shares. Barclays Stockbrokers Limited will purchase and sell shares at the following commission rates plus stamp duty and PTM Levy of £1 where applicable, subject to the minimum dealing charge of £15.00 per transaction.
1.5% commission on first £5,000
0.85% commission on the next £5,000
0.15% commission thereafter

Details of the service may be obtained by telephoning 0845 702 3021. 0845 calls will cost no more than 4p per minute, minimum call charge 5.5p for BT customers. The price on non-BT phone lines may be different. For your protection, to check instructions and to maintain high standards, Barclays Stockbrokers may record and monitor calls made to or from them.

Capita Share Dealing Services, a trading division of Capita IRG Trustees Limited, will purchase and sell shares at the following commission rates plus stamp duty and PTM Levy where applicable. Online (via) at commission of 1% of the value of the trade, minimum £17.50/maximum £50 dealing charge, or by telephone on 0871 664 0454 at commission of 1.5% of the value of the trade, minimum £22.50/maximum £100.00 dealing charge. An additional compliance charge of £2.50 is applied to each trade.

Further details of the services including full Terms and Conditions may be obtained by telephoning 0871 664 0454 (calls charged at national rates).

In so far as this statement constitutes a financial promotion it has been approved for the purpose of Section 21 (2) (b) of the Financial Services and Markets Act 2000 only by Capita IRG Trustees Limited who are authorised and regulated by the Financial Services Authority (Registered Number 184113).

This is not a recommendation to buy, sell or hold shares in Pendragon PLC. If you are unsure of what action to take, you should contact a financial advisor authorised under the Financial Services and Markets Act 2000. Please note that share values may go down as well as up, which may result in you receiving less than the amount originally invested.

Where the document containing this Shareholder Information on share dealing services has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as for information only.

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